

STATEMENT OF  
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SUBCOMMITTEE ON AVIATION

on

Air Service to Small and Rural Communities

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Mr. Chairman, thank you for inviting me to this hearing. I appreciate the opportunity to discuss with you the important issue of air service to small communities, and the two programs administered by the Department of Transportation, the Essential Air Service (EAS) program and the Small Community Air Service Development Program, which deal specifically with that service. I can assure you that the Department is committed to serving the needs of small communities and to helping them meet the challenges that they face in obtaining and retaining air service.

It is clear that air service in this country has changed dramatically over the past several years. Many of these changes have been very positive. The growth of low-fare carriers for example has made air transportation available to millions of people across the country and Mississippi has benefited from this phenomenon. Jackson has received service from the Southwest, a major low fare carrier, since 1997, with service to Baltimore, Chicago, Houston, and Orlando. Many of you may recall that fares to these cities, and other cities on Southwest's system you were then able to fly to, declined rather dramatically, and indeed, remain much lower even eight years later. As

always happens when Southwest enters a market, the numbers of air travelers virtually exploded, as hundreds of passengers every day took advantage of the low fares that became available. Air travel between Jackson and Houston has increased six fold. AirTran extended low-fare air service to Gulfport-Biloxi in 1999 and continues to provide service to its Atlanta hub, as well as to Fort Lauderdale and Tampa. By connecting Gulfport-Biloxi to its Atlanta hub, AirTran opened the door to low-fare service up and down the East Coast. Similar to Southwest's entry at Jackson, AirTran's entry at Gulfport-Biloxi resulted in much lower fares and truly phenomenal traffic growth.

While this is a good development overall for consumers, as often happens, it is not totally trouble free. With a greater number of service choices available, particularly choices involving lower fares, many consumers are willing to drive to places with more air service, particularly, low-fare air service, making it more difficult for some individual airports to sustain their own traffic levels. And this is only one of the many challenges facing smaller communities. Another that has been very dramatic is the change in aircraft used by carriers that serve small communities. Many commuter carriers have been replacing their 19-seat aircraft with 30-seat aircraft, due to the increased costs of operating the smaller planes and larger carriers' reluctance to offer code sharing on 19-seaters. This trend began about 10 years ago and has continued. There are now fewer and fewer 19-seat aircraft in operation as many commuters have upgauged to 30-seat aircraft and, in some, cases, even regional jets. As a result, many small communities that cannot support this larger size of aircraft are being left with no air service. Added on to this are changes that have occurred since the terrorist attacks of September 11, 2001. Many consumers, leisure

and business, have changed their travel patterns and carriers have altered the structure of their airline services to both the large and smaller communities that they have served.

The challenge for us all is how to blend these good developments and these more difficult ones into a system that can serve the benefit of all. Mr. Chairman, I do not use the word “challenge” lightly. All of us--the federal government that manages programs affecting service at small communities, as well as the states and the communities themselves--need to reexamine the way we approach small community air service to ensure that travelers throughout the nation have access to the widest variety of air transportation services and the economic benefits that such transportation offers.

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

As you know, the Department administers two programs dealing with service at small communities. The EAS program provides subsidy to air carriers to provide air service at certain statutorily mandated communities. The Small Community Air Service Development Program, which was established by Congress in 2000 under the AIR-21 legislation, provides federal grants-in-aid to help small communities deal with their air service and airfare issues. While

initially established as an experimental program, it was reauthorized through FY 2008 in Vision 100.

Let me first address the EAS program. The laws governing our administration of the EAS program have not changed significantly since its inception more than 25 years ago notwithstanding the dramatic changes in the airline industry and airline service. With this in mind, the administration proposed very fundamental and substantial changes to the program in the FAA reauthorization bill. These changes were based on our extensive experience dealing with the communities and the carriers involved with the program, recommendations from both of these participant groups, as well as studies by the General Accounting Office that were geared toward finding “the answer” to successful service at small communities. Two major themes came through repeatedly--the need for greater participation by communities in addressing their air service issues, and the desire for greater flexibility in doing so. While many of our proposed changes were not adopted, Congress did make some significant changes in the reauthorization bill, Vision 100, to address these considerations. We are currently in the process of implementing two of those provisions. The first is called the Community Flexibility Pilot Program. It allows up to ten communities to receive a grant equal to two years’ worth of subsidy in exchange for forgoing their EAS for ten years. The funds would have to be used for a project on the airport property or to improve the facilities for general aviation. The second program is called the Alternate Essential Air Service Program. The thrust of this program is that, instead of paying an air carrier to serve a community as we typically do, communities could apply to receive the funds directly provided that they have a plan as to exactly how they would use the funds to the benefit of the communities’ access to air service. The law gives great flexibility in

that regard: funds may be used for smaller aircraft but more frequent service, for on-demand air taxi service, for on-demand surface transportation, for regionalized service, or to purchase an aircraft to be used to serve the community.

Although these new programs are a step in the right direction, the administration has proposed further revisions to the EAS program for fiscal year 2005 that would, for the first time since the program was established in 1978, require communities to be stakeholders in the air service they will receive and thus have a vested interest in its success. With our proposed reforms, the Department would also ensure that the neediest small communities would be able to maintain access to the national air transportation system.

