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Report to the Chairman, Subcommittee on Aviation, Committee on Transportation and Infrastructure, House of Representatives

April 2000

ESSENTIAL AIR SERVICE

Changes in Subsidy Levels, Air Carrier Costs, and Passenger Traffic

GAO/RCED-00-34

Contents

Abbreviations

DOT	Department of Transportation
EAS	Essential Air Service
FAA	Federal Aviation Administration

GAO
Accountability * Integrity * Reliability

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Resources, Community, and
Economic Development Division

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April 14, 2000

The Honorable John J. Duncan, Jr.
Chairman, Subcommittee on Aviation
Committee on Transportation and Infrastructure
House of Representatives

Dear Mr. Chairman:

Over two decades ago, the Congress deregulated the airline industry, phasing out the federal government's control over domestic fares and service and allowing market forces to determine the price, quantity, and quality of service. Concerned that air service to some small communities would suffer in a deregulated environment, the Congress established the Essential Air Service (EAS) program as part of the Airline Deregulation Act of 1978. The act guaranteed that communities served by air carriers before deregulation would continue to receive a certain level of scheduled air service. Special provisions were provided for guaranteeing service to Alaskan communities. In general, the act guaranteed continued service by authorizing the Civil Aeronautics Board, whose duties were later transferred to the Department of Transportation (DOT), to require carriers to continue providing service at these communities. If an air carrier could not continue that service without incurring a loss, DOT could then use EAS funds to award that carrier, or another carrier willing to provide service, a subsidy. These subsidies are to cover the difference between a carrier's projected revenues and expenses and provide a minimum amount of profit. As part of the Rural Air Service Survival Act of 1996, the Congress increased the program's annual funding by $24 million to $50 million in fiscal year 1998 and directed that overflight fees not obligated on the EAS program be used to fund rural air safety projects.

At your request, we reviewed the program to determine whether all communities were receiving the subsidized service to which they were entitled and whether the increase in funding had been made available for rural air safety projects. As agreed with your office, we (1) determined how DOT applied criteria to establish which communities would receive subsidized air service, (2) described changes in the level of subsidies provided to EAS-eligible communities in fiscal year 1999 relative to that provided in 1995, (3) identified why the level of subsidies changed between

1995 and 1999, and (4) determined whether DOT applied any of the increase in program funding to rural air safety projects. [1]

Results in Brief

Overall, DOT applied relevant statutory authority when determining which communities would receive air service subsidized by the EAS program. Under this authority, communities may receive subsidized air service if they were initially eligible for EAS benefits as a result of the Airline Deregulation Act of 1978 and if they meet additional conditions that the Congress first prescribed in 1994. These conditions generally preclude a community from receiving subsidized service if it is located within 70 miles of a larger airport or if the average subsidy per passenger for the community exceeds $200. Because of these and other conditions, some communities that received subsidized service in 1995 no longer received it in 1999. For example, Worthington, Minnesota, which received subsidized service in 1995, no longer received it in 1999 because its average subsidy per passenger exceeded the statutory limit. In addition to applying these statutory provisions, DOT established a policy that removed subsidized service from communities permanently for operational and budgetary reasons. DOT used this policy to determine that Worthington and four other eligible communities could never receive subsidized service again. During our review, DOT recognized that this policy was not supported by statute and agreed to withdraw it. In the future, should funding become inadequate, DOT may have to implement austerity measures or seek guidance from the Congress on how to target program subsidies.

Between fiscal years 1995 and 1999, the level of EAS funding for subsidized service within the continental United States, Hawaii, and Puerto Rico increased by 41 percent, from about $30 million to over $43 million in constant dollars. Over this period, the total number of communities receiving subsidized service decreased by 8, from 77 to 69, and the total number of passengers on EAS-subsidized flights decreased by 4 percent, from about 537,000 to 516,000. Consequently, the average subsidy per passenger increased by 47 percent, from about $56 to $82. Of the 63 communities that received subsidized service in both 1995 and 1999, the vast majority received higher subsidies in 1999 than in 1995, with total increases ranging from $331 (0.1 percent) for service to Cape Girardeau,

[1]We chose 1995 as a base year because it preceded 2 years of decreased funding that caused DOT to reduce the level of service below that required by statute and because it preceded a major change in U.S. airline safety standards that took effect in 1996.

