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The Evolution of the Essential Air Service Program, 1978 to 2012

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THE EVOLUTION OF THE ESSENTIAL AIR SERVICE PROGRAM, 1978 TO 2012

by

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B.S., A.S., Southern Illinois University Carbondale, 2009

A Research Paper
Submitted in Partial Fulfillment of the Requirements for the
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RESEARCH PAPER APPROVAL

THE EVOLUTION OF THE ESSENTIAL AIR SERVICE PROGRAM, 1978 TO 2012

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LOGAN R. MEYER

A Research Paper Submitted in Partial

Fulfillment of the Requirements

for the Degree of

Public Administration

Approved by:

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AN ABSTRACT OF THE RESEARCH PAPER OF

LOGAN R. MEYER, for the Master's of Public Administration degree, presented on October 17, 2013, at Southern Illinois University Carbondale.

TITLE: THE EVOLUTION OF THE ESSENTIAL AIR SERVICE PROGRAM, 1978-2012

MAJOR PROFESSOR: Dr. David NewMyer

This research addresses the need of subsidized air services at small communities. The research will examine the Essential Air Service program from its creation to its current state and examine the strengths and weaknesses of the Essential Air Service program as a government funded program to determine whether the program will remain feasible in the future. The research will also investigate how the Essential Air Service program has evolved since its' inception in 1978 and how the program has aided small communities and airports in Illinois.

The method used to conduct the research for this paper was a literature review. The main sources of information for this research were through websites. Much of the information came from government documents and periodicals. The Marion, IL and Decatur, IL airport managers provided insight for the research. Mr. Dennis DeVany, Chief of the Essential Air Service program, aided in compiling information for the research.

Supporters of the Essential Air Service program believe that the program provides benefits to small communities and the regions around them by maintaining a link with the national air transportation system. Critics of the Essential Air Service program believe that the program is overfunded and the cost per passenger is too great. The program will not continue to exist unless improvements such as adjusting prices for inflation and revising the eligibility requirements are made to prolong the subsidies being provided for the program.

TABLE OF CONTENTS

LIST OF TABLES

Introduction

Since the Airline Deregulation Act of 1978, the government has used the Essential Air Service (EAS) program to aid small communities in continuing commercial flights at locations that would not otherwise be served by airlines due to marginal profitability. Before deregulation, airlines were provided subsidies to offer service to small communities/airports if they were local service airlines. After deregulation, the federal government was concerned that the local service airlines would stop offering service to these small communities/airports. Therefore, the Essential Air Service program was created as a measure to fill in where local service airlines left off in serving small communities, (Office of Aviation Analysis, 2009). The Department of Transportation (DOT) currently administers the program that supports the service and provides federal subsidies for the service, (Tang, 2011). The DOT determines the minimum level of service at each community by specifying:

- a medium or large hub to link the community to the national transportation network

- a minimum number of round trips and available seats to that hub

- certain characteristics of aircraft to be used

- and a maximum number of intermediate stops to the hub, (Office of Aviation Analysis, 2009)

The funds generated for subsidized air services are collected from taxes on nonsubsidized airline flights. While this type of service may sound like a good idea to many, there are certain downfalls that do exist.

Research Question: How viable is the Essential Air Service as a government funded program?

One of the large concerns about subsidized services is that these services are overfunded. The Council for Citizens Against Wasteful Government Spending urged to repeal the Essential Air Service program in accordance with Senator John McCain's (R-Ariz.) amendment to repeal the EAS program subsidy, (Schatz, 2011). The Essential Air Service program has been under the political spotlight for many years.

Viability: Capable of working, functioning, or developing adequately; having a reasonable chance of succeeding, (Merriam-Webster, Incorporated, 2012)

How is the viability of the Essential Air Service program measured? The best way to measure the viability of the Essential Air Service program is to observe the trend of the amount of communities served from year to year, the number of passengers per community, as well as the cost per passenger. One can determine that the program will not be allowed to remain viable based on either a decrease in the amount of communities served or an increase in the cost per passenger.

Summary of the Essential Air Service Program

Currently there are 163 communities that operate with an Essential Air Service airline, 45 of those being in Alaska, (DeVany, Historical Fiscal Year Appropriations, Subsidy Outlays, and Number of Points Receiving Service, 2012). The highest amount of communities, served by the EAS program, was 405 in 1980, (Committee on Transportation and Infrastructure, 2007).

Following the Airline Deregulation Act of 1978, the government was concerned that airlines would no longer serve small communities because of the lack of profit available at these

small communities, (Committee on Transportation and Infrastructure, 2007). These

communities would then become isolated from faster modes of transportation limiting their

ability to thrive. Subsidized air services allow small communities to maintain easily accessible

air transportation to populated areas. Many communities greatly benefit by retaining some type

of air service. Air service allows smaller communities to connect with larger communities,

maintaining a link with the outside world. The airports providing the air services benefit from

the amount of air traffic in and out of the airport increasing the transportation infrastructure.

This traffic opens up many business opportunities for the airport and the community. Additional

air traffic opens up the potential for increased federal aid through the Airport Improvement

Program as explained on page 14 of this study. Added air traffic typically increases fuel sales at

airports.

