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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

STATEMENT OF  
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BEFORE THE

HOUSE SUBCOMMITTEE ON AVIATION  
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

ON

THE ESSENTIAL AIR SERVICE PROGRAM



Mr. Chairman and Members of the Subcommittee:

We are here today at your request to discuss our May 18, 1983, report entitled "More Flexible Eligibility Criteria Could Enhance the Small Communities Essential Air Service Subsidy Program" (GAO/RCED-83-97).

We found that the Civil Aeronautics Board (CAB) has implemented this program successfully, ensuring continued air service to the 555 small communities protected by the Airline Deregulation Act. However, the number of passengers using air service at the 104 subsidized communities decreased by over 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.

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We concluded in our report that the essential air service program could be more cost effective and have more long-term value if CAB had greater flexibility to help communities develop economically sound markets.

We will discuss the status of air service at communities receiving essential air service subsidies, and why Congress should consider midpoint changes to the eligibility criteria contained in the Airline Deregulation Act of 1978. We will also discuss what actions have been taken subsequent to our report and will include some updated information on the essential air service program.

### INTRODUCTION

The Airline Deregulation Act of 1978 (Public Law 95-504) gave airlines gradual freedom from 40 years of detailed federal government regulation of the routes they could serve and the rates they could charge. With the advent of 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 act a program that would ensure continuous air service to small communities through a 10-year transition period ending in 1988.

Under the program, 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 January 1, 1984, was paying airlines to provide service to 101 communities in the lower 48 states that would otherwise have had all service cancelled. In addition, the

act provided CAB the discretion to designate communities that lost all air service in the 10 years preceding the act for subsidized service. The act listed criteria which CAB should consider in deciding whether to fund these "other eligible communities." These criteria consist of the communities' future traffic-generating potential, reasonableness of the subsidy costs, alternative transportation available, and isolation. Of the 137 communities eligible under this provision, as of January 1, 1984, CAB was subsidizing air service at three communities.

In fiscal year 1983, CAB paid \$38 million to air carriers serving subsidized essential air service communities. In setting subsidy levels, CAB pays carriers an amount that covers their losses from serving subsidized communities plus a reasonable profit. Under the act CAB cannot discontinue subsidizing any community with an air service guarantee, even one that 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 loss of air service in the 10 years preceding the act. The act does not contain any provision for CAB to provide subsidies to help communities develop a more viable long-term market through enhanced schedules and/or services.

During our review, we discussed the program with CAB and state aviation officials, evaluated program data and visited 14 subsidized communities in 5 states to learn whether the act's eligibility criteria adequately and efficiently meet the air service needs of small communities. In addition, the National

Association of State Aviation Officials helped us canvas aviation officials in all 50 states to obtain their views on the eligibility criteria.

NEED FOR MORE FLEXIBLE  
ELIGIBILITY CRITERIA

Officials described three types of communities, with varying air service needs, that may not be optimally served by the legislatively established criteria.

First, state and local aviation officials said 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. Second, CAB program officials stated that certain communities receiving subsidized air service may not really require air service and are unlikely to ever develop unsubsidized air service as a result of either close proximity to a larger airport or continually low traffic. And third, aviation officials from five states indicated that some communities not eligible for the program had greater need for air service than subsidized communities.

Passenger Declines at  
Subsidized Communities

The number of passengers using air service at the 104 subsidized essential air service communities decreased by 55 percent since deregulation became effective. (See app. I.) One 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, market conditions changed since airline deregulation, and in many small communities passengers were faced with higher fares, smaller airplanes, inconvenient scheduling, unreliable service, and frequent change of carriers, all of which contributed to passenger declines. There are indications that nationwide air traffic increased during 1983 which could mean that downward passenger trends at subsidized communities may have reversed. However, many small communities are still a long way from self-sustaining service and as discussed in our report when the program ends in 1988 carriers are likely to drop or reduce service to many of the subsidized communities.

At the 14 communities we reviewed, boarding passengers declined by 57 percent between 1977 and 1982. Weekly departures were down 18 percent, while air fares to the communities' primary destination increased by 122 percent. (See app. II.) In five communities we visited, subsidy costs were greater than the round trip air fare to the communities' primary destinations. (See app. III.) The highest subsidy cost per round trip was for Blythe, California, which had a subsidy cost of \$836 per passenger in 1983 while the round trip air fare to the primary destination was \$134.

State and local aviation officials at 10 of the 14 communities we 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.

## CONCLUSIONS

GAO believes that the essential air service program could 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 5-1/2 years of the transition period. If the act's eligibility criteria were more flexible, CAB could provide additional assistance now to communities which have the potential to develop viable self-supporting markets, but have been hampered by poor air service and scheduling in the past which have discouraged passengers. By temporarily increasing the subsidy level to airlines to improve flight schedules, services, and promotion, CAB could potentially provide more long lasting assistance with the same long-term cost by improving a community's capacity to support air traffic on a self-sustaining basis. This increased assistance "up front" could be conditioned on the agreement by a community to forfeit its right to continued subsidies if after a specified time period the improved service and scheduling failed to increase the community's air traffic.