Missouri, to $948,954 (264 percent) for service to McCook, Nebraska. About half of these communities also benefited from an increase in flight frequency or an increase in aircraft size, increasing the overall number of available seats to each community. For Alaska, whose passengers represent about 12 percent of all passengers subsidized by EAS, the increase in funding was relatively less. Funding for subsidized service in that state increased by 12 percent, from $2.0 million to $2.2 million, while the average subsidy per passenger increased by 23 percent, from $25 to $30.

In general, EAS subsidy costs rose because the increased cost of serving these communities was not offset by a corresponding increase in passenger revenues. Carriers' operating costs increased due to a number of reasons. First, the four air carriers that provided service to most EAS passengers in 1999 each reported an increase in operating expenses as a result of complying with more rigorous air safety rules imposed by the Federal Aviation Administration (FAA). In addition, factors specific to the individual carriers and the communities they serve contributed to increased operating costs. For example, one carrier replaced its fleet of older aircraft with new planes. For other carriers, the cost of flying passengers into Denver increased significantly because of higher fees at the new airport. Since the number of passengers at most communities did not significantly increase, passenger revenues generally did not rise sufficiently to offset increases in air carriers' operating costs, requiring DOT to provide larger subsidies to cover the difference in costs and revenues.

DOT did not apply any of the increase in program funding to rural air safety projects. DOT was not authorized to apply the increase in program funding to such projects because EAS funding did not come from the source originally designated by the Congress. In the Rural Air Service Survival Act of 1996, the Congress instructed that the EAS program was to be funded from fees assessed on international aircraft flying over but not landing or taking off in the United States ("overflight fees"). The Congress directed that these fees be used to fund the EAS program beginning in fiscal year 1998 and that overflight fees not spent on EAS be used to fund rural air safety projects. However, foreign airlines successfully challenged the legality of FAA's collecting those fees. Consequently, FAA never collected any overflight fees. In the absence of this revenue source, EAS funding, in accordance with the act, was taken directly from FAA's appropriations. Because the law specified that only unobligated overflight fees go to fund rural air safety programs, DOT could not legally spend the few million dollars that remained unspent on EAS in fiscal years 1998 and 1999 on rural air safety projects.

Background

The objective of the EAS program is to ensure that small communities that had received scheduled passenger air service before deregulation continued to have access to the nation's air transportation system. According to the Airline Deregulation Act of 1978, communities that could receive scheduled air service on October 24, 1978 are eligible for EAS benefits.[2] Today, 701 communities—450 in the continental United States and Hawaii, 235 in Alaska, and 16 in U.S. territories—are eligible for one or both of the program's major benefits. These benefits include subsidized air service to those communities that meet statutory criteria and a requirement that a carrier provide 90 days' notice before the carrier terminates service. Beginning in fiscal year 1994, the Congress annually imposed criteria that prohibited DOT from subsidizing service to communities that are located fewer than 70 highway miles from the nearest medium- or large-hub airport or require a subsidy per passenger in excess of $200.[3] The law makes exceptions to the subsidy limit per passenger for communities located more than 210 miles from the nearest medium- or large-hub community airport.[4]

In 1999, DOT provided subsidized service to 89 communities—68 in the continental United States, 1 in Hawaii, and 20 in Alaska. The law specifies that communities that require subsidized service except those in Alaska are entitled to a minimum of 12 round-trip flights per week—2 daily round-trip flights 6 days per week, with not more than one intermediate stop on each