How the Essential Air Service Program Has Evolved

The Essential Air Service program was developed following the Airline Deregulation Act

of 1978 (P.L. 95-504) which eliminated federal control over domestic fares and routes,

(Committee on Transportation and Infrastructure, 2007). Since the Airline Deregulation Act

allowed market forces to control price, quality, and quantity of air service, the government was

concerned that airlines would no longer serve smaller communities; this resulted in developing

the Essential Air Service program, (Committee on Transportation and Infrastructure, 2007).

Although the Essential Air Service program did not begin until 1978, subsidized flights

into small communities began 34 years before in 1944 when the Civil Aeronautics Board

initiated an experiment to expand air service to smaller, more isolated communities in an effort

to strengthen the nation's transportation system and boost local economies, (Eads, 1972). The

experiment started with providing financial subsidies to nineteen carriers. By 1972 the amount

of carriers had been decreased to nine; however, these nine carriers expanded to reach 450

communities and carry 27 million passengers per year, (Eads, 1972). The passage of the Airline

Deregulation Act ended the Local Service Airlines' subsidy. The Essential Air Service program

was created after deregulation to ensure that small communities would still be served by airlines

after deregulation; thereby, retaining an air link to the national air transportation system from

small communities, (United States Deparment of Transportation, 2013).

The EAS program was initially authorized for a ten year period; however, Congress has

allowed the EAS program to continually operate for over 30 years. The EAS program was

reauthorized by the Airport and Airway Safety and Capacity Expansion Act of 1987, which

extended it for ten more years, (Committee on Transportation and Infrastructure, 2007). The

Airport and Airway Safety and Capacity Expansion Act of 1987 is also known as Public Law

100-223. Public Law 100-223 amended Section 419 of the Federal Aviation Act by codifying

many of the guidelines in 14 CFR 398 and increased the minimum level of "basic[1]" service for

any EAS community that was previously receiving service anytime during the 1988 fiscal year,

(Office of Aviation Analysis, 2009). In 1989, the Dire Emergency Supplemental Appropriations

Act (P.L. 101-45) provided additional funds for EAS and required no service exceed a subsidy of

$200 per passenger, (Committee on Transportation and Infrastructure, 2007). The Aviation

Safety and Capacity Expansion Act of 1990 provided $38.6 million for the EAS program each

year from 1992-1998, (Committee on Transportation and Infrastructure, 2007). The guidelines

of the EAS program were codified by rulemaking as a Policy Statement of the Department in

Volume 14, Code of Federal Regulations (CFR), Part 398, (Office of Aviation Analysis, 2009).

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[1] Reference pg. 12 for further details on "basic" service

According to the Department of Transportation (DOT), the DOT will pay subsidy to a carrier on a per flight completed basis to ensure that the specified level of service is provided.

On April 5, 2000 President George W. Bush signed the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), Public Law 106-181. Section 209 of AIR-21 retains the Essential Air Service Program. In addition, AIR-21 section 203 created the Small Community Air Service Development Pilot Program. The Small Communities Air Service Development Program (SCASD) was established in 2001 to aid small communities in enhancing their air service. The program grants funds to up to 40 communities that demonstrate service deficiencies and require improvements. The 2010 SCASD grant amounts totaled $6.9 million dispersed to 19 different communities, (Office of Aviation Analysis, 2009). Communities that have an airport not larger than a small hub[2] airport and had unreasonably high fares are eligible for SCASD funds. The funds could be used for a variety of projects, provided the projects purpose is specifically to improve the air service, (Ley, Aloha, 2010).

Following the September 11, 2001 terrorist attacks, EAS airlines were struggling to keep up with the more strict security implementations. This required an emergency supplemental appropriation of $50 million dollars to EAS in the 2002 Department of Defense Appropriations Act, (Committee on Transportation and Infrastructure, 2007).

In 2003, Congress amended the EAS program once again by Public Law 108-176. Public Law 108-176, also known as the Vision 100 Century of Aviation Reauthorization Act, allowed for the continuation of the EAS program and provided further funding for the program.

On February 11, 2011 the FAA Modernization and Reform Act of 2012 (H.R. 658) was introduced. Another additional change included in the Act permits the Secretary to include

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[2] A small hub airport is defined as a commercial service primary airport with at least .5% of annual passenger boardings, but less than .25%, (Federal Aviation Administration, 9).

financial incentives in EAS contracts based on specific performance goals and execute long-term EAS contracts when in the public interest. This also requires the Secretary to issue revised guidelines controlling the rate of compensation paid to an EAS carrier based on the performance of the EAS airline, (Vision 100- FAA Modernization and Reform Act of 2012, 2012). After two years of a community being provided subsidized air service the Secretary then must submit a report to the Committee on Transportation and Infrastructure of the House of Representatives and the Committee on Commerce, Science, and Transportation of the Senate on the extent to which the financial incentives have been implemented and how the incentives have impacted the air carrier and community receiving the incentives, (Vision 100- FAA Modernization and Reform Act of 2012, 2012). The Act decreased funding from $195 million in 2011 to $193 million in 2012 due to "no year funds," which allowed the funds that were not used by the end of FY2011 to be rolled over to FY2012, (DeVany, Schedule of EAS Backfill, 2013). In addition, the Act authorized EAS appropriations from the Airport and Airway Trust fund for FY2013 to FY2015, (Vision 100- FAA Modernization and Reform Act of 2012, 2012).