More flexible criteria could also be designed to permit the CAB to discontinue subsidies to communities that are making little use of the subsidized service being provided, are subsidized at very high per passenger cost, have either limited need for the service or will probably be unable to retain service after the subsidies end. For example, if CAB were authorized to reassess the eligibility of communities guaranteed essential air service using the criteria applied to the "other eligible communities," many of the guaranteed communities would not likely be eligible for continued subsidies.

Finally, more flexible criteria might be designed to permit CAB to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if states propose such replacements. This in turn could offer the potential for redistribution of program resources at existing funding levels.

CAB officials recently told us that five communities have submitted proposals to begin an experimental program of the character we recommended in our report. These communities propose to receive larger subsidies than they might otherwise receive under the program and use the extra funds to demonstrate that they can support regular air service after the subsidy program ends.

CAB officials stated that while there was some merit in these proposals, CAB would be assuming a definite risk in implementing these proposals without specific legislative approval. They noted that while a community might initially agree to forfeit future subsidized service in return for larger subsidies immediately, the community could conceivably change its position and demand continued subsidies beyond the agreed date for termination of the "test." Even if a community clearly seeks to waive its right to subsidies beyond the period, the act specifically entitles these communities to receive subsidies until 1988.

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 some markets may become able to support air service without a subsidy. However, continuing the program as originally designed may have limited long-term impact if many communities lose all air service when the program ends. The Congress needs to consider whether midpoint changes might be appropriate to enhance the long-term 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 schedules, 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. However, discontinuing subsidies to these communities during the 10-year transition period would represent a clear change in the guarantee provided by the 1978 act. In addition, the Congress may want to consider permitting CAB the flexibility to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if states propose such replacement.