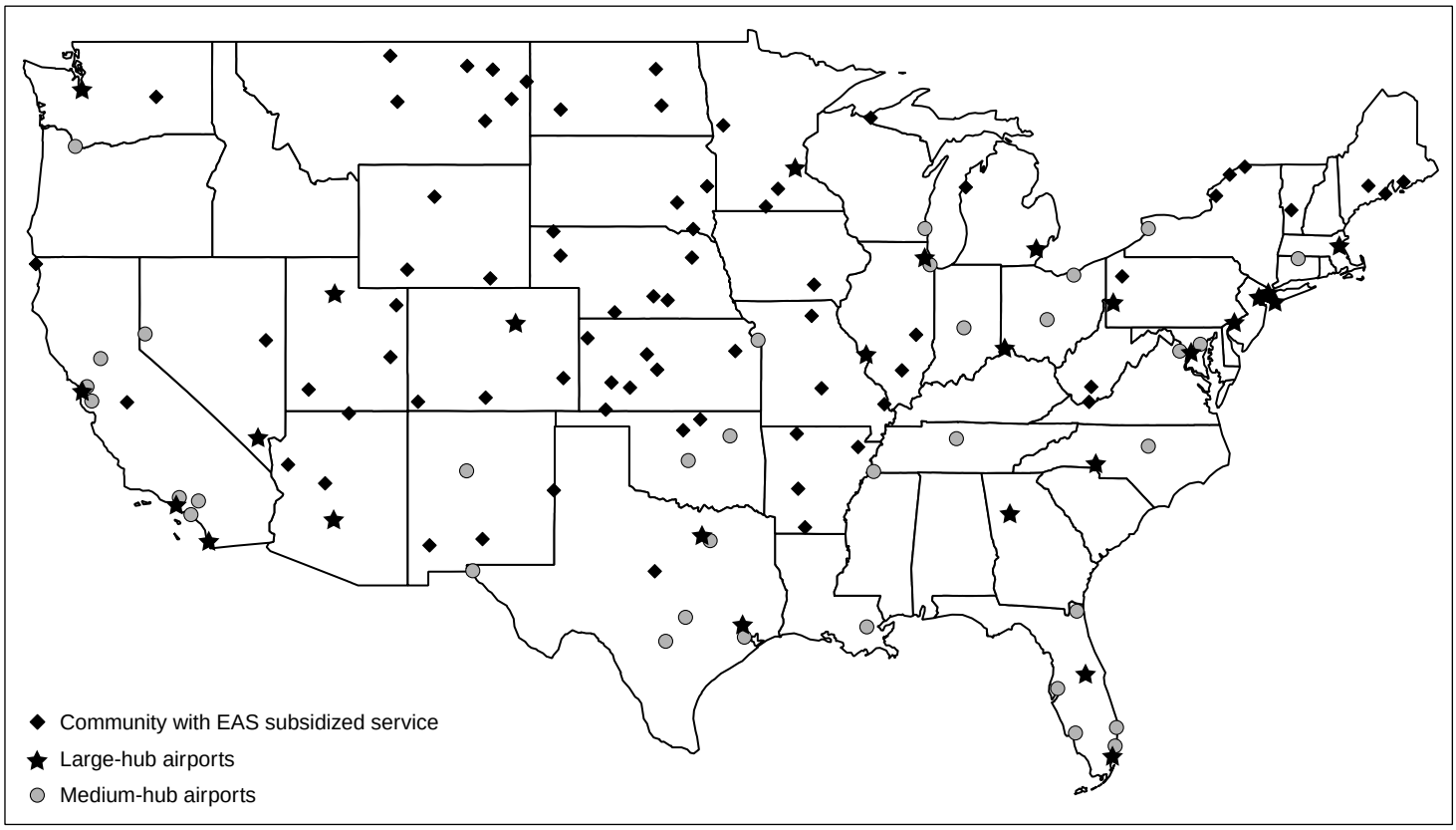
[2]Communities did not have to be actively receiving air service in 1978 to be eligible for EAS, but they did have to be listed on an air carrier certificate. These certificates, issued under 49 USC 41102, authorized an air carrier to provide scheduled service along particular routes between named communities. For additional information on the establishment of the EAS program, see *More Flexible Eligibility Criteria Could Enhance the Small Communities Essential Air Service Subsidy Program* (GAO/RCED-83-97, May 18, 1983).