On August 5, 2011 the Senate passed by unanimous consent The Airport and Airway Extension Act of 2011 (H.R.2553) and President Obama signed the bill into law. This bill allowed the EAS program to be extended to September 30, 2013, (112th Congress 1st Session S.223, 2011).

On September 25, 2011 the Senate Appropriations Committee voted and approved the continued funding for the FY2012 of the Essential Air Service Program. The amount in the bill totaled $193 million for FY2012. Out of the $193 million only $143 million per year are from

appropriations and the remaining was derived from mandatory over-flight fees[3]. This amount is

down $2 million from the FY2011 funding level, (Gallegos, 2011).

Table 1
Historical Fiscal Year Appropriations
and Number of Points Receiving Service

Fiscal Year	Number of Points	Total Appropriations in Millions ($)
1979	383	68.9
1980	405	76.1
1981	352	86.3
1982	363	65.9
1983	168	48.4
1984	146	50.8
1985	148	52
1986	138	28
1987	135	30
1988	153	28.5
1989	143	31.6
1990	119	30.6
1991	123	26.6
1992	130	38.6
1993	126	38.6
1994	112	33.4
1995	106	33.4
1996	97	22.3
1997	95	25.9
1998	101	50
1999	100	50
2000	106	50
2001	115	50
2002	123	113
2003	126	101.8
2004	140	101.7
2005	146	101.6
2006	152	109.4
2007	147	109.4
2008	146	109.4
2009	153	138.4
2010	159	200
2011	154	195
2012	162	193

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[3] Overflight fees are user fees for air traffic control services provided by the Federal Aviation Administration (FAA) to aircraft that fly over, but do not land in the United States, as authorized by the Federal Aviation Reauthorization Act of 1996 (P.L. 104-264).

How Subsidized Air Services Work

Once it has been established that a community is going to receive some type of subsidized air service, the Department of Transportation (DOT) has to determine the funding that will be available for that service. The amount of funds that a community will receive depends on what information was submitted with the subsidy proposals in response to the Request for Proposals (RFP) by the DOT, (Office of Aviation Analysis, 2009). The frequency of flights, aircraft size, hubs, and the community's location and traffic history all determine how much subsidy and service will be provided for that specific community, (Office of Aviation Analysis, 2009). The carrier is paid on a per-flight basis; this is in response to the amount of flights completed in conformance with the contract between the airline and the airport at the end of each month, (Office of Aviation Analysis, 2009).

The routes selected by the Department of Transportation depend on the demand and distance to or from the nearest medium or large hub airport[5]; including the airport's service history, (United States Government Accountability Office, 2009). These routes are used to transport individuals from the small community airport to a larger hub.

The eligibility criteria originally required that an airline have at least two round trips per day to a hub and certain aircraft characteristics, provided that the airline could not continue operations without incurring a loss following the deregulation act. A stricter eligibility criterion was established within the 1987 reauthorization.

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[4] Information retrieved from (DeVany, Historical Fiscal Year Appropriations, Subsidy Outlays, and Number of Points Receiving Service, 2012)

[5] A medium hub airport is defined as an airport that is considered a primary commercial service airport with at least .25% but not more than 1% annual passenger boardings. A large hub airport is defined as an airport that is considered a primary commercial service airport with 1% or more annual passenger boardings, (Federal Aviation Administration, 9).

The 1987 eligibility criteria required for "basic" EAS:

1.) Service to a medium or large hub airport;

2.) Service with no more than one intermediate stop to the hub;

3.) Service with aircraft having at least 15 passenger seats at communities that averaged more than 11 passenger enplanements per day in any year from 1976-1986;

4.) Under certain circumstances, service with pressurized aircraft; and

5.) Flights at reasonable times taking into account the needs of passengers with connecting flights, (Committee on Transportation and Infrastructure, 2007).

In addition, the criterion established in 1987 required EAS served airports to be more than 70 highway miles from the closest medium or large hub airport, or the subsidy provided does not exceed $200 per passenger. A more stringent eligibility criterion was later established in subsequent bills reauthorizing the EAS program. The eligibility criterion that has been proposed further limits the amount of funding for EAS airlines and communities; and in addition, many of these propositions greatly decreased the number of communities receiving EAS funds.

The Airport and Airway Expansion Act of 2011 resulted in more changes being made to the eligibility criterion for communities. These changes were made in order to allow the program to continue in the future. The changes made are as follows:

a. Eligible airports for Essential Air Service must be located no closer than 90 miles from the nearest medium or large hub airport; an increase from the previous 70 mile requirement. This may be amended by the Secretary of Transportation based on geographical characteristics that make connection to the nearest medium or large hub airport difficult.

b. Eligible airports for Essential Air Service are limited to locations averaging 10 or more passenger enplanements per day, (112th Congress 1st Session S.223, 2011).

