REPORT BY THE

Comptroller General

OF THE UNITED STATES

More Flexible Eligibility Criteria Could Enhance The Small Communities Essential Air Service Subsidy Program

The Airline Deregulation Act of 1978 established the essential air service subsidy program to ensure that small communities would not lose air service through a 10-year transition period to deregulation. However, the number of passengers using air service at the 88 subsidized communities decreased by 50 percent since deregulation began in 1978. Unless the communities make progress toward achieving self-sustaining service, carriers are likely to abandon or substantially reduce service to most of the subsidized small communities when the program ends in 1988. GAO believes that the Congress should consider changes to the program to allow the Civil Aeronautics Board, which administers the program, to help some communities develop markets using higher subsidies or discontinue subsidies to communities unlikely to support air service.

GAO presents the views of 32 State aviation offices on options available to administer the program after the Civil Aeronautics Board ceases to exist on January 1, 1985.

UNITED STATES GENERAL ACCOUNTING OFFICE

GAO/RCED-83-97

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-211163

The Honorable Nancy Landon Kassebaum
Chairman, Subcommittee on Aviation
Committee on Commerce, Science,
and Transportation
United States Senate

Dear Madam Chairman:

In response to your August 2, 1982, request, this report discusses midpoint changes which could improve the essential air service subsidy program. The report discusses why the Congress should consider changing the eligibility criteria contained in the Airline Deregultion Act of 1978 to allow the Civil Aeronautics Board more flexibility to discontinue subsidies to communities that will not be able to achieve unsubsidized air service, or to temporarily increase subsidies to improve a community's competitive position. The report also discusses options available to administer the program after the Civil Aeronautics Board sunsets.

As arranged with your office, we are sending copies of this report to the Director, Office of Management and Budget; the Secretary, Department of Transportation; the Chairman, Civil Aeronautics Board; and other interested parties. We will also make copies available to others on request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

REPORT BY THE
COMPTROLLER GENERAL
OF THE UNITED STATES

MORE FLEXIBLE ELIGIBILITY CRITERIA COULD ENHANCE THE SMALL COMMUNITIES ESSENTIAL AIR SERVICE SUBSIDY PROGRAM

D I G E S T

Access to air transportation is important to many small communities because air service attracts new businesses and provides economic development. However, with the advent of airline deregulation in 1978, many small communities were in danger of losing air service because airlines were free to move to more favorable markets. Accordingly, the Congress, as part of the Airline Deregulation Act of 1978, (Public Law 95-504) established the essential air service subsidy program to ensure that small communities will have access to the Nation's air transportation system during a 10-year transition period to deregulation.

The Chairman, Subcommittee on Aviation, Senate Committee on Commerce, Science and Transportation, asked GAO to provide its views on (1) whether the essential air service subsidy program's eligibility criteria contained in the Airline Deregulation Act should be changed and (2) the alternatives available to administer the program after the Civil Aeronautics Board (CAB) ceases to exist on January 1, 1985. (See p. 3.)

SHOULD PROGRAM ELIGIBILITY CRITERIA BE CHANGED?

Under the Airline Deregulation Act communities are guaranteed essential air service if they were listed on the routes of CAB certificated air carriers on the date of the act. CAB initially determined the minimum air service requirements for 555 small communities covered by this guarantee and, as of October 1982, was paying airlines to provide service to 85 communities that would otherwise have had all service canceled. In addition, the act provided that certain other communities could be eligible for the program. These are communities that lost

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all air service in the 10 years preceding the act. Of the 137 communities eligible under this provision, CAB has funded 3. (See pp. 1 and 2.)

In fiscal year 1982 CAB paid $26 million to air carriers serving subsidized essential air service communities. In setting subsidy levels, CAB pays carriers an amount that covers their losses to serve subsidized communities plus a reasonable profit. Under the act CAB cannot discontinue subsidies to any of the communities with an air service guarantee, even where a community cannot realistically be expected to support air service when the subsidy program expires in 1988. CAB can, however, discontinue subsidies to the small communities being funded as a result of their losses of air service in the 10 years preceding the act. The act contains no provision for CAB to provide subsidies to help communities develop a more viable long-term market through enhanced schedules and/or services. (See pp. 2 and 3.)

To ascertain whether the act's eligibility criteria adequately provides for small community air service needs, GAO visited 14 subsidized essential air service communities in five States. In addition, with the assistance of the National Association of State Aviation Officials, aviation officials in all 50 States were asked to provide their comments on the eligibility criteria. (See pp. 3 and 4.)

The number of passengers using air service at the 88 subsidized essential air service communities decreased by 50 percent since deregulation became effective. And, unless circumstances change, carriers are likely to drop or substantially reduce service to the subsidized communities when the program ends in 1988. (See pp. 6 and 7.)

State and local aviation officials believe that some communities--where air traffic is depressed because of poor air service or scheduling by the departing air carrier--might be able to develop an economically sound market if their subsidies were increased temporarily. CAB program officials believe that certain communities receiving subsidies will never develop unsubsidized air service and do not require air service. Aviation officials from five States indicated that some communities not eligible for the program had greater need for air service than subsidized communities. (See pp. 10, 12, 17, and 18.)

A primary reason for passenger reductions in the subsidized communities was that nationwide air traffic was depressed between 1980 and 1982 by a slow economy and flight restrictions caused by the air traffic controllers' strike. Also, since airline deregulation, market conditions changed and in many small communities passengers were faced with higher fares, smaller airplanes, inconvenient scheduling, unreliable service, and frequent changes of carriers, all of which contributed to passenger declines. (See p. 8.)

State and local aviation officials at 10 of the 14 communities GAO visited stated that passengers from the small communities were commuting to nearby larger airports where carriers offer better service and scheduling and lower air fares. The other four communities were beyond 100 miles of a larger airport, and passenger declines were attributed to both a lack of demand for air service and unreliable air carrier service. (See p. 10.)

Danville, Virginia, is a case of a community that lost passengers to a larger nearby airport and where air service would likely be discontinued at the end of the subsidy program in 1988. Passengers boarding airplanes in Danville declined from 6,018 in 1977 to 513 in 1981.

Danville's 1981 subsidy of $236,452, averaged about $460 per round-trip passenger, while the round-trip air fare to its primary destination, Washington, D.C., was $164. State and community officials estimated that 90 percent of Danville's former air passengers are commuting 49 miles to the Greensboro, North Carolina, airport for better scheduling, larger airplanes, and lower air fares. The State, the community, and the carrier being subsidized believe that Danville can become a viable market with better flight scheduling and promotion. (See pp. 11 and 12.)

A number of essential air service communities, like Danville, Virginia, have lost passengers to larger airports. And, unless there are program changes or demand increases, subsidy payments to these communities will continue for the next 6 years, and then carriers will likely leave the communities without air service when the program ends.

GAO believes that the essential air service program can be more cost effective and have more long-term value if CAB were authorized to give communities the opportunity to develop an economically sound market during the remaining 6 years of the transition period. If the act's eligibility criteria were more flexible, CAB could discontinue subsidies to communities that probably will be unable to retain service after the subsidies end. Or, if a community has the potential to be a viable self-supporting market, but poor air service and scheduling in the past have discouraged passengers, then CAB could improve a community's competitive position with temporary subsidy increases to improve flight scheduling, services, and promotion.

More flexible eligibility criteria could also allow CAB to assist communities for which States can show greater demonstrated air service needs than some currently subsidized communities. (See pp. 21 and 22.)

HOW SHOULD THE PROGRAM BE ADMINISTERED AFTER CAB CEASES TO EXIST?

Thirty-two State aviation offices provided GAO their views on options available to administer the essential air service program after CAB ceases to exist. The Airline Deregulation Act of 1978 provides that the program will be transferred to the Department of Transportation (DOT) after CAB ceases to exist on January 1, 1985. The responses were divided among

--continuing to have an independent board to make essential air service determinations and subsidy decisions on a nationwide basis (41 percent),

--transferring the program to DOT (41 percent) and

--having States administer the program either through Federal funds or State and local matching funds (18 percent). (See pp. 26 to 29.)

The principal issue regarding the program's future administration is the ability to base decisions solely on the merits of the case and the overall public interest. Supporters of an independent board believe that insulation from political pressure allows a board to make difficult decisions on such matters as determining the essential air service needs of small communities, carrier selection, and setting subsidy levels. Supporters of transferring the program to DOT often point out that DOT would be more familiar with local needs and issues than CAB. Because of the interstate nature of the program, State administration may be difficult. GAO found no overriding reasons why the program should not be transferred to DOT as provided in the act. (See pp. 29 and 30.)

OTHER MATTERS

The Chairman also asked GAO to review whether

--air carriers were discontinuing service to communities not eligible for the essential air service subsidy program in order to serve subsidized communities and whether

--CAB's criteria for adding communities to the essential air service subsidy program, out of the 137 that lost air service in the 10 years preceding the act, is adequate.

When the Airline Deregulation Act was passed, 203 small communities were not eligible for the essential air service subsidy program because they were receiving air service on the date of the act solely from noncertificated carriers. Of these communities, 102, or 50 percent, subsequently lost all air service between 1978 and 1982. GAO found no evidence that air carriers, in order to serve subsidized communities, dropped all air service to other communities not eligible for the program. (See p. 16 and 17.)

Several States told GAO that CAB's criteria for adding other eligible communities adequately considers small community air service needs under this provision. Several other States, however, said that CAB's criteria is too restrictive. (See pp. 17 to 20.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Continuing the current essential air service subsidy program for its remaining life would allow a full 10-year transition period as the act intended, during which time the economy may improve and small markets may become able to support air service without a subsidy. However, continuing the program may have limited long-term impact if most communities lose all air service when the program ends, as the current trend indicates. The Congress needs to consider whether midpoint changes are needed to enhance the value of the program.

The Congress should consider changing program eligibility criteria to allow CAB greater flexibility to (1) temporarily increase some subsidies to improve flight scheduling, services, and promotion where this can help develop a community's air service market to the point where it will no longer require subsidies and (2) discontinue subsidies to communities that are unlikely to be able to support air service after 1988 because they are near larger airports that offer better air service or are too small and isolated to generate enough traffic for future self-sufficient service. It should be recognized that discontinuing subsidies to these communities during the 10-year transition period would represent a change in the guarantee provided by the 1978 act. In addition, the Congress should consider permitting CAB to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if States propose such replacements. (See p. 23.)