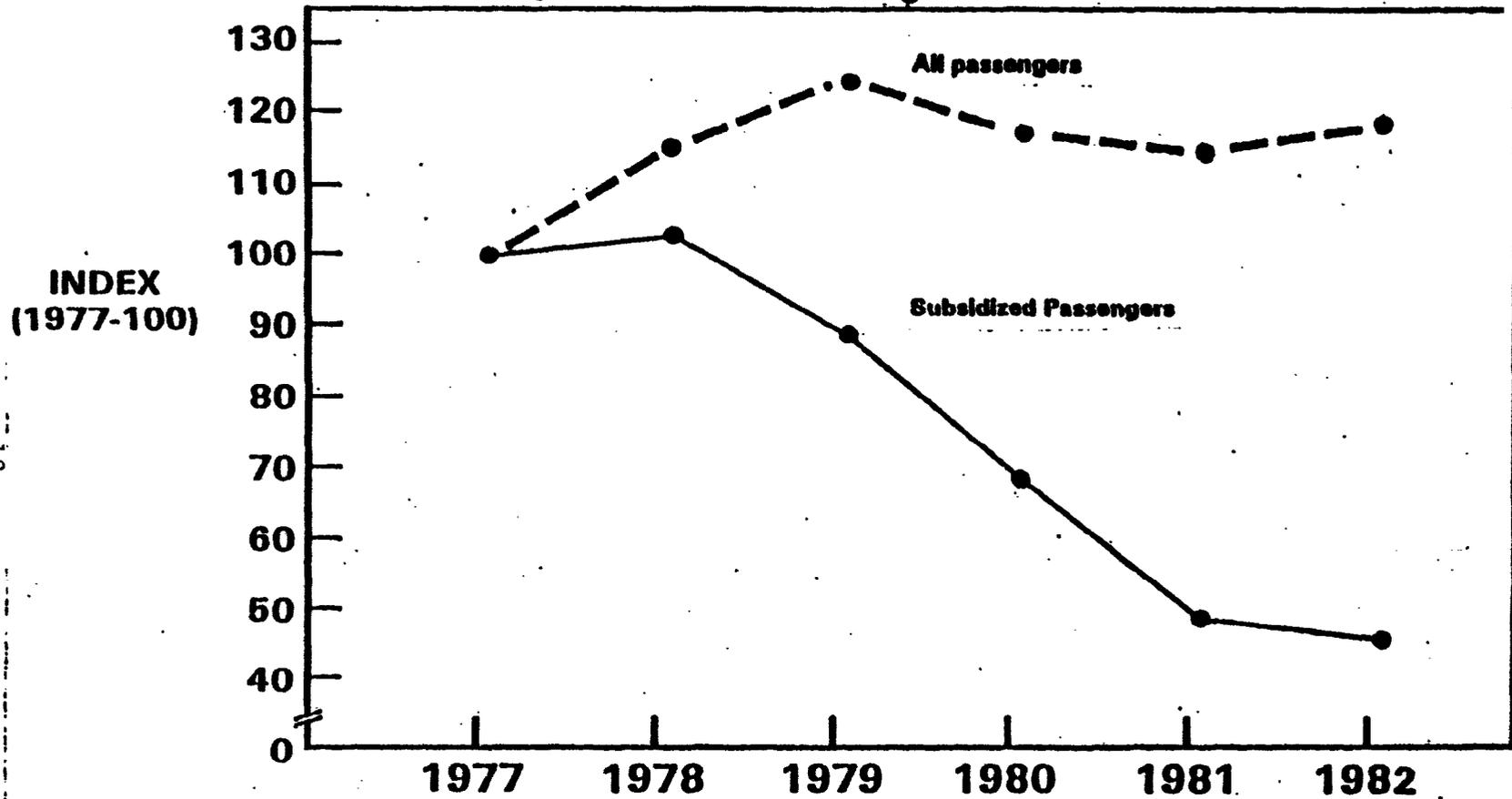
#### ORGANIZATIONAL SETTING OF PROGRAM AFTER CAB SUNSETS

The other matter which we inquired into is the organizational setting of the essential air service program after the CAB goes out of existence on January 1, 1985. We did not find any compelling reason why the program should not be transferred to the

Department of Transportation, as outlined in the legislation. We noted, however, that little progress had been made on how the program would be organized within and administered by DOT. We believe the principal issue in organizing the program within DOT will be to ensure the numerous decisions required by the program will be based solely on the merits of the case and serve the overall public interest. The importance of an appropriate organization for the program would be heightened if the Congress were to amend the act to permit greater flexibility in the administration of the program.

Mr. Chairman, this concludes my statement. We will be glad to respond to your questions.

### Changes in Passengers Boarding Aircraft Subsidized Air Services and All Domestic Air Services January 1, 1977, through December 31, 1982



SOURCE: CAB passenger data reported by airlines through December 1982.

Passenger and Air Service Changes at 14 Subsidized Communities  
Before and After Airline Regulation

Essential air service community	Passengers boarding aircraft <sup>a</sup>			Weekly departures <sup>b</sup>			Air fare to primary destination <sup>b</sup>			Primary destination
	1977	1982	Percent change	1977	1983	Percent change	1977	1983	Percent change	
Darville, Va.	6,018	895	-85	28	10	-64	\$41	89	117	Washington, D.C.
Hot Springs, Va.	3,863	2,644	-32	21	16	-24	41	88	+114	Washington, D.C.
Markato, Minn.	4,680	1,482	-68	27	35	+20	28	62	-121	Minneapolis, Minn.
Worthington, Minn.	3,919	943	-76	27	12	-56	37	80	+116	Minneapolis, Minn.
Falmont, Minn.	5,181	2,173	-58	27	30	+11	33	72	+118	Minneapolis, Minn.
Clinton, Iowa	5,947	1,776	-70	84	36	-57	32	69	+116	Chicago, Ill.
Ottumwa, Iowa	8,326	1,383	-83	26	23	-12	47	104	+121	Chicago, Ill.
Santa, Rose, Calif.	15,008	2,373	-84	124	37	-70	22	39	+77	San Francisco, Calif.
Blythe, Calif.	1,747	449	-74	14	12	-14	31	67	+116	Los Angeles, Calif.
Marcod, Calif.	17,226	3,843	-78	14	25	+79	16	48	+206	San Francisco, Calif.
Modesto, Calif.	50,020	21,229	-58	59	67	+14	25	42	+68	Los Angeles, Calif.
Stockton, Calif.	127,227	60,093	-53	87	80	-8	12	44	+267	San Francisco, Calif.
Elko, Nev.	11,007	10,169	-8	14	42	+200	40	88	+120	Reno, Nev.
Ely, Nev.	4,661	3,167	-32	14	42	+200	43	95	+121	Reno, Nev.
Average— 14 communities	18,916	8,044	-57	40	33	-18	\$32	\$71	+122	

<sup>a</sup>CAB passenger data reported by airlines.

<sup>b</sup>Based on Official Airline Guide as of October 1, 1977 and 1983.

Subsidy Cost Per Boarding Passenger Compared With  
One Round Trip Air Fare at 14 Subsidized Communities

<u>Subsidy community</u>	<u>Subsidy per round trip<sup>a</sup></u>	<u>Round trip air fare to primary destination<sup>b</sup></u>
Danville, Va.	\$234	\$178
Hot Springs, Va.	75	176
Mankato, Minn.	143	123
Fairmont, Minn.	143	144
Worthington, Minn.	143	160
Clinton, Iowa	250	138
Ottumwa, Iowa	250	208
Santa Rose, Calif.	71	78
Blythe, Calif.	836	134
Merced, Calif.	124	98
Modesto, Calif.	5	84
Stockton, Calif.	5	88
Ely, Nev.	86	190
Elko, Nev.	86	176

<sup>a</sup>Based on CAB 1982 passenger data.

<sup>b</sup>Based on Official Airline Guide as of October 1, 1983.

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