Due to the geographical characteristics of the State of Alaska, these limitations do not affect communities in Alaska, (112th Congress 1st Session S.223, 2011).

In addition to the changes set forth in the Airport and Airway Expansion Act of 2011, the Consolidated and Further Continuing Appropriations Act of 2012 waived the 15 seat aircraft requirement minimum, (United States Deparment of Transportation, 2013). The FAA Modernization and Reform Act of 2012 made many changes to the previous eligibility criterion. First, the Act capped the communities participating in the program in the lower 48 states without making changes in Alaska or Hawaii. Only communities that were receiving subsidized services any time between September 30, 2010 and September 30, 2011 would remain eligible for the program, (United States Deparment of Transportation, 2013). Further criterion established in the Act requires that communities maintain an average of at least 10 passenger enplanements per day. The Act revised the EAS program eligibility requirements to limit such service to airports that had an average of 10 enplanements per service day or more; however, also authorized the Secretary to waive this requirement. The Act requires the Secretary when selecting an air carrier to provide EAS to consider whether an air carrier has a marketing plan. In addition, the Act requires the Secretary to notify communities before their termination of eligibility for EAS. Section 426 of H.R. 658 authorizes the Secretary to:

1) Increase EAS subsidies to air carriers on an expedited basis in order to compensate for increased fuel costs and

2) Waive, on a case-by-case basis, the $200 per passenger subsidy cap.

Problems with the Essential Air Service Program

While many changes have been made to the original EAS program, there are still

considerations that need to be taken if the EAS program is to survive in the future. The issues

within the program negatively affect the communities that are being served.

Problems with EAS Legislation:

Legislative Issues

During early 2011, the Essential Air Service program suffered from legislative issues that

that could have potentially resulted in the termination of the EAS program. Senator John

McCain pushed to end the EAS program as part of the Federal Aviation Administration's

Reauthorization Bill and his fight against wasteful government spending. The FAA

Reauthorization and Reform Act of 2011 (H.R.658) would phase out the EAS program after

three years, (Tang, 2011). On September 30, 2013, EAS would no longer exist other than in

Alaska and Hawaii. Senator McCain offered an amendment (S.Amdt. 4) to repeal the EAS

program altogether; however, this amendment was not included in the Senate version of the FAA

Air Transportation Modernization and Safety Improvement Act (S. 223) which later developed

into the Airport and Airway Expansion Act of 2011, (Tang, 2011).

In order for the Essential Air Service Program to continue offering subsidies for small

airlines to rural communities, legislators will need to continue to approve and reauthorize

funding for the EAS program. Congress appropriated $138.4 million for the EAS program in

FY2009, nearly $200 million in FY2010, $195 million in FY2011, and $193 million in FY2012.

Currently, funding is only approved until fiscal year 2015. Due to the statutory requirements for

minimum aircraft size and frequency of flights, many carriers provide service that may not be

suitable for their market, (United States Government Accountability Office, 2009). Subsidized

airlines that serve routes with low load factors could save money by flying smaller aircraft. For

example, Cape Airlines flies Cessna 402's with only a nine-passenger capacity.

Limitations:

Enplaned Passenger Limits

Many small airports struggle to maintain levels of enplanements in order to receive

additional funding for airport improvements. In 2010, Marion, IL Airport Manager, Douglas

Kimmel, said that Cape Air needed to get boardings on flights to and from St. Louis International

Airport back up to 10,000 per year[6] in order to receive $1 million in annual entitlement funds and

for the airport to replace a dilapidated terminal building, (Kimmel, 2010). During FY2011,

Marion Airport reached the 10,000 enplanement mark with the help of Cape Air and became

eligible for the $1 million in annual entitlement funds. On Christmas Day, 2012, Marion Airport

once again reached the 10,000 enplanement mark. Hitting the 10,000 enplanement mark is a

major milestone for the Marion Airport because it opens up opportunities for the airport to renew

plans to construct a new terminal building. The benefits of replacing the terminal building would

create a better work environment for the airport employees, as well as potentially bring in more

passengers and increase the public appreciation of the airport. Mr. Kimmel said in an interview

with the *Southern Illinoisan* that a new terminal will allow for more traffic by efficiently using

space and allow for easy expansion in the future, (Rickerl, 2013). The new terminal will allow

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[6] Airport Improvement Program grants entitlement funds to airports considered primary commercial service airports. An airport that is not considered primary may receive entitlement funds, but must apply for them through a competitive process. Primary airports are airports having more than 10,000 enplanements per year and commercial service airports are airports receiving scheduled passenger service and having more than 2,500 enplanements per year, (Quilty, 1999).

for separation of airline check in, passenger security and baggage claim and provide a more efficient passenger flow, (Rickerl, 2013).

Decatur, IL Airport Manager, Joseph Attwood, believes that there is no direct influence on the community by the EAS program, but that the community is indirectly affected by the performance of the airport by allowing the community to maintain a link with the National Air Transportation System. In FY2011, the Regional Airline Association reported that 435 airports provide commercial air service in the lower 48 states. Out of these 435 airports, 106 of the airports receive commercial air service solely as a result of EAS subsidized airlines. During FY2011, the total number of communities was 154; out of these 154 communities only 106 were in the lower 48 states, the other 48 communities were located in Alaska and Hawaii. Eliminating subsidized air services would leave these airports in the dark and many of the airports or airlines may be forced to shut down, (Straub, 2011).