[3]The average subsidy per passenger does not equate to a specific portion of a passenger's ticket price paid for by EAS funds. Ticket pricing involves a complex variety of factors relating to the demand for travel between two points, the supply of available seats along that route, competition in the market, and how air carriers choose to manage and price their available seating capacity. Had the $200 per passenger subsidy limit been indexed to inflation, the limitation in 1999 would have been approximately $217.

[4]By FAA's definition, air traffic hubs are not airports but communities requiring aviation services on scheduled carriers. FAA designates an air traffic hub as small, medium, or large depending on the number of passengers it handles. A small hub community has at least 0.05 percent, but less than 0.25 percent, of the total annual passenger enplanements (boardings) in the United States in any given year. A medium hub has at least 0.25 percent and less than 1.0 percent of total U.S. enplanements, and a large hub has 1.0 percent or more of total U.S. enplanements. A nonhub community has less than 0.05 percent of total U.S. enplanements.

flight to a hub airport. In Alaska, communities are entitled to the number of flights provided in 1976 or two daily round-trips per week, whichever is greater, unless the affected community agrees otherwise. However, DOT may authorize a higher amount of service than the minimum specified by statute. Figure 1 shows the communities in the 48 continental states that required subsidized air service in April 1999 along with their proximity to medium- and large-hub community airports. Figure 2 shows the location of the communities in Alaska that required subsidized air service in April 1999.

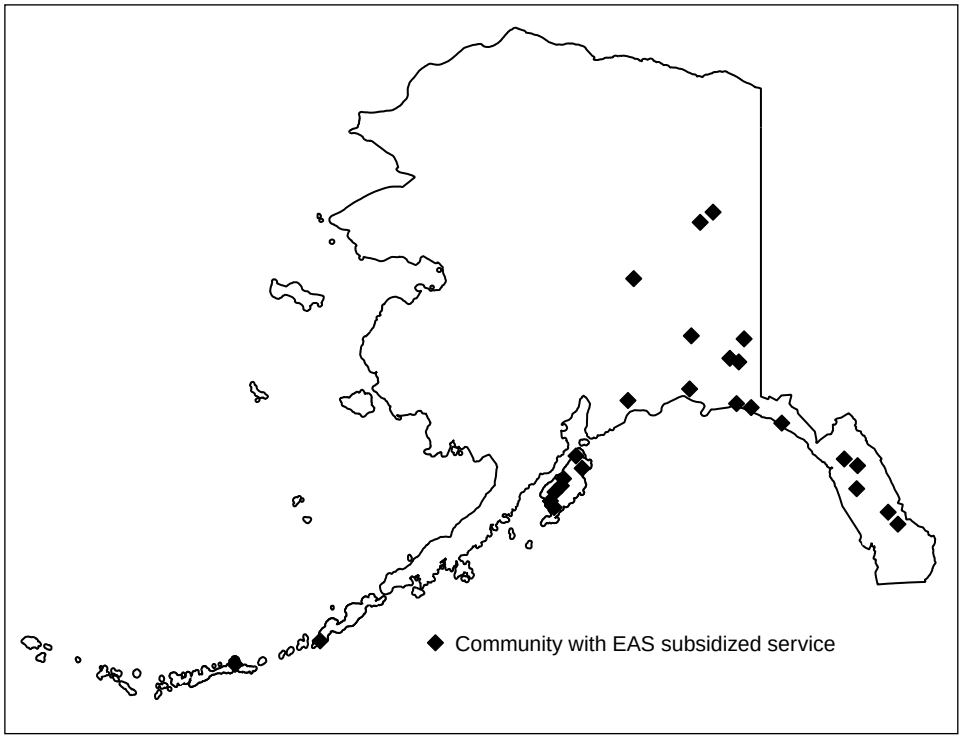
Figure 1: Location of Communities in the 48 States That Received Subsidized Air Service in 1999



Note: This map includes two communities that received subsidized service by agreeing to pay a portion of the subsidy (Fergus Falls, Minnesota, and Dickinson, North Dakota) and three communities (Hastings, Nebraska; Mankato, Minnesota; and Mitchell, South Dakota) that required subsidized service but did not receive it because the carrier serving them stopped service and no other carrier was willing to provide replacement service. H.R. 1000, passed by the Congress in March 2000, eliminated the requirement that Fergus Falls and Dickenson pay a portion of their subsidy costs.