AGENCY COMMENTS

CAB agreed with GAO's suggestion that it be given greater flexibility. It also said that it would comment at a later date on options for future administration of the program. (See pp. 23 and 30.)

CAB took issue that the report did not properly credit the program as being a success. GAO agrees that CAB has successfully ensured continued air service to all small communities guaranteed essential air service under current statutory provisions. Most of the subsidized communities, however, have continually lost passengers since airline deregulation, and when the program ends, many of these small communities are likely to lose all or a substantial part of their air service. GAO suggests more flexible eligibility critieria in the interest of improving the program. (See p. 23.)

Before DOT takes a position on increasing program flexibility, it wants to review the program with CAB. DOT said, however, that it supports GAO's suggestions to assure that the program is operated as efficiently and as effectively as possible. DOT also said that the program should be transferred to the Department on January 1, 1985, as currently provided by law. (See pp. 24 and 30.)

Contents

ABBREVIATIONS

CAB	Civil Aeronautics Board
DOT	Department of Transportation
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

In the early days of commercial aviation, airline service was unprofitable and had to be subsidized by Federal funds. Airlines were first subsidized under the provisions of the Civil Aeronautics Act of 1938. Over the years, subsidy payments shifted to small regional carriers that provided service to cities dropped by the larger airlines as they moved to more favorable markets. Section 406 of the Federal Aviation Act of 1958, as amended (49 U.S.C. 1301 *et seq.*), authorized the Civil Aeronautics Board (CAB) to pay subsidies to certificated carriers[1] in certain circumstances. Under this authority, CAB subsidized air carriers to connect small communities with the national air transportation system. The section 406 airline subsidy program ended on September 30, 1982, but continuing appropriations for fiscal year 1983 (Public Law 97-276) provided section 406 carriers with reduced subsidies.

The Airline Deregulation Act of 1978 (Public Law 95-504) gave airlines gradual freedom from 40 years of CAB regulation over who could offer air service, where they could offer it, when they could terminate service to a given community, and what fares they could charge. With the advent of airline deregulation there was concern that small communities would suffer losses in air service because airlines would be able to move their resources to higher density markets. To address this concern, the Congress included in the Airline Deregulation Act of 1978 a program that would ensure continuous air service to small communities through a 10-year transition period ending in 1988.

THE ESSENTIAL AIR SERVICE SUBSIDY PROGRAM

Section 419 of the Federal Aviation Act, as amended by the Airline Deregulation Act, established a small community essential air service subsidy program to be administered by CAB. October 24, 1982, was the fourth anniversary of the scheduled 10-year subsidy program. The act contains no provisions that the subsidy should help the community develop a self-sustaining air service market.

CAB defines essential air service as the level of service that the Government should guarantee to ensure that a community

[1]Carriers that hold CAB certificates of public convenience and necessity authorizing them to engage in air transportation.

will have access to its communities of interest (primary destination cities) and to the national air transportation system. Small communities are those that potentially may not be able to provide air service economically in a totally deregulated environment. In setting subsidy levels, CAB pays air carriers their losses to serve subsidized communities plus a reasonable return.

The Airline Deregulation Act guaranteed essential air service to communities that were listed on air carriers' operating certificates on the date of the act. CAB initially determined the air service requirements for 555 small communities covered by this guarantee. As of October 1982 CAB was paying airlines to provide service to 85 communities in 31 States and Puerto Rico that would otherwise have had all service canceled. Carriers serving an additional 123 communities (95 of which were in Alaska) were receiving temporary subsidies until a replacement carrier could be found. CAB cannot discontinue subsidies to small communities with an air service guarantee even though they cannot realistically support air service.

The act also provided that certain other communities could be eligible for the essential air service subsidy program. These are communities that had been deleted from air carriers' certificates between July 1, 1968, and October 24, 1978. CAB determined the eligibility for an additional 137 communities covered by this provision. The act's criteria, which require CAB's interpretation and judgment, consist of the community's traffic generating potential, reasonableness of the subsidy costs, alternative transportation available, and isolation. As of October 1982, CAB funded three communities under this latter provision. CAB can discontinue subsidies to small communities being funded as a result of their loss of air service in the 10 years preceding the act.

A total of 203 small communities that were receiving air service from a noncertificated carrier on the date of the act were not eligible for the program.

FUNDING FOR SMALL COMMUNITY AIR SERVICE SUBSIDY PROGRAMS

Program funding since airline deregulation is shown in the table on page 3.

Funding for Small Community Air Service Subsidy Programs

Fiscal year	Section 406	Essential air service subsidy program (section 419)	Total
	------------------------------(thousands)------------------------------		
1979	$ 72,143	$ 507	$ 72,650
1980	80,074	9,053	89,127
1981	106,693	15,007	121,700
1982 (est.)	58,100	27,958	86,058
1983 (est.)	13,500	34,900	48,400

The average annual subsidy for the 88 communities funded under the essential air service program as of October 1, 1982, was $260,000 per community. The average annual subsidy for the 28 communities funded under section 406 as of September 30, 1982, was $854,000 per community.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Chairman of the Subcommittee on Aviation, Senate Committee on Commerce, Science and Transportation, asked us to examine the small community essential air service subsidy program. Her principal concerns were (1) should the eligibility criteria in the Airline Deregulation Act be changed and (2) what options are available to administer the program after CAB sunsets, scheduled for January 1, 1985.

In consultation with the chairman's office, we selected for detailed review five States which had small communities in the program. The selections were not made on either a statistically projectable or a random sample basis. Rather, the States were selected to provide geographic coverage and included California, Iowa, Minnesota, Nevada, and Virginia.

Our objective in this review was to ascertain whether the act's eligibility criteria adequately provides for small community air service needs in the States we visited. To achieve our objective we interviewed State Aviation Office officials and examined appropriate records, documents, and reports on air service use. We examined air service statistics and interviewed local aviation officials, community leaders, and officials of air carriers serving 14 small communities guaranteed essential air service. In addition, we interviewed officials from six other small communities that had lost air service but were not eligible for the subsidy program. Our purpose was to compare air service needs with subsidized communities' needs. The small communities were selected after we reviewed State aviation statistics and after our initial talks with program officials.

We also reviewed CAB reports, documents, regulations, and case files at its Washington, D.C., headquarters and its Western Regional Office in California. We analyzed CAB data on numbers of airline departures and passengers before and after airline deregulation for the 88 subsidized essential air service communities. We also analyzed airline departures for the 203 communities not covered by the program. The following communities were included in our review.

California:

- Merced (note a)
- Stockton (note a)
- Modesto (note a)
- Santa Rosa (note a)
- Blythe (note a)

Nevada:

- Ely (note a)
- Elko (note a)

Virginia:

- Danville (note a)
- Hot Springs (note a)
- New River Valley
- Wise

Iowa:

- Clinton (note a)
- Ottumwa (note a)
- Marshalltown

Minnesota:

- Worthington (note a)
- Fairmont (note a)
- Mankato (note a)
- Winona (note b)
- Alexandria
- Detroit Lakes
- New Ulm

a/Subsidized essential air service community.

b/Eligible for guaranteed essential air service, but elected to use service at nearby larger airport.

At our request the National Association of State Aviation Officials asked aviation offices in the 50 States and Puerto Rico to respond to our questions concerning the program's eligibility requirements, the adequacy of CAB's reviews of other eligible communities, and alternatives available to administer the program after CAB sunsets. The responses we received from 34 States are discussed in other chapters in this report.

Our review was performed in accordance with generally accepted government auditing standards.

CHAPTER 2

SHOULD THE ELIGIBILITY CRITERIA BE CHANGED?

Under the essential air service subsidy program CAB is subsidizing air service at 88 small communities, but the number of passengers using air service at these communities has decreased by 50 percent since deregulation. The principal reason for air passenger declines in the communities we visited is that passengers are commuting to larger airports that offer a better selection of flights and carriers, larger jet aircraft, and lower ticket prices than the subsidized communities' airports. Other reasons for passenger declines are unreliable air carrier service by departing carriers and depressed demand due to the poor economy. CAB believes that some of the communities with subsidized service will never develop a sufficient demand to warrant unsubsidized air service. Other subsidized communities may be able to develop such a demand with a temporary subsidy increase. On the other hand, State aviation offices believe that some small communities that currently have no air service need Federal subsidies more than the communities being subsidized.

Continuing the program for its remaining life would allow a full 10-year transition period as the act intended. Or, in the interest of improving the program, the Congress may wish to authorize CAB to

--temporarily increase some subsidies to help develop a community's air service market to where it no longer requires subsidies,