<div align="center">Subsidy Passenger Limits</div>

The 1994 Transportation Appropriations Act set a restriction requiring the total subsidy per passenger not to exceed $200. Larger and more powerful aircraft require greater maintenance needs and fuel consumption in order to operate. A dollar during the year 1994 is not nearly as equal as a dollar during the current year 2013. The maximum amount of subsidy per passenger should be increased in order to compensate for change throughout the past 19 years. Attwood suggested that the subsidy per passenger be around $300 or $400, which would allow a larger amount of communities to participate in the EAS program and account for inflation. While the $200 per passenger restriction is still in effect in the current law, the Secretary has the right to waive the requirement on an individual basis. Decatur, IL Airport Manager Joseph Attwood believes that the EAS is a very important program; however, the

program needs to be funded differently in order to allow operators to obtain more efficient

aircraft that can be better suited for the length of the trip and amount of passengers carried,

(Attwood, 2011). Flying an aircraft that is too large for the amount of passengers carried and

length of trip taken increases costs for the airline. Attwood would also like to see a means to

offset dramatic fuel increases to facilitate operators from default positions, (Attwood, 2011).

Financial Issues:

<div align="center">Fuel Prices/ Fuel Surcharges</div>

Fuel prices have changed drastically during the past 20 years forcing airlines to focus

more on fuel efficiency. When the EAS program was initially created the Department of

Transportation had no idea what was going to happened with the price of oil per barrel the future.

Since the Department of Transportation was unable to foresee a rise in oil prices there was

nothing included in the initial act that allowed for an increase in appropriations with an increase

in fuel prices. The average price of oil per barrel in 1992 was $19.25 while in 2012 the average

price per barrel $93.02, (Inflation Data, 2012). In 2003 President George W. Bush signed into

law the Century of Aviation Reauthorization Act (H.R. 2115). Section 402 of H.R. 2115

authorized the Secretary to index airline cost increases and adjust EAS subsidies accordingly.

This allowed airlines to renegotiate contracts without filing termination notices. However, the

Secretary did not implement this tool and therefore the EAS program still suffers from increased

fuel costs without current subsidy adjustments, (Black, 2009).

Many airlines use fuel hedging in order to avoid skyrocketing fuel prices. Fuel hedging

allows an airline to purchase a large amount of fuel for the current market price, anticipating that

the price of fuel will increase. This allows the airline to be paying less than competitor airlines

would for fuel; therefore, allowing the airline to focus its profits elsewhere; while an EAS subsidized airline suffers from the increase in fuel prices, (Simkins, 2012). Many EAS airlines cannot afford to fuel hedge due to the large amount of money that is required of the airline up front when purchasing the fuel in bulk.

<div align="center">Aircraft Finance for EAS Airlines</div>

Many EAS subsidized airlines have difficulty with aircraft financing according to Attwood. The reason for this is due to several aircraft being unsuitable or unavailable for the task required which inhibits the ability of operators to provide the most beneficial means of utilizing subsidized monies. According to Attwood, Air Choice One operates at around eighty percent capacity with annual enplanements of around eight thousand, (Attwood, 2011).

<div align="center">Variable Cost per EAS Passenger</div>

The amount of subsidy provided per passenger varies from airport to airport. Air carriers receive a subsidy on a per passenger basis determined by the demand of service, type of aircraft, and route. Nearly all subsidies provided are above and beyond the actual cost incurred by the airline passenger. The amount of subsidy provided for some flights equals out to be more than the $200 per passenger subsidy cap. The fare for a flight from Ely, Nevada to Las Vegas, Nevada was $149 one-way (67 cents per mile) in 2011, yet Great Lakes Airline received $1.86 million in EAS subsidies to fly the route, (Brancatelli, 2011). However, since so few passengers flew on the flight, the subsidy turned out to be around $3000 per passenger, (Brancatelli, 2011). While there may be some spending involved that does not provide an apparent benefit, the program aids many small communities throughout the nation by allowing them to maintain a connection with the nation's air transportation system.

Demand Issues:

Loss of EAS Due to Loss of Hubs

Subsidized airlines operate on the principle of necessity and demonstrate that by flying into otherwise unprofitable markets, (Brancatelli, 2011). Since large airlines flying larger jet aircraft typically attempt to remain extremely efficient, the benefit of flying larger aircraft into small communities does not outweigh the cost. In 2011, Delta Airlines adjusted the hub locations that they served due to low load factors; as a result many smaller airports lost their subsidized service due to Delta no longer serving the hubs that connected the smaller communities to the larger airports, (Brancatelli, 2011). This is not only a problem with EAS communities; any airport that loses an airline which contributes to a high percentage of its traffic will exhibit a loss. For example, when American Airlines drastically reduced their flights at Saint Louis International Airport in 2009, Saint Louis went from 234,834 passenger operations in 2008 to 160,633 passenger operations in 2010, (Lambert St.Louis International Airport, 2012). While Saint Louis did exhibit a great loss of traffic due to American Airlines reducing flights, the Essential Air Service program only saw a loss of three communities (Jonesboro, Arkansas, Owensboro, Kentucky, and Jackson, Tennessee) utilizing Saint Louis as a hub airport due to Great Lakes Airlines terminating service at those communities, (United States Deparment of Transportation, 2013).