Source: GAO's analysis of DOT's data.

Figure 2: Location of Communities in Alaska That Received Subsidized Air Service in 1999



Note: Although we treated the Kodiak bush communities as one for the purpose of our analysis, this figure shows the location of all these communities that received subsidized service in April 1999.

Source: GAO's analysis of DOT's data.

Air carriers, not the communities themselves, apply directly for EAS subsidies. Air carriers providing service without subsidies to EAS communities set the subsidy application process in motion when they file a 90-day notice of intent to suspend, terminate, or reduce service below the minimum level of air service required. If no air carrier is willing to provide replacement air service without a subsidy, DOT solicits proposals from carriers who are willing to provide service with a subsidy. Carriers requesting a subsidy must document that they cannot profitably serve the community without a subsidy. DOT requires that air carriers submit historical and projected financial data sufficient to support a calculation of subsidy, including the submission of profit-or-loss statements that project

operating expenses (e.g., fuel costs) and operating revenues (e.g., passenger revenues) that would result from serving a particular EAS community. DOT then reviews these data in light of the aviation industry's pricing structure, the size of aircraft required, the amount of service required, and the number of projected passengers that would use this service at the community. Finally, DOT selects a carrier and sets a subsidy amount to cover the difference between the carrier's projected costs of operation and its expected passenger revenues, while providing the carrier with a profit element equal to 5 percent of total operating expenses, according to statute.

After DOT selects an air carrier to provide subsidized service to an EAS community, that agreement is subject to renewal generally every 2 years, at which time other air carriers are permitted to submit proposals to serve that community with or without a subsidy. Since these agreements are not initiated at the same time, DOT reviews these agreements as they expire throughout the year. At any time throughout the year, an air carrier providing unsubsidized service to an EAS-eligible community can apply for a subsidy if the carrier determines that this service is not profitable. According to DOT, once a subsidy rate is agreed to, DOT compensates a carrier for the flights completed, on a monthly basis.

Air carriers serving EAS communities must comply with program requirements. For example, an air carrier must provide DOT and the EAS community it is serving 90 days' notice before terminating or reducing service below the level that DOT established. Where a carrier is the last or only one serving a community, if a replacement carrier cannot be found after the notice period, DOT must require the carrier providing service to continue providing service for successive 30-day periods. DOT does not normally permit an air carrier to cease operations to a community that requires a subsidy, even if that carrier has filed for bankruptcy, unless another air carrier agrees to provide service.

In 1996, FAA changed the air safety rules for commuter air carriers to match the operational, equipment, and performance safety standards required of large air carriers.[5] Previously, FAA applied one set of safety

[5]We have defined large air carriers as those that use large aircraft, having a seating capacity of more than 30 persons or a maximum payload capacity of more than 7,500 pounds. Most of these are jet aircraft. We refer to the other carriers as "commuter air carriers," generally those that operate smaller turboprop aircraft.

rules to commuter air carriers and another, more stringent set of rules to large air carriers. Collectively known as the "Commuter Safety Initiative," these rules imposed many new requirements on commuter air carriers that flew aircraft equipped with 10 seats or more. For example, this initiative required commuter air carriers to appoint safety officers, improve ground-deicing programs, and carry additional passenger safety equipment (e.g., medical kits). The rule also increased training requirements for pilots and further limited the number of duty hours crewmembers can fly.

DOT Applies Statutory Authority to Determine Which Communities Should Receive Subsidized Service

Overall, DOT used statutory provisions to determine whether communities that previously received unsubsidized service required subsidized service and whether communities that were receiving subsidized service would continue to qualify. Before determining whether a community no longer required subsidized service, DOT considered various circumstances (such as a temporary loss of air service) that could have adversely depressed passenger traffic. However, DOT adopted a program policy that inappropriately prohibited communities that the Department had removed from the program from receiving subsidized service ever again, even if the conditions that caused the communities to not qualify changed. DOT has since agreed that it will no longer apply this policy.

