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**before the**

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

**on**

**Essential Air Service Program and Small Community Air Service Development Program**

**April 25, 2007**

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

It is clear that air service in this country has changed dramatically over the past several years. Many of these changes have been very positive. The growth of low-fare carriers, for example, has made affordable air transportation available to millions of people across the country. The number of air travelers has expanded dramatically, as hundreds of passengers have taken advantage of the low fares that have become more widely available. While this is a good

development overall for consumers, we recognize that it can create new challenges for some small communities. With a greater number of service choices available, particularly those involving lower fares, many consumers are willing to drive to places with a broader array of air service options, making it more difficult for some individual airports to sustain their own traffic levels. There are, for example, some communities receiving EAS assistance within ready driving distance of two or three major airports. This can result in a struggling community airport, but not necessarily consumers who lack access to the national air transportation system.

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

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

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

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

## **Essential Air Service Program**

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

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

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

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

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

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

Given the many and varying priorities facing the Department, this program was not accommodated within the President's 2008 Budget. Nonetheless, it is important to note the extensive support that the Department provides for small airports in terms of supporting the infrastructure that make any service possible. In the last two years (FY2005 and FY2006), the FAA has provided over \$4 billion in grants for small airports, or nearly 2/3 of the Airport Improvement Program (AIP). Furthermore, the Department's reauthorization proposal would continue to direct AIP to small airports. The reauthorization proposal would also add new AIP eligibility for ADS-B ground stations and expanded eligibility for revenue producing projects at small airports that will help their financial stability.

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

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

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

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

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

Importantly, however, the GAO also found that the grant recipients were very pleased with the program and many believed that the service improvements would not have been achieved without the benefit of the grant award. The Department has received similar feedback from grant recipients. The GAO noted that nearly 80 grants were scheduled to be completed by the end of this year and they recommended that the Department review the results of these grants before the program is considered for reauthorization beyond 2008. The Department concurred with GAO's

recommendation and indicated that it would conduct such review before the reauthorization process.

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

The Federal Government, however, is only one piece of the equation. States and communities will also need to review their air service in the context of the changed industry structure and service patterns to seek fresh, new solutions to maximize their air service potential, including regional and intermodal approaches and expansion of public/private partnerships to meet these challenges. In that regard, we are actively engaged in reviewing alternative solutions for assisting small communities address their air service needs.

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