EAS Passenger Demand

Many communities like Thief River Falls, Minnesota have struggled with keeping their subsidized service due to a lack of passenger demand. Thief River Falls was only filling about 12 percent of available seats on Delta Air Lines subsidized flights in 2011. Delta decided to pull out from Thief River Falls due to the low load factors, (Sharkey, 2011). However, Thief River

Falls has switched service to Great Lakes Airlines, (United States Deparment of Transportation, 2013). Since subsidized flights are not required to be completely filled, many passengers find this a convenience compared to non-subsidized flights. In February 2012, Great Lakes Airlines had a load factor[7] of 43.8% and enplaned 40,295 passengers, (Great Lakes Aviation Ltd., 2012). While this is not necessarily beneficial for the airline, the load factor is up 4.4pts from February 2011 and allows passengers to have more personal space and not feel like they are packed inside a sardine can, (Great Lakes Aviation Ltd., 2012).

<div align="center">Loss of EAS Due to Airline Closings</div>

Between FY2009 and FY2010 there was an increase in overall appropriations of $61.6 million. During 2008, three EAS subsidized airlines, Air Midwest, Big Sky, and Skyways, were liquidated and ceased to exist. Many of the communities served by these three airlines did not receive another EAS subsidized service until 2009. This action forced 36 communities to be left without air service totaling 244.5 estimated months that these communities were left without service. The damage that these airlines did to the market and communities resulted in an increase of appropriations during FY2010, (DeVany, Schedule of EAS Backfill, 2013). The demand for the additional funding was in place and was approved by the Department of Transportation. The following tables include information on the communities that were affected by these airlines being forced to shut down:

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[7] Load factor is defined as the percentage of passenger carrying capacity of an airplane that is used.

Table 2
AIR MIDWEST SHUTDOWN

		Last Date Of Service in 2008	Tentative Projected Start of New Service	Estimated # Months Dark	Incoming Carrier/Status
	EAST				
1	Athens	May-23	Sep-29	3	Pacific Wings
1	DuBois	May-23	Sep-03	3	Gulfstream
1	Franklin/Oil City	May-23	Sep-03	3	Gulfstream
1	Lewisburg	May-23	Sep-03	3	Gulfstream
	Subtotal			**12**	
	WEST				
1	Ely	May-31	Sep-07	3	Great Lakes
1	Kingman	May-31	Apr-07	10	Great Lakes
1	Merced	May-31	Sep-07	3	Great Lakes
1	Prescott	May-31	Sep-07	3	Great Lakes
1	Visalia	May-31	Sep-07	3	Great Lakes
	Subtotal			**22**	
	CENTRAL				
1	Columbia	Jun-30	Aug-19	1.5	Mesaba
1	El Dorado	Jun-30	Oct-26	15	SeaPort
1	Grand Island	Jun-30	Feb-01	7	Great Lakes
1	Harrison	Jun-30	Oct-26	15	SeaPort
1	Hot Springs	Jun-30	Oct-26	15	SeaPort
1	Jonesboro	Jun-30	Oct-26	15	SeaPort
1	Joplin	Jun-30	Sep-07	2	Great Lakes
1	Kirksville	Jun-30	Jul-28	1	Multi-Aero
0	McCook	May-31	Jun-01	0	Great Lakes
17	Subtotal			**71.5**	
	BIG SKY SHUTDOWN				
1	Cape Girardeau	Jan-06	Jun-01	6	Great Lakes
1	Jackson	Jan-06	Sep-01	20	Pacific Wings
1	Massena	Jan-06	Sep-16	8	Cape Air
1	Ogdensburg	Jan-06	Sep-16	8	Cape Air
1	Owensboro	Jan-06	Sep-01	20	Pacific Wings
1	Plattsburgh	Jan-06	Feb-12	1	Cape Air
1	Saranac Lake	Jan-06	Feb-12	1	Cape Air
1	Watertown	Jan-06	Sep-16	8	Cape Air
1	Glasgow	Mar-08	Feb-01	10	Great Lakes
1	Glendive	Mar-08	Feb-01	10	Great Lakes
1	Havre	Mar-08	Feb-01	10	Great Lakes
1	Lewistown	Mar-08	Sep-03	6	Great Lakes
1	Miles City	Mar-08	Oct-26	7	Great Lakes
1	Sidney	Mar-08	Sep-03	6	Great Lakes
1	Wolf Point	Mar-08	Feb-01	10	Great Lakes
15	Subtotal			**131**	
	SKYWAYS SHUTDOWN				
		Last Date Of Service in 2008	Tentative Projected Start of New Service	Estimated # Months Dark	Incoming Carrier/Status
1	Ironwood	Apr-06	Jun-01	2	Great Lakes
1	Manistee	Apr-06	Jun-01	2	Great Lakes
1	Iron Mountain	Apr-06	Jun-05	2	Mesaba
1	Escanaba	Apr-06	Jun-05	2	Mesaba
4	Subtotal			**8**	
36	= Dark		TOTAL MONTHS	**244.5**	