Statutory Provisions Limit the Number of Communities That May Receive Subsidized Service

In April 1999, DOT provided subsidized air service to 89 communities, 6 fewer than in March 1995.[6] Of the communities that received subsidized service in 1995, 14 no longer did so in 1999, while 8 communities that had not earlier received subsidized air service did so in 1999. Table 1 summarizes the number of communities that gained and lost their subsidized service in 1995 compared with the number in 1999.

[6]We analyzed data that were current for March 1995 and April 1999. Additional information on why we selected data from these months to review is included in app. I.

Table 1: Change in Number of Communities that Received Subsidized Service in 1995 Compared with 1999

Community location	Communities that received subsidized service in 1995	Change in number of communities receiving subsidized service: Did not receive subsidized service in 1995; but gained by 1999	Change in number of communities receiving subsidized service: Received subsidized service in 1995 but lost by 1999	Communities that received subsidized service in 1999
48 continental states, Hawaii, and Puerto Rico	77	6	14	69
Alaska	18	2	0	20
Total	**95**	**8**	**14**	**89**

Note: Between 1995 and 1999, one other community–Sterling/Rock Falls, Illinois–both qualified and then lost its qualification for subsidized service. We did not include Fergus Falls, Minnesota and Dickinson, North Dakota in the number of communities that received subsidized service; they are included in the program because they contributed funds towards the subsidies.

The six communities in the continental United States that gained subsidized service did so after the air carriers serving them were no longer willing to continue service, in part because the service was unaffordable to them without subsidies.[7] These communities were Alamosa, Colorado; Ironwood/Ashland and Manistee, Michigan; Norfolk, Nebraska; and Laramie and Rock Springs, Wyoming. In Alaska, Atka and Chisana also gained subsidized service. For example, in 1997, Mesa Airlines (Mesa) notified DOT that it planned to suspend service to eight communities that it had served unsubsidized. Subsequently, Great Lakes Aviation (Great Lakes) agreed to provide subsidized service to three of these communities—Alamosa, Colorado, and Laramie and Rock Springs, Wyoming—while Great Lakes and other carriers provided unsubsidized service to the other five communities.

The 11 communities that lost their subsidies did so for a variety of reasons:

- In November 1995, as a result of a decrease in EAS funding, DOT eliminated subsidies that supported service to a second hub airport.

[7]Since April 1999, DOT has provided subsidies to carriers serving eight additional communities—Hydaburg and Port Alexander, Alaska; Show Low, Arizona; Hana and Kalaupapa, Hawaii; Iron Mountain, Michigan; North Platte, Nebraska; and Oshkosh, Wisconsin. According to DOT, three other communities—Pueblo, Colorado; Gallup, New Mexico; and Ponce, Puerto Rico—will receive subsidized service sometime in fiscal year 2000.

Consequently, four communities—North Platte and Scottsbluff, Nebraska, and Clarksburg and Morgantown, West Virginia—no longer received subsidized service although each continued to have unsubsidized scheduled air service to at least one hub airport.[8]

- Three communities—Hastings, Nebraska; Mankato, Minnesota; and Mitchell, South Dakota—no longer received subsidized service because the carriers serving these communities stopped providing service and no other air carrier agreed to provide replacement service under EAS.[9] DOT documents indicate that these communities still require subsidized service.
- Three communities—Ponce, Puerto Rico; Staunton, Virginia; and Visalia, California—no longer received subsidized service because air carriers serving these communities were willing to supply unsubsidized air service.
- Two communities—Anniston, Alabama, and Worthington, Minnesota—no longer received subsidized service because their average subsidy per passenger exceeded the $200 statutory limit for communities located within 210 miles of a medium- or large-hub community airport. Today, neither of these communities has scheduled air service.
- One community—Danville, Virginia—no longer received subsidized service when FAA reclassified Greensboro, North Carolina, the small-hub community located within 70 miles of Danville, as a medium-hub community. Currently, Danville has no scheduled air service.
- One community—Keene, New Hampshire—agreed with DOT that its subsidized service could be suspended when it became apparent that the community's subsidy per passenger was about to exceed the $200 statutory limit.