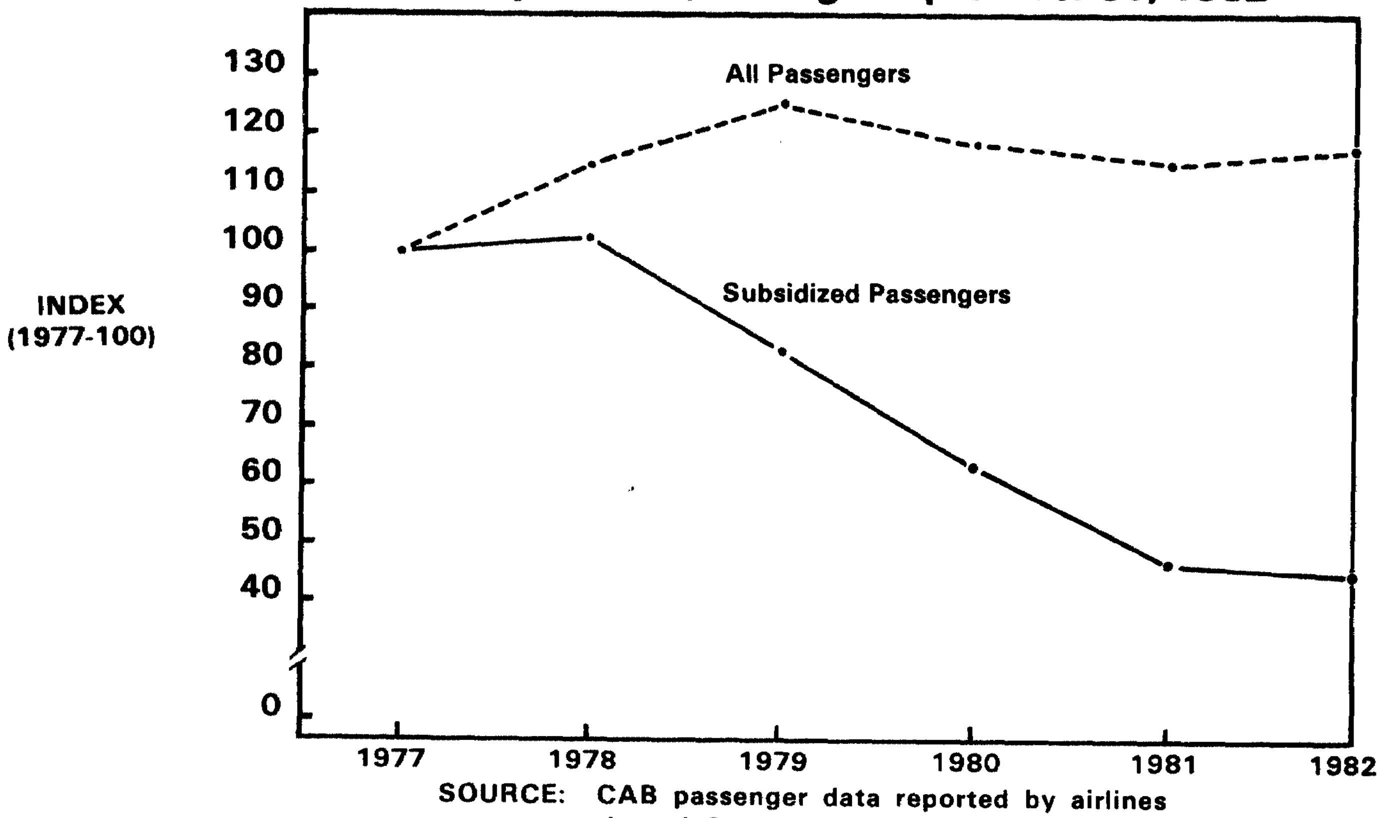
--discontinue subsidies to communities that are unlikely to support air service after 1988 because they are close enough to nearby larger airports offering better air service or are too small and isolated to generate enough traffic for self-sufficient service, and

--replace lower priority essential air service communities with communities that have demonstrated a greater air service need.

ESSENTIAL AIR SERVICE COMMUNITIES ARE LOSING PASSENGERS

The Airline Deregulation Act established the essential air service subsidy program to maintain air service to small communities during a 10-year transition to a free market. CAB interprets its responsibility as setting air service levels at the minimum to ensure that small communities have access to the Nation's air transportation system. The act contains no provisions that the subsidies should help communities develop self-sustaining air service markets. Also, CAB cannot discontinue subsidies to communities that cannot support air service. Under these precepts, CAB has successfully maintained essential air service to small communities protected by the act. However, despite the continuation of air service, our analysis of the 88 communities showed that most of the communities are not making progress toward attaining self-sustaining service in a free market environment and the number of air passengers decreased by 50 percent since deregulation. If traffic does not increase, carriers are likely to discontinue or substantially reduce service to most small communities when the subsidy program ends.

Changes in Passengers Boarding Aircraft
Subsidized Air Services and All Domestic Air Services
January 1, 1977, through September 30, 1982



SOURCE: CAB passenger data reported by airlines through September 1982, adjusted in certain cases to reflect passenger statistics not included in CAB's data base.

The airline industry is sensitive to economic conditions and was adversely affected during the period 1980 through September 1982 by a slow economy, rapidly rising fuel costs, and the air traffic controllers strike with its aftermath of restricted capacity at major airports. (See our reports entitled "The Changing Airline Industry: A Status Report Through 1980" (CED-81-103, June 1, 1981) and "The Changing Airline Industry: A Status Report Through 1981" (GAO/CED-82-94, June 24, 1982).) All small communities suffered severe air service losses during the 1980 through September 1982 period, which in addition to canceling earlier gains, produced overall net losses in departures and available seats since deregulation.

Small communities in the essential air service subsidy program experienced a transition since airline deregulation from larger carriers to smaller regional carriers. Larger carriers abandoned the small communities for more profitable markets. Some essential air service communities we visited experienced problems with the transition to regional carriers, and air service became unreliable, with frequent scheduling changes and fare increases. Many small community passengers were attracted to larger nearby airports for better service and scheduling, larger airplanes, and lower air fares.

Changes in passenger boardings, air service, and fares since deregulation for the essential air service communities we visited are shown on page 9.

Essential air service community	Passengers boarding aircraft (note a)			Weekly departures (note b)			Air fare to primary destination (note b)			Primary destination
	1977	1981	Percent change	1977	1982	Percent change	1977	1982	Percent change	
Danville, Va.	6,018	513	-91	28	10	-64	$41	$82	+100	Washington, D.C.
Hot Springs, Va.	3,863	2,378	-38	21	16	-24	41	87	+112	Washington, D.C.
Mankato, Minn.	4,680	2,495	-47	27	31	+15	28	62	+121	Minneapolis, Minn.
Worthington, Minn.	3,919	2,018	-49	27	12	-56	37	80	+116	Minneapolis, Minn.
Fairmont, Minn.	5,181	2,995	-42	27	30	+11	33	72	+118	Minneapolis, Minn.
Clinton, Iowa	5,947	1,573	-74	84	44	-48	32	71	+122	Chicago, Ill.
Ottumwa, Iowa	8,326	2,405	-71	26	22	-15	47	107	+128	Chicago, Ill.
Santa Rosa, Calif.	15,008	5,218	-65	124	48	-61	22	40	+82	San Francisco, Calif.
Blythe, Calif.	1,747	391	-78	14	12	-14	31	67	+116	Los Angeles, Calif.
Merced, Calif. (note c)	17,226	4,101	-76	14	40	+186	16	40	+150	San Francisco, Calif.
Modesto, Calif. (note c)	50,020	23,754	-53	59	50	-15	16	40	+150	San Francisco, Calif.
Stockton, Calif. (note c)	127,227	42,941	-66	87	61	-30	12	40	+233	San Francisco, Calif.
Elko, Nev.	11,007	8,477	-23	14	42	+200	40	81	+103	Reno, Nev.
Ely, Nev.	4,661	3,078	-34	14	42	+200	43	88	+105	Reno, Nev.
Average--14 communities	18,916	7,310	-61	40	33	-18	$31	$68	+119	

a/CAB passenger data reported by airlines. Complete calendar year 1982 data was not available at the time of our review.

b/Based on Official Airline Guide as of October 1, 1977 and 1982.

c/Passenger data adjusted to reflect statistics not included in CAB's data base.

In 10 of the 14 essential air service communities we visited, State and community officials attributed passenger declines to small communities' passengers using nearby larger airports. Passengers were influenced to use nearby larger airports for several reasons, including

--high commuter fares,

--small commuter aircraft,

--poor flight scheduling, and

--unreliable air service.

The other four communities we visited were beyond 100 miles from the nearest larger airport.

Essential air service community	Nearest larger airport	Number of miles
Blythe, Calif.	Palm Springs, Calif.	115
Ely, Nev.	Salt Lake City, Utah	246
Elko, Nev.	Salt Lake City, Utah	233
Fairmont, Minn.	Minneapolis/St. Paul, Minn.	150

State and community aviation officials attributed passenger declines in these small and remote communities to both a lack of demand for air service and unreliable air carrier service.

CAB program officials stated that some small communities in the essential air service subsidy program will require air service subsidies indefinitely. These are communities that have access to better air service, are too small to develop viable markets, or have satisfactory alternative ground transportation. Under provisions of the Airline Deregulation Act, CAB must continue to fund these communities until the program ends in 1988.

One community we visited rejected subsidized air service and elected to use a nearby larger airport. Winona, Minnesota, although guaranteed essential air service by the act, said that it would use the LaCrosse, Wisconsin, airport which provided certificated air service and was only about 25 miles away.

The Winona city manager said that the business community believed the essential air service subsidy program was wasteful by subsidizing uneconomical travel. He said that the LaCrosse airport was easily accessible and business travelers preferred larger aircraft. The official said that the community had no adverse effects by forfeiting essential air service and anticipates no future need for scheduled service at Winona. However, Winona sought and obtained CAB's assurance that the community would not forfeit its rights under the act, that is, it would be guaranteed essential air service through its own airport in the future.

The following examples illustrate reasons State and community officials cited for passenger declines in four communities we visited. The first three discuss passengers' preference to use nearby larger airports, and the fourth discusses poor carrier service and a lack of demand at a remote community.

Danville, Virginia

Danville, a community with a population of 44,700 in 1980, is located 49 miles from a medium-sized airport in Greensboro, North Carolina. In September 1979, based on historical traffic, CAB defined essential air transportation for Danville as two round trips each weekday, with 64 seats per day, and two round trips on weekends between Danville and Greensboro, Raleigh/Durham, or Roanoke. In April 1981 CAB approved the carrier's request to substitute one of the two weekday Raleigh/Durham round trips for one weekday round trip to Washington, D.C. Mid-South Aviation, Inc., currently provides service between Danville, Washington, D.C., and Raleigh/Durham, with an 18-passenger turbo-prop airplane, at a yearly subsidy of $236,452.

State and community aviation officials attributed sharp reductions in air service between 1977 and 1981 (see p. 9) as the principal reason for Danville's passenger declines. They estimated, based on their discussions with travel agencies, that 90 percent of Danville's air passengers drive to the Greensboro, North Carolina, airport for better flight scheduling and larger more comfortable jet airplanes.

As an example of the additional service and lower air fares offered at the Greensboro airport, a Danville air passenger bound for Atlanta on a weekday in October 1982 had three choices:

1. A passenger could leave Danville at 8:03 p.m., arrive in Raleigh/Durham at 8:30 p.m., get a connecting flight in Raleigh/Durham at 9:55 p.m., and arrive in Atlanta, Georgia, at 11 p.m.--cost $176.

2. A passenger could leave Danville at 7:27 a.m., arrive at Washington's National Airport at 9 a.m., get a connecting flight at National at 10 a.m., and arrive in Atlanta at 11:44 a.m.--cost $249.

3. A passenger could take a bus or drive 49 miles to Greensboro, North Carolina, and have a choice of 14 direct jet service flights to Atlanta. A passenger boarding a 7 a.m. flight in Greensboro could arrive in Atlanta at 7:59 a.m.--cost $132.