[8]

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[8] Information retrieved from, (DeVany, Schedule of EAS Backfill, 2013)

Other Issues:

Criticism of EAS Subsidy

Many critics of the EAS program believe that the program is no longer necessary due to the underutilization by the public exhibited through low load factors and the development of more highways/ interstates since deregulation in 1978, (Lowell, Curry, Hoffman-Andrews, & Reynolds, 2011). Citizens against wasteful government spending believe that the EAS program is not worth the Federal Government's money and should cease to exist, (Schatz, 2011). In 2007, Hagerstown Regional Airport lost an airline due to subsidy cuts from the EAS program. Michael J. Boyd, President of the Boyd Group in Hagerstown, says that "you're not losing an airline, you're losing an empty airplane," (Dishneau, 2007). Citizens against wasteful government spending question the usefulness of the Essential Air Service program and whether or not it should continue to exist.

Access

Limiting the air transportation access to and from a community limits the ability of a community to thrive. Communities receiving subsidized air services are maintaining a link to the aviation transportation system and opening the community to the public without requiring individuals to travel on slower highways. Communities that are no longer eligible to receive subsidized services may express an economic loss due to the potential limits placed on businesses to grow within the community. Subsidized services allow communities and airports to open up to business opportunities that would otherwise be inaccessible to investors.

Length of EAS Contract Period

Marion, Illinois Airport Manager Douglas Kimmel says that the two year contract period should be increased to three or four years, (Kimmel, 2010). The two-year bid contract requires

an airline to re-bid its contract with an airport every two years. The DOT requires the two-year contract because of the availability of funding for the EAS program. DOT administrators cannot guarantee that they will be able to continue to provide funding to EAS airlines for longer than the program is authorized, (Government Accountability Office, 2007). This makes it difficult for airports to promote the airline and the public view of the airport suffers greatly during the transition. The airline is not required to re-bid with the same airport if they decide that the specific airport is not profitable, (United States Deparment of Transportation, 2013). The local community and airport then suffers by not having an airline fly into and out of their airport. However, this can possibly be beneficial for an airport if the airline is not as attractive as it was during the bid process. If the airport is satisfied with the service provided by the airline, the airline should have the ability to continue operations without re-bidding, as long as the airline can provide the needs of the airport in terms of large enough aircraft and sufficient service.

Why the Essential Air Service Program Is Important

The Essential Air Service program is a necessity for small communities that do not have a link to the aviation network of the nation. This program has proved to be beneficial for many communities that do not have a connection with the outside world. The EAS program boosts local economies by allowing easier connections with outside investors and entrepreneurs. When the closest means of air transportation is two or four hours of driving time away from the nearest medium or large hub airport, many people may be turned off from conducting business at that specific community or the surrounding communities. This is one of the many reasons why the Essential Air Service program is necessary in these small communities. The original reason why

the Essential Air Service program was created is still just as valuable today; by keeping the small communities connected with the rest of the country and world, the government provides an opportunity for these small communities to grow and profit. Ending the subsidized service to small communities would mean that many people may be required to drive long distances to get to the nearest airport. The community of Devils Lake, North Dakota, subsidized by Great Lakes Airlines, connects to Minneapolis Minnesota. Deleting this flight would require individuals to travel about six hours in a vehicle to reach the Minneapolis hub, a total of about 400 miles. These people may decide to move elsewhere to avoid the isolation. Reasons like these explain why the Essential Air Service program is a vital program for small communities and airports. While the EAS program is a necessary program for small communities and airports, there are many flaws that still exist as explained previously.

Communities in Alaska benefit greatly from subsidized air services. Some of the communities in Alaska are so isolated that they are only accessible by the subsidized air service being provided at their airport. The loss of subsidized air service would be catastrophic for the rural communities in Alaska. Without subsidized air service in Alaska many people would not be able to travel due to the lack of accessible roads. These Alaskan communities maintain their link with the outside world through subsidized air services. Many of the Alaskan people use airplanes like people in the lower 48 states use minivans. Not only do they use airplanes for transporting food, supplies, and mail, but they also use them for medical transportation, (Alaska Newspapers Staff, 2011).

In the amount of time that it takes for an airplane to travel from place to place under many conditions may take an automobile or train days to travel. While air service does provide a much faster mode of transportation compared to an automobile or train, there are many other

benefits that are accompanied with airline service. These include benefits for both the airport providing the service and the community where the airport is located. For example, Marion, Illinois Airport benefited from Cape Air by having increased enplanements - resulting in additional funding for the airport. The community would then benefit from the potential airport improvements that Marion makes by having easier access to boarding areas and faster check in service. The addition of air service at a community allows outside investors and entrepreneurs to have a faster and easier way to enter the town; thereby, potentially boosting the economy. The Essential Air Service program allows smaller communities to maintain a link with the national air transportation system. This is the original reason why the EAS program was created and still remains valid today.