Before removing a community's subsidized service, DOT considers extenuating circumstances such as service disruptions, that could have caused a temporary decline in passenger traffic. For various reasons, DOT allowed eight communities located within 210 miles of a medium- or large-

[8]In 1999, 10 communities received subsidized service to two hubs.

[9]The air carrier that had served Mankato, Minnesota, and Mitchell, South Dakota, suspended service pursuant to a decision in *Mesa Air Group v. DOT*, 87 F. 3d 498 (D.C. Cir. 1996). The court ruled in Mesa's favor because, as a result of EAS funding reductions in 1996, the Congress instructed DOT to reduce service levels rather than the number of communities receiving subsidized service. Because this required air carriers to accept a reduced subsidy below that which was agreed to with DOT, the court permitted Mesa, and thus by extension other air carriers, to terminate its service. At Hastings, Nebraska, the air carrier providing service went bankrupt and ceased operations.

hub community airport to receive subsidized service in 1999, even though the subsidies per passenger exceeded the $200 limit. Four communities—Harrison and Jonesboro, Arkansas; Enid, Oklahoma; and Brownwood, Texas—suffered a period of poor service (e.g., canceled flights) when the air carrier serving the market went bankrupt and ceased operations. Two other communities—Goodland, Kansas, and Lamar, Colorado—also suffered a major service interruption after Mesa successfully challenged DOT in court and discontinued its service, until Great Lakes initiated its service.[10] In the cases of Norfolk, Nebraska, and Yankton, South Dakota, DOT provided Great Lakes (operating as under a code-sharing agreement with United Airlines) time to prove that it could increase air traffic by providing service to Denver, Colorado, (a hub airport for United Airlines) rather than Minneapolis, Minnesota (a hub for Northwest Airlines where United had a limited presence).[11]

DOT Had No Statutory Basis For Permanently Prohibiting Certain Communities From Receiving Subsidized Service

DOT adopted a policy that is not consistent with the statutory criteria that specify which communities may receive subsidized service. Under this policy, DOT would never again provide subsidized service for communities that had failed to meet a statutory criterion (e.g., the $200 per passenger maximum subsidy). This policy worked to the possible detriment of at least five communities.[12] Of those five, DOT removed subsidized service at four because their subsidy per passenger exceeded the $200 per passenger limit and from the fifth (Danville, Virginia) because an airport within 70 miles, at Greensboro, North Carolina, was reclassified as serving a medium-hub community. Although Greensboro's airport has since been reclassified as

[10]According to DOT, Great Lakes was not able to start service to these communities earlier. Under terms of a consent order with FAA, Great Lakes temporarily suspended all its flight operations from May 16, 1997, and resumed flight operations on a limited basis on May 23, 1997. The consent order indicated, among other things, that Great Lakes had allowed untrained and unqualified personnel to perform routine maintenance and that some aircraft were subsequently operated in unairworthy condition. In response, Great Lakes agreed to inspect each aircraft and demonstrate to FAA's satisfaction that the company could safely conduct operations. Nevertheless, DOT recently decided to terminate subsidized service to these communities beginning in April 2000.

[11]A code-sharing agreement allows an airline to sell seats on its partner's plane as if they were its own, enabling the airline to expand its route network without adding any planes. Most major airlines have code-sharing agreements with smaller commuter airlines to strengthen their hub-and-spoke networks. Commuter air carriers benefit from these agreements because they can offer passengers some of the benefits normally reserved for major airlines. These benefits include discounts on ticket prices, frequent flyer miles, and better connections at hub airports.

serving a small-hub community, DOT program officials maintained that Danville could no longer receive subsidized service because of the Department's policy. In addition, DOT has used this policy to negotiate discontinuing subsidized service at Keene, New Hampshire. Prior to DOT suspending subsidized service at Keene in 1998, because the community's subsidy was approaching the $200 per passenger limit, DOT suggested to local officials that they waive Keene's EAS rights temporarily. In return for the Keene officials' concession, DOT agreed not to permanently remove Keene's right to receive subsidized service at some point in the future.