State and local community aviation officials believe that Danville needs more flights and better scheduling if the community is to become self-sufficient. State officials told us that a temporary 1- or 2-year increase in Danville's air service is needed, and if the community cannot support unsubsidized air service within this time, then the subsidy should be discontinued.

The President of Mid-South Airlines, the carrier serving Danville, believes that Danville can become a viable market. He suggested to us that CAB should temporarily increase Danville's essential air service to two flights per day to Washington, and if the community cannot support air service, then subsidies should be discontinued. He believed that CAB's policy of spending as little as possible in each market does not meet the needs and interests of the community. He said that a subsidy for 4 to 5 years is needed to allow carriers to invest in the equipment to make air service profitable.

The airline president said that when Mid-South bid for the Danville market, the airline knew from its marketing research that the proposed Danville to Raleigh route would not be profitable because Raleigh was not a community of interest for Danville. Mid-South bid for the route in order to get the essential air service subsidy. Mid-South needs seven passengers on its 18-seat airplane to break even without the subsidy. In 1981 enplanements at Danville averaged one passenger per flight.

Clinton, Iowa

Clinton, a community with a population of 32,779 in 1980, is located 40 miles from a small-sized airport in Moline, Illinois, and 145 miles from a large airport in Chicago, Illinois. In September 1981 CAB defined essential air transportaion for Clinton as two round trips each weekday, with 44 seats per day, and two round trips on the weekend between Clinton and Chicago. American Central Airlines, which began providing service in April 1982, at a yearly subsidy totaling $790,814, currently provides service on a linear route between Clinton and Ottumwa, Iowa (another essential air service community) and Chicago, using an 18-seat prop aircraft and an 8-seat prop aircraft.

On May 20, 1981, a CAB-designated panel held an informal conference to review the community's current air service needs due to significant passenger losses (see p. 9). At the conference, the community said that much of its traffic decline was a result of poor timing of flights, undependable operations, frequent schedule changes, and seats in use by passengers from other points. One Clinton travel agency estimated that 90 percent of the tickets his agency wrote were for trips originating at airports other than Clinton. The Iowa Department of Transportation stated that the traffic decline was due to rising air travel costs and the availability of lower fares at Moline.

CAB concluded that a primary reason for the traffic decline appeared to be the proliferation of high frequency, low-fare service in the Moline-Chicago market. Moline is a 1-hour drive from Clinton, and 18 round trips per day were available between Moline and Chicago, with fares approximately $10 to $20 lower than between Clinton and Chicago. CAB said that Clinton was faced with the same situation as other communities located near hub airports. As competition at the nearby hub increases, the convenience afforded by the wide range of fares and services available attracts passengers formerly boarding at the small community's airports.

The President of American Central Airlines, the airline serving Clinton, believes that the airline could serve Clinton without subsidy now if it could size the aircraft and adjust seat availability to the community's current enplanement levels. This would involve reducing the aircraft size and eliminating weekend service. He said, however, that this action may limit the community's potential for enplanement growth.

The Iowa State Aviation Office and a Clinton aviation official believe that Clinton has a good potential for achieving self-sufficient air service.

Mankato, Minnesota

Mankato, a community with a population of 28,668 in 1980, is located 77 miles from a large airport in Minneapolis/St. Paul. In January 1980 CAB defined essential air transportation for Mankato as two round trips each weekday, with 92 seats per day, and two round trips on weekends between Mankato and Minneapolis/ St. Paul. Mesaba Aviation, Inc., currently provides service on a linear route between the three essential air service communities of Mankato, Worthington, Fairmont, and Minneapolis/St. Paul, with a 15-passenger turbo-prop aircraft, at a yearly subsidy totaling $658,312.

According to the Minnesota State Aviation Office and Mankato community officials, passenger declines (see p. 9) in Mankato were primarily due to high fares that caused passengers to drive or take a commuter bus to Minneapolis/ St.Paul.

A passenger using air transportation on a weekday in October 1982 from Mankato to Minneapolis/St. Paul would depart Mankato at 7:10 a.m. and arrive in Minneapolis/St. Paul at 7:40 a.m.; the coach fare would be $61.70. A passenger could also drive 77 miles from Mankato to Minneapolis/St. Paul or take a limousine for $15 departing Mankato at 8 a.m., and arriving Minneapolis/St. Paul at 9:30 a.m.

The President of Mesaba Aviation, Inc., the carrier serving Mankato, believes that Mankato could not presently be served without a subsidy. He believes that Mankato could potentially be self-sustaining although enplanements would have to double for air service to be economical.

The Minneapolis State Aviation Office said that Mankato does not have a realistic probability of being self-supporting by 1988 and will likely require subsidies beyond 1988 if it is to retain air service. Mankato community officials agreed that Mankato probably could not generate adequate traffic to support unsubsidized air service by 1988.

Blythe, California

Blythe, a community with a population of 6,900 in 1980, is 115 miles from a small airport in Palm Springs, California, and

200 air miles to Los Angeles, California, Blythe's essential air service destination airport. In April 1980 CAB defined essential air transportation for Blythe as two round trips each weekday, with 24 seats per day, and one round trip on weekends between Blythe and Los Angeles. In July 1982 CAB selected Desert Sun Airlines to provide Blythe's essential air service with a 9-seat turbo-prop airplane, at a yearly subsidy of $428,435.

The Directors of CAB's Western Region stated that Blythe is an example of a community that should not be receiving subsidies. They stated that Blythe has never generated traffic sufficient to support an airline in the past and cannot be expected to generate traffic in the future. They noted that although Blythe was fairly isolated, it had a well-maintained major freeway which provided good access to other airports. They noted that Blythe had good service for long periods of time in past years and those periods should have represented a fair trial period to show that it could not sustain air traffic.

The CAB Chairman filed a concurring statement to the Blythe subsidy order in which he noted that the projected subsidy cost of over $250 per passenger is terribly expensive. He stated that "if this subsidy was not mandated by law, I would vote against it as a waste of taxpayer dollars."

A California State aviation official involved with the program stated that Blythe will never be self-sufficient and that the airline will pull out or collapse when the subsidy is discontinued.

The President of Desert Sun Airlines, the carrier serving Blythe, indicated that the airline required more than four passengers on each flight to break even, once startup costs are recovered and only fixed operating costs are considered. In October 1982 the airline had two passengers on each flight. He did not know whether Blythe would become self-sufficient.

MANY SMALL COMMUNITIES NATIONWIDE HAVE LOST AIR SERVICE

Since airline deregulation many small communities have lost air service or have had sharp reductions in the number of flight departures. With the advent of airline deregulation, there was concern that the new freedoms given air carriers would mean abandonment of many smaller less profitable markets. The act, however, did not make all small communities eligible for the essential air service subsidy program--the coincidence of whether a community was receiving air service from a certificated carrier on the date of the act determined a community's eligibility for the program.

Small community air service losses since deregulation

A total of 203 small communities were not eligible for the essential air service subsidy program because they were receiving air service on the date of the act from a noncertificated carrier. Of these communities, 102, or 50 percent, subsequently lost all air service between 1978 and 1982. Another 18 communities, or 9 percent, suffered at least a 50-percent reduction in service. The overall loss, however, was somewhat offset by 15 new small communities that gained air service between 1978 and 1982.

Reaction was mixed in the five States we visited regarding the impact of lost small community air service. State aviation officials in the five States we visited told us that 27 small communities lost all air service since airline deregulation and identified 2 of these communities as having greater air service needs than the essential air service communities in their States.

In Iowa and Minnesota seven communities lost all air service since airline deregulation. State officials and community officials for four of these communities said that no hardships were experienced from the lost air service primarily because the communities did not depend on air service.

In Virginia, one community lost all air service since airline deregulation. State aviation officials said that the community, Wise, Virginia, had an air service need greater than the two Virginia communities in the essential air service subsidy program. The Chairman of the Cumberland County Airport Commission told us that past air service to Wise was profitable, but the carrier attempted unprofitable expansion and failed. He said that the community's two to three passengers per day were supplemented by a heavily used freight business. The community is 1 hour and 45 minutes driving time to the nearest airport.

In Nevada 11 small communities had air service starting during 1978 and ending during 1982. Nevada transportation officials said that there was no known adverse impact to the communities from the lost air service and none of the communities had a greater air service need than the two communities in the program.

In California eight small communities lost all air service since airline deregulation. The California State Aviation Office identified one of the eight communities as having a greater need for air service than subsidized essential air service communities. The aviation office said that this community, Lakeport, California, has documented a substantial number of passengers chartering aircraft to San Francisco and is planning to develop a runway that will support an instrument landing system.

We found no evidence that air carriers, in order to serve subsidized essential air service communities, dropped all air service to other communities not eligible for the program. We examined air carrier routes for carriers serving essential air service communities for 1 year before and after receiving subsidies. In one instance, an airline changed its name when it was awarded essential air service subsidies to serve Clinton and Ottumwa, Iowa. The airline had discontinued service to Marshalltown, Iowa, 1 month earlier.

We asked the airline president if the airline terminated service to Marshalltown to obtain operating subsidies at the other Iowa locations. The president said that Marshalltown did not achieve revenue and enplanement goals. He attributed part of the enplanement decline to the airline's operational problems which resulted in operating deficits and eventual termination. He said that the community was not completely to blame for the low enplanements and that the airline plans to resume service to Marshalltown in the near future using extensive promotion.

CAB's determination for other eligible communities

In the 10 years preceding the 1978 Airline Deregulation Act, 137 communities lost all air service from a certificated carrier. These communities are eligible for subsidies if CAB determines they are eligible for the essential air service subsidy program. CAB has funded only three communities under this provision.

In the five States we visited, State aviation offices identified only one "other eligible" community currently without air service that had greater air service needs than the essential air service communities. The Virginia State Aviation Office identified the New River Valley Airport, which serves Blacksburg, Radford, and Pulaski, Virginia, as having a greater need than the essential air service communities. New River Valley had a projected passenger demand which exceeded, by over 50 percent, the subsidized communities' potential demand.

Through the National Association of State Aviation Officials, we asked State Aeronautics Directors for their views on (1) whether there are any small communities in their States that have greater air service needs than the subsidized essential air service communities and (2) the adequacy of CAB's criteria for considering small communities eligible under the act's provision for "other air service."

Of the 31 States that have communities receiving subsidized essential air service, 26 responded to the first question. Five States identified communities, currently without service, that have greater needs than the subsidized communities in their States.