Conclusions and Recommendations

How viable is the Essential Air Service program as a government funded program? The correct answer is that the Essential Air Service program has the ability to be viable following change. One way to measure the viability of the EAS program is to analyze the trend in the number of passengers served and amount of communities served from year to year. Between FY2000 and FY2010 the amount of enplanements conducted at EAS communities increased by 82 percent while the number of communities that were being served only increased by 50 percent, (United States Deparment of Transportation, 2013).

Table 3 **Fiscal Years 2000 and 2010 In Comparison**		
	FY2000	**FY2010**
Total Appropriations in Millions	50	200
Number of Points	106	159
Number of Enplanements at EAS Communities	526,746	959,862 [9]

Based on the increase in enplanements one can see that there is obviously a demand for the flights at EAS served communities. In order to keep the enplanements increasing in the future and for the EAS program to remain viable changes need to be made to the program so that it can operate more efficiently and better serve small communities. Keeping enplanements increasing in the future will aid in helping to ensure the viability of the EAS program.

The Essential Air Service program has evolved significantly since its inception in 1978. While the amount of communities benefiting from the EAS program is down from 1980 (405 in 1980, 162 in FY2012), the amount of subsidy provided has increased from $7 million to nearly

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[9] Information retrieved from (United States Deparment of Transportation, 2013) and (Federal Aviation Administration, 2013). The number of enplanements represented in the table accounts for all 50 states.

$200 million. The amount of airlines providing subsidized service has decreased since 1978. However, the amount of passengers being served has increased since 1978, but the price of fuel has drastically increased since the program began as well. These changes have caused the EAS program to require a different set of guidelines than the ones that were initially enacted.

While the FAA Modernization and Reform Act of 2012 (H.R. 658) did make some necessary changes, the Act still left out many vital updates which will ensure the survival of the EAS program.   Many of these updates have been included in the Act; however, they will only be initiated provided the Secretary of Transportation's approval. The updates which will only be initiated on a case-by-case basis provided the Secretary's approval include:

1) increasing EAS subsidies to air carriers paid to compensate for increased aviation fuel costs,

2) waiving the $200 per passenger subsidy cap,

3) incorporating financial incentives in EAS contracts based on specific performance goals, and

4) execute long-term EAS contracts, (Vision 100- FAA Modernization and Reform Act of 2012, 2012).

The Act does not include any more flexibility for aircraft requirements, routes, or service frequency. In addition the Act does not attempt to limit service to more remote communities; however, does have a requirement that limits service to communities which have an average of ten or more enplanements per service day (excluding communities in Alaska or Hawaii, and communities more than 175 driving miles from the nearest medium or large hub airport), (Vision 100- FAA Modernization and Reform Act of 2012, 2012).

Changes in the eligibility criterion have forced many communities (243 communities less than in 1980) to be left without the benefit of the Essential Air Service program. The viability of the Essential Air Service program requires changes to take place that may affect small communities and airports throughout the nation. The determination of the feasibility of the program rests on the hands of the nation's Congressmen and the Department of Transportation. The need for such a program in the future will change with changes in technology. Cheaper and faster modes of transportation for smaller communities will limit the demand for such a program. One way to prove the necessity of the EAS program would be to examine the economic impact that small communities exhibit after they have lost subsidized air service based on economic trends in taxes generated, population, enplanements, etc. In order for the EAS program to survive in the future, the Department of Transportation needs to prove to Congressmen that it is a necessary program that benefits citizens in more ways than just providing a faster mode of transportation.

Recommendations

In order to sustain the viability of the EAS program, the following changes need to be initiated in future reauthorization bills:

1. Adjust Program Eligibility Criterion
2. Extend Contract length from two to three years without requiring the Secretary to do so on an individual basis
3. Increase $200 per passenger rule to account for current market conditions and inflation without requiring the Secretary to do so on an individual basis
4. Increase subsidies to account for increased fuel prices during the past ten years

5. Allow carriers more flexibility on aircraft type, routes, and service frequency

6. Incorporate financial incentives for EAS carriers that increase load factor

7. Target EAS service to more remote communities

Future reauthorization bills must include these changes in order for the program to survive in the future. All of the changes listed will aid in making the program run more efficiently and allow the airlines to better serve the small communities.

The eligibility criterion for EAS needs to be updated for communities in different geographic locations. Different communities require different demands based on their route provided and load factor and may benefit by flying smaller aircraft. Flying smaller aircraft would allow certain airlines to become more efficient. Many communities would be lost without some type of air service and suffer economically. Due to the competitive airline market, many small airlines would not survive without the subsidies provided by the DOT. The subsidies need to be readjusted every two years to account for market changes in order to sustain a viable EAS program.

These changes will allow the program to continue in the future, provide a more efficient service for the public, and open opportunities for new communities to benefit from the EAS program. The EAS program will not survive in the future unless these changes are made. Increasing the amount of communities served will allow more access points for passengers to utilize the service and increase the total number of enplanements. Increasing the total number of enplanements creates a greater demand for the service and will aid in sustaining the EAS program in the future.

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