Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

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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

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[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

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[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.

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[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

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[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

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

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