Of the 29 States that have communities eligible under the other air service provision, 18 responded to the second question. Eight respondents said that CAB adequately considers small community essential air service needs under this provision, while eight respondents offered suggestions for improving CAB's determinations. Two respondents did not know if CAB's determinations or criteria were adequate.

Examples of respondents that said CAB's criteria is adequate follow.

--Indiana said that its two eligible communities "* * * were unable to support subsidized scheduled service in the past and our studies indicate that they would probably be unable to support service now."

--Maine said that CAB adequately considers communities under the other air service provision and that its only eligible community "* * * advised CAB they did not want to be considered under the program."

The respondents that were critical of CAB's determinations of a community's eligibility mentioned most often that CAB is too restrictive in interpreting the criteria and that CAB relies too heavily on historic traffic, which may have been depressed because of poor service by carriers. For example:

--Georgia said that the eligibility criteria does not appear to be a problem; however, "The Board places nearly total dependence on historic enplanement data and disregards current studies documenting the community's potential."

--Vermont said that "CAB is too reluctant to institute development of a market which has been ignored and then dropped by a carrier."

Many small communities that are guaranteed essential air service by the Airline Deregulation Act would not likely be eligible for subsidies if CAB considered them under the act's provision for "other eligible communities." The criteria consists of the community's traffic-generating potential, reasonableness of the subsidy costs, alternative transportation available, and isolation. The criteria requires the interpretation and judgment of CAB. The most objective of CAB's considerations is distance to the nearest hub[1] airport and the number of enplaned passengers. CAB states that if an airport is from 30 to 60 miles from a hub airport, the community will be eligible if it enplanes or has the potential to enplane 20 passengers per day, 5 days per week. A community 60 to 100 miles from a hub airport should enplane 10 passengers per day; a community over 100 miles from a hub must demonstrate sufficient demand for air service.

The essential air service communities we visited that were within 100 miles of a hub airport are shown on page 20 together with the 1981 enplanements. Calendar year 1982 enplanements were not available at the time of our review.

[1]Airports which enplane 0.05 percent or more of the Nation's total enplaned passengers.

Subsidized community	Nearest hub airport Name	Distance	Enplanements per day 1981	Enplanements needed per CAB criteria
		(miles)		
Danville, Va.	Greensboro, N.C.	49	2	20
Hot Springs, Va.	Roanoke, Va.	80	10	10
Mankato, Minn.	Minneapolis/ St. Paul, Minn.	77	8	10
Worthington, Minn.	Sioux Falls, S. Dak.	63	6	10
Clinton, Iowa	Moline, Ill.	40	5	20
Ottumwa, Iowa	Des Moines, Iowa	86	8	10
Santa Rosa, Calif.	San Francisco, Calif.	58	17	20
Merced, Calif.	Fresno, Calif.	55	21	20
Modesto, Calif.	San Jose, Calif.	75	80	10
Stockton, Calif.	Sacramento, Calif.	47	137	20

Another of the act's eligibility criteria is the reasonableness of the subsidy costs to the Federal Government to provide essential air service to communities. CAB's criteria, however, does not define what a reasonable subsidy cost is. In several of the communities we visited the subsidy costs are greater than the round trip air fare to the community's primary destinations. Following is the subsidy cost per boarding passenger compared with the round trip air fare to the primary destinations for the 14 subsidized communities we visited.

Subsidized community	Subsidy cost per round trip (note a)	Round trip air fare to primary destination (note b)
Danville, Va.	$ 461	$164
Hot Springs, Va.	98	175
Mankato, Minn.	88	123
Fairmont, Minn.	88	144
Worthington, Minn.	88	160
Clinton, Iowa	199	142
Ottumwa, Iowa	199	114
Santa Rosa, Calif.	53	80
Blythe, Calif.	1,096	134
Merced, Calif.	104	80
Modesto, Calif.	4	80
Stockton, Calif.	4	80
Ely, Nev.	95	176
Elko, Nev.	95	162

a/Based on CAB 1981 passenger data.

b/Based on Official Airline Guide as of October 1, 1982.

CONCLUSIONS

CAB has successfully ensured air service to the 555 small communities that are guaranteed air service by the Airline Deregulation Act. While most of the communities are receiving subsidy-free air service, 88 communities require subsidies to support air service. However, most of the 88 communities receiving essential air service are not making progress toward attaining self-supporting air service and have experienced sharp passenger reductions since airline deregulation.

A number of the communities are located within easy reach of nearby larger airports, and passengers are driving or taking alternative ground transportation to the larger airports for lower ticket prices, larger airplanes, and better service and scheduling. Some small communities lost air passengers because of past poor service and scheduling from departing air carriers.

When the Airline Deregulation Act was passed, 203 small communities were not eligible for the essential air service subsidy program because they were receiving air service on the date of the act from a noncertificated carrier. Of these communities, 102, or 50 percent, subsequently lost all air service between 1978 and 1982. We found no evidence that air carriers, in order to serve subsidized communities, dropped all air service to other communities not eligible for the program.

The Airline Deregulation Act also provided that another group of small communities could be eligible for the program. These are communities that lost all air service in the 10 years preceding the act. Of the 137 communities eligible under this provision, CAB has funded 3. Several States told us that CAB's criteria adequately considers small community air service needs under this provision, while several told us that CAB's criteria is too restrictive. If the criteria were applied to guaranteed essential air service communities, many would not qualify for subsidies.

The Congress needs to consider changes to the way CAB subsidizes essential air service communities. Unless demand increases, subsidy payments to most communities will continue for the next 6 years and then carriers will leave the communities without air service when the subsidy program ends.

We believe that the essential air service program can be more cost effective and have more long-term value if CAB were authorized to develop an economically sound market during the remaining 6 years of the transition period. If the act's eligibility criteria were more flexible, CAB could discontinue subsidies to communities that probably will be unable to retain service after the subsidies end. Or, if a community has the potential to be a viable market, but poor air service and scheduling in the past has discouraged passengers, then CAB could improve a community's competitive position with temporary subsidy increases. More flexible eligibility criteria could also allow CAB to assist communities for which States can show greater demonstrated air service needs than some currently subsidized communities.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress guaranteed air service to certain small communities until October 1988. Continuing the current essential air service subsidy program for its remaining life would allow a full 10-year transition period as the act intended, during which time the economy may improve and small markets may become able to support air service without a subsidy. However, continuing the program may have limited long-term impact if most communities lose all air service when the program ends, as the current trend indicates.

The Congress should consider changing the program's eligibility criteria to allow CAB greater flexibility to increase or decrease subsidies to selected communities. It should be recognized that discontinuing subsidies to these communities during the 10-year transition period would represent a change in the guarantee provided by the 1978 act. CAB could be given the authority to

--temporarily increase some subsidies to improve flight scheduling, services and promotion where this can help a community's air service market to where it will no longer require subsidies and

--discontinue subsidies to communities that are unlikely to be able to support air service after 1988 because they are close enough to larger airports offering better air service or are too small and isolated to generate enough traffic for self-sufficient service.

The Congress should also consider permitting CAB to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if States propose such replacement.

AGENCY COMMENTS AND OUR EVALUATION

CAB agreed with our suggestion that it be given greater flexibility to increase or decrease subsidies to selected communities. CAB stated that our suggestion that new communities be substituted for communities now under the program is a policy decision that the Congress needs to make. CAB also said that the report presents a very distorted and pessimistic view of the program. CAB said that the program is a success because CAB has maintained air service to all eligible communities and at substantial subsidy reductions.

We agree that CAB has successfully ensured continued air service to all eligible small communities under current statutory provisions. Most of the subsidized communities, however, have continually lost passengers since airline deregulation, and when the program ends, many of these small communities are likely to loose all or a substantial part of their current air service. We suggest flexibile eligibility criteria in the interest of improving the program. CAB's detailed comments and our evaluation of them are included in appendix I.

Before DOT takes a position on increasing program flexibility, it wants to review the program with CAB. DOT said, however, that it supports our suggestion to assure that the program is operated as efficiently and effectively as possible. DOT's detailed comments are included in appendix II.

CHAPTER 3

HOW SHOULD THE PROGRAM BE ADMINISTERED

AFTER CAB SUNSETS?

The Airline Deregulation Act of 1978 provides that CAB will cease to exist on January 1, 1985, and that the program and other functions will be transferred to DOT.

The Congress is considering legislation to transfer CAB's functions to DOT and other appropriate agencies earlier than January 1, 1985. There have also been congressional discussions about retaining an independent board to administer the program.

Several options are available on how the program should be administered after CAB sunsets. While we do not favor any one option, we note that the least favored option among the States is to transfer the program to State aviation offices. Thirty-two State aviation offices provided us their opinions on how the program should be administered after CAB sunsets. The majority of the responses were divided between

--continuing an independent board to make essential air service determinations and subsidy decisions on a nationwide basis (41 percent) and

--transferring the program to DOT after CAB sunsets (41 percent).

A smaller number of respondents (18 percent) favored State administration of the program either on the basis of a Federal grant program or shared State and local matching funds.

As part of a study on how it will transfer all of its remaining functions when it sunsets, CAB is studying methods of administering the program to safeguard independent decision-making. As of March 1983, CAB expected that the study would be completed in the spring of 1983.

DOT is studying how it will maintain independence in aviation decisions after CAB sunsets. DOT has found no evidence to indicate that the program requires an independent body. The Chairmen and Ranking Minority Members of both the Subcommittee on Aviation, Senate Committee on Commerce, Science and Transportation, and the Subcommittee on Aviation, House Committee on

Public Works, asked DOT to study the issue of DOT maintaining its independence in aviation decisions and explain how it will handle CAB functions after it sunsets. DOT expects to have an official position in April 1983.

CONTINUE AN INDEPENDENT BOARD

Thirteen State aviation offices favored continuing an independent board to administer the essential air service subsidy program. The reasons focused on the board's ability to determine nationwide priorities and needs. Several State aviation offices responded as follows.

1. Hawaii--"If the subsidy program continues to have a limited budget, and it will, an independent Board should be better able to determine priorities and national needs in determining distribution of funds."

2. Iowa--"A Federal level independent board is necessary to authoritatively administer funds, negotiate for routes and slots, and assist communities in providing and maintaining a viable air service network."