In the past, a community's eligibility for inclusion in the EAS program has been based only on whether it was listed on a carrier's certificate on the date the program was enacted. Once subsidized service had been established, there was little incentive for active community involvement to help ensure that the service being subsidized would ultimately be successful. I can tell you anecdotally that many EAS communities do not even display their subsidized EAS flights on their homepage, but do show the availability of air service at nearby hubs, especially if it is low-fare service. As a result, EAS-subsidized flights are frequently not well patronized and our funds are not being used as efficiently or effectively as possible.

Under the administration's proposal, currently eligible communities would remain eligible, and would have an array of transportation options available to them for access to the national air transportation system. In addition to the traditional EAS of two or three round trips a day to a

hub, the communities would have the alternatives of charter flights or air taxi service, ground transportation links, or even regionalized air service, where several communities could be served through one airport, but with larger aircraft or more frequent flights, similar to the flexibility available to communities on a more limited basis under the alternate EAS program that I described a moment ago.

The amount of required community participation would be determined by the degree of isolation. The most remote communities (those greater than 210 miles from the nearest large or medium hub airport) would be required to provide 10 percent of the EAS subsidy costs. Communities that are within a close drive of major airports would qualify for subsidies constituting 50 percent of the total costs for providing surface transportation links to that service. Specifically, communities within: (a) 100 driving miles of a large or medium hub airport, (b) 75 miles of a small hub, or (c) 50 miles of a non hub with jet service would not qualify for subsidy for air service. The small-hub and nonhub criteria are important because some EAS communities are very close to small hubs or jet service but maintain their standing in the program because the nearby airport does not meet the medium-hub threshold. The balance of the communities would have to cover 25 percent of the subsidy costs.

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

Finally, we recently sent letters to the civic officials of all 140 communities currently receiving subsidized EAS seeking their views as to how the program can be improved. We look forward to reviewing those comments as they come in.

### **Small Community Air Service Development Program**

The Department is now in its third year of administering the Small Community Air Service Development Program. The Department can make a maximum of 40 grants in each fiscal year to address air service and airfare issues, although no more than four grants each year can be to any one state. Congress has provided \$20 million in each of the past three years for this program. Our experience to date with this program demonstrates the great interest and desire of communities to tackle their air service challenges head on and to contribute substantially to meeting those challenges. In the first year, FY 2002, the Department received 180 applications seeking over \$140 million. In FY 2003, we received 170 applications seeking over \$105 million. The Department made 40 grant awards in 2003 to communities in 38 states and 36 grant awards in 2003 to communities in 38 states and one U.S. territory, allocating all of the available grant funds. We made awards to communities throughout the country and authorized many different types of projects in order to address as many problems as we could and to test the communities' proposed solutions. Some of these projects include a new business model to provide ground handling for carriers at the airport to reduce station costs, seed money for a new airline to provide regional service, expansion of low-fare services, a ground service transportation alternative for access to the Nation's air transportation system, aggressive marketing and promotional campaigns to increase ridership at the airport, and revenue guarantees to reduce the

risk to airlines for initiating or expanding service at a community. For the most part, these projects extend over a period of two to three years.

This program differs from what had been the traditional EAS program in a number of respects. First, the funds go to the communities rather than directly to an airline serving the community. Second, the financial assistance is not limited to air carrier subsidy, but can be used for a number of other efforts to enhance a community's service, including advertising and promotional activities, studies, and ground service initiatives. Third, communities design their own solutions to their air service and airfare problems and seek financial assistance under the program to help them implement their plans. In fact, the Alternate EAS program under Vision 100 was patterned in many respects on these aspects of the Small Community Program.

Communities have been very successful in implementing their authorized grant projects. In 2002 90% of the grant recipients implemented their projects and we expect the same for the 2003 grants. Communities in Mississippi are among those that have implemented their plans. Meridian received a grant in 2002 to help upgrade its Atlanta service to all regional jets by Delta, a project that our reports indicate so far has been successful. Tupelo received a grant in 2003 to secure additional air service to Atlanta and is working very effectively toward that goal in partnership with us.

Several others have also benefited from the grant awards, with new services inaugurated at Daytona Beach, Florida; Augusta, Georgia; Abilene, Texas; Lake Charles, Louisiana; Rapid City, South Dakota; Charleston, West Virginia; Rhinelander, Wisconsin; and Scottsbluff,

Nebraska. New services have or will also begin in Gainesville, Florida; Bakersfield, California; Shreveport, Louisiana, and Aguadilla, Puerto Rico. We are monitoring the progress of all of the communities as they proceed with the implementation of their projects. The true test of success will be if the improvements achieved are sustained when the grant projects have concluded. As the 2002 and 2003 grant awards come to their conclusions, we want to review the results of these grants to determine if they can offer greater insight into helping smaller communities with their air service challenges. An important goal of the Small Community Program is to find solutions to air service and airfare problems that could serve as models for other small communities.

We are in the process of reviewing the grant applications for the FY 2004 awards and hope to make our grant selection decisions next month. This year the Department received 108 applications, again many more than can be satisfied under the statute. As this proceeding is currently before the Department, I am sure that you understand that I cannot comment on this proceeding or any particular community applications.

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

In closing, Mr. Chairman, let me reaffirm the Department's commitment to small community air service. We look forward to working with you and the members of this subcommittee and the

full committee as we continue to work toward these objectives. Thank you again. This concludes my prepared statement. I will be happy to answer any of your questions.