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before the

SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

on

Air Service to Small and Rural Communities

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Mr. Chairman, thank you for inviting me to this hearing. I appreciate the opportunity to discuss with you service to small communities in general, and the Essential Air Service (EAS) program and the Small Community Air Service Development Pilot Program specifically. I can assure you that the Department is committed to serving the needs of small communities. What has become abundantly clear over the years, however, is that the way we help these communities has not kept pace with the changes in the airline industry and the way that air service is provided in this country. As a result, in many cases, the service under the EAS program is generally not responsive to the community's needs, is often not used or supported, and taxpayer dollars are often not directed in either the most effective or efficient manner. We have spent considerable time reviewing our own experiences in dealing with the communities and the carriers involved, as well as recommendations from both of these participant groups and studies by the General Accounting Office that were geared toward finding "the answer" to successful service at small communities. While there is no magic solution, two major themes are consistently repeated—the need for greater participation by the communities in addressing their air service issues, and the desire for greater flexibility in doing so. It is with these considerations in mind that we have reexamined the EAS program and proposed fundamental changes. I am confident, the program changes proposed by the Department will better serve small communities and more effectively direct Federal funds to where they are most needed.

The administration proposes major revisions to the Essential Air Service Program for fiscal year 2004 that will, for the first time since the program was established in 1978, require communities to be stakeholders in the air service they will receive and thus have a vested interest in its success. With our proposed reforms, the Department will also ensure that the most needy small communities will be able to maintain access to the national air transportation system.

In the past, communities' eligibility for inclusion in the EAS program has been based only on whether they were listed on a carrier's certificate on the date the program was enacted. Once subsidized service had been established, there was virtually no incentive for active community involvement to help ensure that the service being subsidized would ultimately be successful.

Under the administration's proposal, currently eligible communities would remain eligible, and would now have an array of transportation options available to them for access to the national air

transportation system. In addition to the traditional, scheduled EAS air service now in existence, the communities would have the alternatives of charter flights or air taxi service, ground transportation links, or even regionalized air service, where several communities could be served through one airport, but with larger aircraft or more frequent flights.

The amount of required community participation would be determined by the degree of isolation. The most remote communities (those greater than 210 miles from the nearest hub airport) would be required to provide 10 percent of the EAS subsidy, and the remaining would have to supply 25 percent of the subsidy. Our primary standard for establishing isolation would be the driving distance to the nearest medium or large hub airport, but we would also take into consideration the distance of the community to a small hub airport. We recognize, however, that there is a great variance in service levels at small hubs. Therefore, we would consider each community's situation individually before making distance determinations.

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

Our experience to date with the Small Community Air Service Development Pilot Program (Pilot Program) lends further support to our conclusions that reforms to small community air service are needed. In fiscal year 2002, Congress appropriated \$20 million to the Pilot Program, a new, experimental grant-in-aid program, authorized under AIR-21, to assist small communities in addressing problems related to their air service and air fares. Under the statute, the Department can provide financial assistance to up to 40 communities, with no more than four grant awards to any one state. This program differs from the existing EAS program in a number of respects. First, the funds go to the communities rather than directly to the airline serving the community. Second, the financial assistance is not limited to carrier subsidy, but can be used for a number of other efforts to enhance a community's service, including advertising and promotional activities, studies, and ground service initiatives. Third, communities design their own solutions to their air service and air fare problems and seek financial assistance under the program to help them implement their plans.

The Department received 180 applications for grants under this program in fiscal year 2002, seeking \$143 million. These communities provided extensive information regarding service to their communities and nearly all were prepared to contribute financially to their proposed projects. The Department has made grant awards to the maximum number of communities permitted under the statute, using the full \$20 million available. We made awards to communities throughout the country and authorized as many different types of projects as possible in order to address as many problems as we could and to test the communities' proposed solutions. Some of these projects include a new business model to provide ground handling for carriers at the airport to reduce station costs, seed money for a new airline to provide regional service, expansion of low-fare services, a ground service transportation alternative for access to the Nation's air transportation system, aggressive marketing and promotional campaigns to increase ridership at the airport, and revenue guarantees to reduce the risk to airlines for initiating or expanding service at the community.

Many of the grant recipients are contributing significantly to the authorized projects, with some contributions well over \$1 million. Several have already benefited from the grant awards with new services inaugurated at Fort Smith, Arkansas; Daytona Beach, Florida; Augusta, Georgia; Hailey, Idaho; Lake Charles, Louisiana; Meridian, Mississippi; Rapid City, South Dakota; Charleston, West Virginia; and Rhinelander, Wisconsin. We are monitoring the progress of all of the communities as they proceed with the implementation of their projects. In addition to addressing the needs of individual communities, an overarching goal of the Pilot Program is to find solutions to air service and air-fare problems that could serve as models for other small communities. Our experience in the Pilot Program process demonstrates both the benefit and the willingness of small communities to participate, including financially, in addressing their air service issues.

In closing, Mr. Chairman, let me reaffirm the Administration's commitment to small community air service. With this proposal, we build on a record of sustaining and improving the access of small communities to the national air transportation system. We look forward to working with you and the members of this subcommittee and the full committee as we continue to work toward these objectives. Thank you again. This concludes my prepared statement. I will be happy to answer any of your questions.