3. Minnesota--"CAB has a well qualified staff * * * to administer the Essential Air Service program * * *. * * * To do away with the CAB or shift its functions to another Federal agency will not rectify the perceived problems with the scheduled air transportation system or the Essential Air Service program. It may very well compound the problems."

Ten State aviation offices had reservations about continuing an independent board. The offices had doubts about CAB's ability to make nationwide determinations of needs and priorities. For example:

1. Alaska--"Prefer an agency more familiar with local issues and the nature of air transportation in specific regions or States."

2. Georgia--"CAB has chosen to undermine small community service by guaranteeing service at such low levels that it effectively eliminates any possibility of small communities developing self-sufficient air service.

* * * We would be afraid of a successor developing, as the present Board has, into an unresponsive government agency that does not serve the <u>public</u> needs."

3. New York--"There is some question as to the effectiveness of an independent Board. States and local communities have minimal say in the Board's decisions which compels the Board to make generalized decisions, not specific to local needs."

<u>TRANSFER THE PROGRAM TO DOT</u>

Thirteen State aviation offices stated that the essential air service subsidy program, and certain CAB staff, should be transferred to DOT as specified in the Airline Deregulation Act.

1. Oregon--"Transfer program to DOT along with a few qualified CAB personnel to assist in the transition. Strongly recommend DOT maintain the existing CAB regional office structure throughout the life of the EAS program."

2. Texas--"* * * transfer the staff of the CAB currently administering the program to the Department of Transportation, with appropriate sunset provision for this function * * *."

3. Utah--"Retain some of the expertise from the Office of Congressional, Community and Consumer Affairs within U.S. DOT and have them work closely with State Aviation Agencies."

Two State aviation agencies had reservations about transferring the essential air service subsidy program to DOT.

1. Wyoming stated "* * * it appears that since [DOT] is so large, there would be little chance to reach the top level for a decision. One might have to battle a multiple layer of bureaucracy. One could expect arbitrary decisions at the Federal level with no day in court."

2. New Hampshire--"Having DOT * * * [administer the program] might result in unneeded bureaucracy."

STATE ADMINISTRATION OF THE PROGRAM

We asked State aviation offices for their comments on (1) transferring program administration to State aviation agencies on the basis of a Federal grant program to provide funds and (2) transferring administration of Federal grants to State aviation agencies with shared State and local matching funds.

Four State aviation offices favored a program of State administration with Federal grants, and two States favored a program involving State and local matching funds.

1. Arizona--"States would have more insight where such grants could do the most good."

2. New Mexico--"* * * would accept administration of the program on the basis of a Federal grant program to supply subsidy."

3. Missouri--"Federal/local subsidy on a sliding ratio beginning at 90 percent Federal, 10 percent local, with the Federal share decreasing annually. * * * This would provide local incentive to assist the carrier build the market. The program should be administered at the State level."

4. Virginia--subsidy "* * * split should be 90 percent Federal, 5 percent State, and 5 percent local. States should be able to * * * provide subsidy as they see fit * * *."

Thirteen State aviation offices had negative comments regarding State administration of the program. Four States pointed out that State laws prohibit payment of State subsidies to private businesses. Six States also commented that the interstate nature of the program would make State administration impractical. Several State aviation offices comments follow:

1. North Dakota--"The time frame between CAB sunset in January 1985 and termination of all subsidies [3 years] is too short to entertain a shift to States."

2. Texas--"* * * joint State-Federal administration would add extra bureaucracy and be largely unworkable due to

jurisdictional and authority problems. For example, if an EAS point was in one State and the hub or possible hubs in another, who would make the determination of the level of service, which hub was primary, whether one carrier should be allowed to bump another, and so forth."

3. Wyoming--"Wyoming State law prohibits subsidization of any private organization with State funds."

CONCLUSION

The principal issue regarding the administration of the essential air service subsidy program after CAB sunsets is the ability to base decisions solely on the merits of the case and the overall public interest. Supporters of an independent board believe that insulation from political pressure allows a board to make difficult decisions on such matters as determining the essential air service needs of small communities, carrier selection, and setting subsidy levels. Supporters of transferring the program to DOT often point out that DOT would be more sensitive to local needs and issues than CAB. However, DOT is now studying the organizational structure and procedures to insulate decisionmaking from political pressures. Supporters of State administration believe that States have the best insight regarding where grants would do the most good. However, many States believe that the interstate nature of the program would make State administration difficult.

We do not favor any one option for administering the essential air service subsidy program after CAB sunsets. About 40 percent of the State aviation offices we contacted favor the establishment of an independent board to make subsidy decisions. Most State and community aviation officials we visited believe that CAB has provided objectivity and fairness in administering the program and that CAB's decisionmaking is open and well documented.

About 40 percent of the offices we contacted favor transferring the program to DOT as provided by the Airline Deregulation Act. We found no overriding reasons why the program should not be transferred to DOT as provided in the act.

About 20 percent of the offices we contacted favor State administration of the subsidy program, primarily because States have more insight regarding where subsidies would do the most good. Several offices, however, pointed out that laws in their States prohibit payment of matching State subsidies to private businesses, and several States commented that the interstate nature of the program makes State administration impractical.

AGENCY COMMENTS AND OUR EVALUATION

CAB said that it is currently working on issues related to transferring its functions after it sunsets, and its views on transferring the essential air service program will be made known at a later date.

DOT said that the program should be transferred to DOT after CAB sunsets, as currently provided by law. DOT stated the affected communities, the States, and the Federal Government will all benefit from the more streamlined and coordinated transportation policy and programs that are possible if the program is transferred to DOT. Whether DOT can operate more efficiently than an independent board depends on how the program will be administered within DOT, and this has yet to be determined.

CIVIL AERONAUTICS BOARD
WASHINGTON, D.C. 20428

IN REPLY REFER TO: B-1-69b

March 11, 1983

Mr. J. Dexter Peach
Director, Economic Resources,
Community, and Development Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Peach:

Enclosed are the comments of the Civil Aeronautics Board with respect to the GAO draft report entitled, "More Flexible Eligibility Criteria Could Improve the Small Community Essential Air Service Program". We understand that our comments will be appended to the final report.

Sincerely,

Dan McKinnon
Dan McKinnon
Chairman

Enclosure

COMMENTS OF THE
CIVIL AERONAUTICS BOARD

The Civil Aeronautics Board is pleased to have this opportunity to present its views on the GAO study entitled, "More Flexible Eligibility Criteria Could Improve the Small Communities Essential Air Service Program". We are in general agreement with the GAO suggestion that the Board be given greater flexibility under the 419 program, but the analysis which GAO uses to buttress its position presents a very distorted and pessimistic picture of the program. 1/

THE ESSENTIAL SERVICE PROGRAM IS A SUCCESS

The section 419 program was primarily intended to aid small communities by guaranteeing continued air service during a 10-year transition to total deregulation. It was not intended as a developmental program, as the GAO report implies. Viewed in the proper context, the program has been a great success.

[GAO COMMENT: We do not view the intent of the current program as being developmental. In our "Matters for Consideration by the Congress," we stated that one option is continuing the current essential air service subsidy program for its remaining life, allowing a full 10-year transition period as the act intended, during which time the economy may improve and small markets may become more competitive.]

In spite of two recessions, the PATCO strike, sharp fuel price increases and a restructuring of the industry under less regulated conditions, no certificated point which received service throughout 1977 lost essential air service, and severe transitional problems have been avoided. 2/ In contrast, 102 non-certificated communities have lost service since deregulation.

1/ When given its assignment by the Senate Aviation Subcommittee, the GAO was also asked to give its views on options for administering the program following CAB sunset. However, the CAB is currently working on transfer issues, and our views on the transfer of the essential service program will be made known at a later date. Therefore, we will not comment on this aspect of the GAO report at this time.

2/ Of course there have been some brief interruptions in service due to strikes, carrier failures, etc., just as there have been at points outside the program.

The GAO study pays little attention to the enormous efficiency gains and associated subsidy reductions which have occurred while the goal of continued small community essential service was being achieved. Prior to the enactment of the Airline Deregulation Act, 202 points in the 48 contiguous states and another 198 points in Alaska received subsidized service under old section 406. Under new section 419 the number of communities requiring subsidy will be cut in half in the 48 states and is likely to be reduced by three-fourths in the State of Alaska. Of course essential service levels will be maintained at all communities, and in Alaska essential service levels are basically the service levels provided in 1976. Furthermore, the subsidy per point under section 419 is only a fraction of the cost per point under the section 406 approach. The old 406 program primarily subsidized service with jet aircraft which were only one-third full, whereas the new program more closely matches community service needs with aircraft of appropriate size.

[GAO COMMENT: We did not evaluate whether the essential air service subsidy program is more efficient than the section 406 subsidy program which ends September 30, 1983. Chapter one, however, compares the funding and average subsidy costs per community of the two programs.]

<u>THE GAO REPORT PRESENTS A DISTORTED VIEW OF THE SUCCESS AND POTENTIAL FOR IMPROVEMENT OF THE SUBSIDIZED COMMUNITIES UNDER THE PROGRAM.</u>

It is true, as GAO concluded, that traffic at many essential air service communities has declined considerably since passage of the Deregulation Act and that many of these communities may lose scheduled air service when Federal subsidies are no longer available. However, a casual reading of the data included in the report gives the impression that the essential air service program primarily has been responsible for the traffic decline. But the circumstances of several of the fourteen communities on which the review is focused are not typical. 3/ Some experienced a transition from their pre-deregulation carrier to a new carrier <u>during 1981</u> or <u>later</u>, so 1981 traffic levels do not reflect a normal year after transition to subsidized EAS service. Furthermore, 1981 traffic results were strongly influenced by the recession, the PATCO job action, and other factors that we will elaborate below.

[GAO COMMENT: We do not imply that the essential air service program primarily has been responsible for the traffic decline at subsidized communities. The principal reason cited in chapter 2 is that passengers are commuting to nearby larger airports that offer a better selection of flights and carriers, larger jet aircraft, and lower ticket prices than the subsidized communities. Other reasons for passenger declines are unreliable air carrier service by departing carriers and depressed demand due to the poor economy.

Our selection of communities was intended to provide geographic coverage and is not statistically projectable. Although some of the communities experienced a transition to a new carrier during 1981 or later, 8 of the 14 communities were previously served by carriers subsidized by CAB under the section 406 small community air service program. Of the four communities discussed in detail in our report, Clinton, Iowa, was the only community which was not previously receiving CAB subsidized service. The detailed information provided by CAB about the examples cited in our report does not dispute any of the facts we presented.]

The four detailed examples

Four communities are discussed in detail in the study (Danville, Clinton, Mankato, and Blythe). Of these we would consider Clinton, Iowa, an example of the post-deregulation experience of most points in the essential air service program where commuter carrier service had replaced large aircraft certificated carrier service by the end of 1980. 4/ Mississippi Valley Airlines (MVA), a small certificated carrier, replaced Ozark Airlines at Clinton in 1976. Traffic at Clinton grew steadily from about 4000 enplanements in 1975 to 5,862 in 1976, 5,947 in 1977, and 6,343 in 1978. Then traffic dropped in 1979 to 3,205 enplanements, and continued declining to a low point of 1,573 enplanements in 1981. We attribute the decline to a number of different factors, but principally to improved service and discount fares at Moline, 25 miles south of Clinton. Early in 1982, we selected American Central Airlines to replace MVA at Clinton. Response to American Central has been favorable, and it appears that traffic at Clinton is rebounding. Available statistics indicate that American Central will board over 2200 passengers at Clinton during its first full year of service at the point. (MVA replaced Ozark at Ottumwa in 1979, and since that time Ottumwa's history and current traffic experience are very similar to Clinton's.)

3/ The fourteen cities are: Danville and Hot Springs, Virginia, Clinton and Ottumwa, Iowa, Ely and Elko, Nevada, Fairmont, Mankato, Worthington, Minnesota, and Santa Rosa, Modesto, Merced and Stockton, California. Winona, Minnesota, the only eligible point that has voluntarily waived essential air service, also received a long discussion in the GAO report.

4/ At points where a carrier transition occurred by the end of 1980, 1981 traffic data would reflect the results of the transition.

In contrast, Danville, Virginia, is unlike most essential air service communities because it is located within easy driving distance of not just one larger airport, but three hub airports. Greensboro is 49 highway miles to the southwest, Raleigh/Durham is 70 miles to the southeast, and Roanoke is 74 miles to the northwest. Even when Piedmont Airlines provided multifrequency service at Danville with large aircraft (60-seat YS-11 aircraft), the point never generated more than an average of 19 enplanements per day (in 1974). Traffic response to the two commuter carriers that replaced Piedmont after its departure in 1979, first Cardinal Air Virginia and then Mid-South Airlines, has been very limited. During 1981, Mid-South boarded 513 passengers at Danville, and during the first three quarters of 1982, it boarded 635 passengers. Although traffic improved during 1982, we question whether a minimum level of commuter carrier service at Danville ever could be successful in luring enough passengers from driving to nearby hubs to support service at Danville. Therefore, Danville is one of the communities for which, if we had discretion, we would consider subsidizing a higher level of service in a use-it-or-lose-it test or, alternatively, we would consider deleting the point from the program.

Mankato was served by Republic Airlines on a linear routing with Fairmont and Worthington to Minneapolis until October 24, 1981. Republic provided essentially the same service at the three points from the pre-deregulation period (1978) until its suspension, but the carrier adopted a series of fare increases during its last year of service at the points that depressed traffic. On October 25, 1981, Mesaba Airlines initiated its subsidized replacement service. Like Republic, Mesaba serves the three points over a linear routing to Minneapolis. In view of Republic's fare increases and the late date of the carrier transition, the 1981 traffic data do not provide a reasonable basis for evaluating the essential air service program. Mesaba's traffic at Fairmont and Worthington during its first 11 months of replacement service was only slightly below Republic's traffic during its last 10 months of service at the points. However, at Mankato Mesaba achieved only about half of Republic's traffic for the same periods of comparison. Mankato is located just over an hour's drive from the Minneapolis airport.

Blythe, California, is included in the essential air service program because in 1978 it was listed on the certificate of Cochise Airlines, a now defunct small certificated carrier. Cochise filed for reorganization under Chapter 11 bankruptcy laws and ceased service in June 1982. From 1978 until that time, the carrier's service, which was subsidized under section 406, became increasingly unreliable, and traffic at all of its single-carrier points was extremely discouraged. At Blythe, traffic dipped to 391 enplanements in 1981. In August 1982, we selected Custom Aviation d/b/a Desert Sun Airlines to provide essential air transportation between Blythe and Los Angeles. During its <u>first five months</u> of service, Custom has carried over 1000 passengers in the market. It expects traffic levels to continue improving. We have not concluded at this time that Blythe would be a candidate for deletion from the essential air service program. The community is more isolated than most communities in the program and, after its experience with Cochise's unreliable service, we believe it should be given an opportunity to demonstrate its demand for air service.

Other Communities Studied

With respect to the California and Nevada communities mentioned in the report, we would note that Merced, Modesto, and Stockton, California, have experienced a great deal of carrier turnover since 1978 due to an intrastate system characterized by unusually low fares and intensive competition for markets. Santa Rosa, California, is located 55 miles from San Francisco and limousine service presents stiff competition for commuter carrier service provided at the point by West Air. Ely and Elko, Nevada, lost all air service in 1981 when Golden Gate Airlines declared bankruptcy. Only a handful of essential air service communities have been affected by carrier bankruptcies. Ely and Elko are now examples of successful replacement service under the essential air service program. The points currently are served by Skywest Airlines, a small certificated carrier, that we selected after Golden Gate ceased service. Skywest is doing well and we are optimistic that the carrier can achieve the same traffic levels United Air Lines achieved when it served the points.

Due to the unusual circumstances of these cases or the timing of the transition from certificated to commuter carrier service, a focus on these communities in 1981 produces a misleading impression of the essential air service program. A similarly narrow focus on other communities located within the states included in the GAO review would produce a far different impression.

For example, at Hot Springs, Virginia, which is not far from Danville, replacement service provided by Colgan Airways, a small certificated carrier, has been very successful. Hot Springs is a seasonal point which formerly was served by Piedmont Airlines from April through November each year. Colgan assumed the essential air service responsibilities at Hot Springs beginning with the 1981 season. Its traffic during 1981 and 1982 surpassed the levels achieved by Piedmont during 1979 and 1980.

Problems with the use of 1981 data

GAO's comparison of 1977 and 1981 data for 88 subsidized points should not be read to imply that reductions in passenger boardings and departures resulted from transitions from certificated carrier service to replacement commuter service. As illustrated by the discussions above, this is not necessarily the case. Replacement service at Clinton began in 1976, and thus the 1977 data used in the study actually represent an increase over Ozark Airlines' historical traffic and service levels. Replacement service at Mankato, Fairmont, and Worthington began in October 1981 and at Blythe in August 1982. Therefore, the declines in passenger boardings and departures at these points from 1977 to 1981 were experienced with the incumbent carriers' service rather than replacement service.

Thus, a simple comparison of 1977 and 1981 data does not provide a good basis for drawing conclusions about the success of the essential air service program. To be valid, a comparison would have to be based on those points that had a continuous service pattern from a single carrier throughout 1977 (and preferably for several months leading up to 1977) and that also had a continuous replacement service pattern throughout 1981 (and preferably for several months leading up to 1981).

But even this type of anaylsis would be skewed by some unusual characteristics of 1981.

[GAO COMMENT: The chart on page 7 shows a continual decline in passengers since airline deregulation for all subsidized communities. Passenger reductions from 1977 to 1981 averaged about 60 percent for the 14 communities we visited, while passenger reductions averaged about 55 percent for all subsidized communities. We recognized in chapter 2 that airline traffic was adversely affected during the period 1980 through September 1982 by a slow economy, rapidly rising fuel costs, and the air traffic controllers strike, with its aftermath of restricted capacity at major airports.]

Broader problems with use of the 1981 data

(a) The recession. Air passenger traffic was affected significantly by the recessionary conditions prevalent during 1981. Overall, domestic certificated passenger enplanements decreased 6 million from almost 270 million in 1980 to about 264 millions in 1981. 5/ It is likely that more than a proportionate share of the reduction occurred at small communities where the lack of carrier competition resulted in a dearth of discount fares. We believe that any comparison of 1981 passenger traffic data with those of other years with more favorable economic conditions (such as 1977) used for a general evaluation of the program should include some adjustments to account for these economic influences. At the very least, conclusions drawn from unadjusted comparisons should be qualified.

(b) The PATCO job action. The Professional Air Traffic Controllers Organization job action in August 1981 seriously disrupted the domestic air transportation system. In fact, prior to the PATCO strike, departures were up at the majority of points currently receiving 419 subsidy, when compared to pre-deregulation Act levels. Many carriers were forced to reduce the number of flights they operated to large hub airports, and carriers that were not established before the strike were unable to obtain the slots necessary to begin operations. 6/ Therefore, any analysis of the number of departures operated in 1977, when slots were generally readily available, and 1981 will necessarily be greatly influenced by PATCO effects. In addition, since passenger traffic is normally stimulated with increases in the number of departures provided, we again would stress that 1981 traffic data should not be used for a general evaluation of the program.

5/ The 1981 data included the traffic of a greater number of carriers than the 1980 data, since many small carriers became certificated during 1980 and 1981.

6/ Many carriers also lost some of their more favorably timed slots and were forced to operate at unusual hours.

(c) Other Factors. It takes time for carriers to establish themselves in new markets. In most cases several months are needed before traffic begins to approach normal levels. In some cases, particularly those involving markets that have been subjected to erratic or unreliable air service by departing carriers, much more time is needed.

Many carrier transitions occured in 1980 and 1981. Consequently, we do not consider the 1981 traffic data for many points to be indicative of their true traffic generating potential.

We also take note of increasing efforts by large certificated carriers, such as USAir, United Air Lines and Pan American Airways, to work closely with commuter and small certificated carriers in order to gain feed traffic. The new cooperation between the large and small carriers has resulted in the expansion of very favorable joint fares from small communities and generally improved services. Some large carriers also have helped promote joint services originating at small communities. We anticipate that improved relationships between large and small carriers will cause traffic levels at essential air service communities to increase in the future.

MORE FLEXIBILITY COULD IMPROVE THE COST EFFECTIVENESS OF THE ESSENTIAL SERVICE PROGRAM

We agree with the GAO suggestion that the Board be given greater flexibility. There are points under the program that are within easy driving distance of larger airports where lower fares and more service are now available. Larger close-by airports have become more attractive because of the restructuring of the industry under deregulation. Thus, the cost of maintaining air service at some small points will likely always be quite high in relation to the number of passengers who choose to use the local airport. For this reason the Board believes that some flexibility should be introduced into the program to allow for the elimination of certain points. We should stress, however, that any elimination should be based on the long-term potential of a point and not on the results of short-term factors such as the PATCO strike or the recession which may have depressed traffic. We would of course not use this flexibility without a very careful review in each case.

At the same time we agree with the GAO suggestion that the Board should be authorized to engage in developmental tests. We have seen instances under the 419 program where high initial subsidies have allowed carriers to institute and then expand service so that traffic was greatly stimulated. New Bedford, Massachusetts, is the prime example of this phenomenon. At New Bedford, Air New England was replaced by Provincetown-Boston Airlines. PBA was selected to provide essential service for two years with a subsidy of about $800,000 for the first year and $420,000 for the second year. While only about 5,000 passengers enplaned at New Bedford in 1980, the last year of service by Air New England, in 1982 the point enplaned 33,000 passengers through November and should no longer require subsidy support in the years ahead.

The opportunities for such success stories may be limited. Nevertheless, we believe that the Board should be authorized to expand essential service definitions for a trial period, but this should be coupled with the authority to terminate a point's eligibility if a trial is not successful. Thus, the Board would have the option to pay high subsidy support for developmental levels of service; but if this option were taken, the community would have to support the service or risk losing its essential service guarantee in the future.

The GAO also suggested that states be permitted to propose the substitution of new points for points now under the program. The substitution of points could be a very difficult procedure to administer. It could change the character of the program and expand its scope well beyond the original purpose which was to allow existing certificated communities a 10 year transition to a deregulated environment. Expanding the program in this manner is a policy decision to be made by the Congress as they study the future of the essential air service program.

U.S. Department of Transportation

Assistant Secretary for Administration

400 Seventh St., S.W.
Washington, D.C. 20590

MAR 14 1983

Mr. J. Dexter Peach
Director, Resources, Community,
and Economic Development Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Peach:

We have enclosed two copies of the Department of Transportation's (DOT) reply to the General Accounting Office (GAO) draft report, "Small Communities Essential Air Service Program: Results After Four Years 1978-1982," dated January 26, 1983.

The Essential Air Service Program was established by the Airline Deregulation Act of 1978, in order to ensure that small communities would continue to receive air service for a ten-year period while airlines exercised their new freedom to enter and leave markets. The program is administered by the Civil Aeronautics Board (CAB) and provides subsidies for service to 88 small communities. Since the program's inception, the number of passengers using air service at these communities has decreased by 50 percent. Among other things, decreases were primarily due to the nationwide depression in air traffic between 1980 and 1982, and changes in market conditions in small communities since airline deregulation.

GAO believes that Congress should consider changes in the program to allow the CAB greater flexibility to: (1) discontinue subsidies to communities that have no chance for achieving unsubsidized air service; (2) increase temporarily subsidies to communities with potential for a viable market; and, (3) substitute communities for which States can share a greater demonstrated air service need than those subsidized currently.

DOT does not intend to take a position on the increased Program flexibility recommended by the GAO until we have had an opportunity to review this program closely with the CAB. On the question of future administration of the Program, we believe not only that, as the GAO points out, there are no overriding reasons why the program should not be transferred to DOT, but also that the affected communities, the States, and the Federal Government will all benefit from the more streamlined and coordinated transportation policy and programs that are possible if the Program is transferred to DOT.

If we can be of further assistance, please let us know.

Sincerely,

Robert L. Fairman

Robert L. Fairman

Enclosures

DEPARTMENT OF TRANSPORTATION REPLY TO GAO DRAFT REPORT OF MARCH 1, 1982 ON SMALL COMMUNITIES ESSENTIAL AIR SERVICE PROGRAM: RESULTS AFTER FOUR YEARS, 1978-1982

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

The Essential Air Service Program was established by the Airline Deregulation Act of 1978 in order to ensure that small communities would continue to receive air service for a ten-year period while airlines exercised their new freedom to enter and leave markets. The Program, which provides subsidies to air carriers to assure continued small community service, is currently administered by the Civil Aeronautics Board (CAB). When the CAB sunsets on December 31, 1984, the Program will be transferred to the U.S. Department of Transportation, where it will be administered until the Program expires in 1988.

As currently administered by the CAB, the Program provides subsidies for service to 88 small communities, at an FY82 cost of $86 million in payments to airlines. In the four years the Program has been in existence, the number of passengers using air service at these communities decreased by 50 percent. The General Accounting Office (GAO) visited 14 of the 88 subsidized communities to determine the reasons for passenger declines and the potential of the communities to develop sufficient demand to warrant unsubsidized air service.

GAO found that a primary reason for the passenger losses was the nationwide depression in air traffic between 1980 and 1982; in addition, there have been changes in market conditions in small communities since airline deregulation which have contributed to passenger declines. In 10 of the 14 communities visited by GAO, potential passengers were driving to nearby larger airports, at distances as low as 40 miles, for better service, scheduling, and fares. The other four communities visited by GAO were beyond 100 miles of a larger airport and passenger declines were attributed to both a lack of demand for air service and unreliable air carrier service.

State and local aviation officials indicated in conversations with GAO that some of these small communities were unlikely to generate the demand necessary for unsubsidized air service, while other communities might be able to generate sufficient demand if subsidies were temporarily increased in order to develop the market. In some cases, these officials indicated that there were other small communities lacking air service in their states that have higher priority needs than communities receiving essential air service subsidies.

GAO believes that Congress should consider changes in the Program to allow CAB greater flexibility to discontinue subsidies to communities that have no chance for achieving unsubsidized air service, increase temporarily subsidies to communities which have the potential to be a viable market, and substitute communities for which states can show a greater demonstrated air service need than currently subsidized communities.

GAO also asked state aviation offices how the Program should be administered following the sunset of the CAB. Thirty-two states responded, of which 13 favored the continuation of an independent Board to administer the Program, 13 favored transfer of the Program to DOT, and 6 favored some form of state administration of the Program. Based on analysis of the reasons given for these three forms of administration, GAO makes no recommendation, but points out (a) there are a number of problems with state administration of the Program, including laws in some states prohibiting state subsidies to private businesses; (b) CAB administration is perceived as objective, fair, and well-documented; and (c) there are no overriding reasons why the program should not be transferred to DOT as currently provided by law.

SUMMARY OF DEPARTMENT OF TRANSPORTATION POSITION

DOT does not intend to take a position on the increased Program flexibility recommended by the GAO until we have had an opportunity to review this program closely with the CAB. On the question of future administration of the Program, we believe not only that, as the GAO points out, are there no overriding reasons why the program should not be transferred to DOT, but also that the affected communities, the states, and the federal government will all benefit from the more streamlined and coordinated transportation policy and programs that are possible if the Program is transferred to DOT.

POSITION STATEMENT

DOT has recently begun working with CAB to plan for the transfer of CAB functions, including the Essential Air Service (EAS) Program, to DOT upon the sunset of CAB on December 31, 1984. As part of this planning process, we will discuss with CAB staff the need for changes in the EAS Program, including the changes recommended by GAO. In the meantime, we prefer not to take a position on the GAO recommendations. We would, however, point out that we are supportive of the overall objective that underlies GAO's recommendations, that is, to assure that the Program is operated as efficiently and effectively as possible.

With regard to future administration of the EAS Program, the Department believes that the Program should be transferred to DOT upon the sunset of the CAB, as currently provided by law. Such a transfer would include the CAB staff who are administering the Program at the time of sunset, so there would be no loss of program continuity and expertise. In addition, there would be a gain from the federal perspective in that EAS Program policy and administration could be coordinated with overall national transportation policy and program delivery. Moreover, small communities and state aviation offices would have greater access, through DOT's regional offices as well as headquarters, to obtain information and convey needs and problems.

Finally, as a matter of accuracy, DOT wishes to correct several statements in the GAO report referring to a DOT study of procedures to insulate EAS Program decisionmaking from political pressures. The report indicates that DOT is conducting such a study and that DOT expects to have an official position in February 1983. In fact, DOT's review of the political insulation question is concentrated on international aviation functions, particularly the selection of U.S. carriers for limited-entry international air routes. DOT plans to complete this review in time for Congressional hearings in April 1983.

[GAO COMMENT: Although DOT's study is focusing on international aviation functions, DOT officials said that the results can have broader application to include carrier selection for essential air service communities. The ability to base decisions solely on the merits of the case and the overall public interest is the principal issue regarding administration of the program. Whether DOT can operate more efficiently than an independent board depends on how the program will be administered within DOT, and this has yet to be determined.]

United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION
WASHINGTON, D.C. 20510

August 2, 1982

The Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
WAshington, D.C.

Dear Mr. Bowsher:

The Airline Deregulation Act of 1978 established a subsidy program which guarantees essential air service to certain eligible small communities. This fall, the program will have been in effect for four of its authorized ten years; and it is programmed to replace the section 406 air service subsidy program which has been in effect since the early 1940s. The Subcommittee believes it would be useful for its oversight of the effects of airline deregulation to review the essential air service program.

Since airline deregulation, some small communities which were not guaranteed service under the ADA have lost all air services. The Subcommittee is interested in the extent to which the availability of subsidies at certain cities caused a shift of resources resulting in this loss of service. The Subcommittee would like GAO to consider for a sample of small communities, which lost air service, whether they are more or less dependent on air transportation than small communities receiving subsidized service; and whether service shifts were more prevalent in any particular regions of the country. The Subcommittee would be interested in GAO's views on whether there should be a change in the eligibility criteria contained in the ADA.

The Subcommittee would also like GAO to review whether the Civil Aeronautics Board, in making determinations on adding new communities to the essential air service program, adequately considers (1) the small communities' isolation in terms of proximity to an air service center and the availability of alternative means of transportation to an air service center, and (2) the reasonableness of subsidy payments in terms of per passenger costs, and (3) the future traffic-generating potential of the small community.

Finally, the Subcommittee would like the GAO to consider options for how this program might be administered following CAB sunset. Is there a need for legislation to assure the independence of the decision-making process or to preserve a multi-member body to make these decisions?

The Subcommittee intends to conduct hearings on the essential air service program in the spring of 1983. Therefore, it would appreciate submission of the report by March 31, 1983.

Warmest regards,

Nancy

Nancy Landon Kassebaum
Chairman
Aviation Subcommittee

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