[12]For those communities included as part of this study, this policy affected potential service to Anniston, Alabama; Worthington, Minnesota; Sterling/Rock Falls and Mount Vernon, Illinois; and Danville, Virginia. In addition, Keene, New Hampshire, and Tuscaloosa, Alabama, voluntarily agreed to waive their right to a subsidy in exchange for future consideration should conditions in their communities make air traffic more viable.

DOT program officials explained that they interpreted the statute in this way based on their experiences evaluating air service at many communities. Before removing a community's subsidy, DOT officials considered several years of passenger traffic. Their experience has shown that the chance of a community's being able to regain subsidized service sometime later to be highly unlikely. They suggested that they had permanently prohibited both communities from receiving subsidized service for operational and budgetary reasons: So long as jet service was available at relatively nearby airports, DOT's subsidizing commuter service at these communities would not be an effective use of scarce budgetary resources.[13]

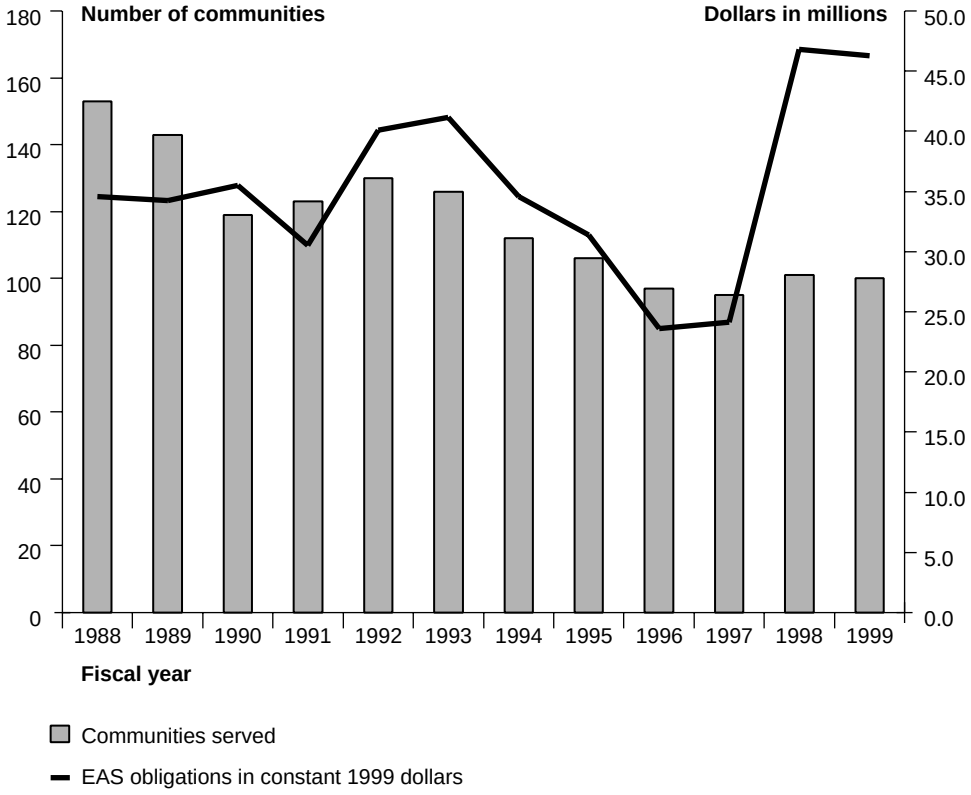
We did not question DOT's decision to remove subsidized service from the communities included in our review. Rather, we questioned DOT's basis for never again allowing those communities to receive subsidized service. During our review, DOT's legal counsel reviewed this policy at our request and agreed that it is not required by relevant statutes. Consequently, DOT officials agreed with this interpretation and will no longer apply this policy.

Subsidy Levels Have Increased

Between 1995 and 1999, the level of EAS funding for subsidized service increased substantially although the total number of communities that required subsidies decreased by six. In 1998 and 1999, the number of communities that received subsidized service approached a historical low while the cost of supporting the EAS rose. In addition, subsidy costs increased substantially as measured by the average subsidy per passenger. Increases in program costs (as measured by total EAS subsidies paid) and average subsidies per passenger were more moderate for communities in Alaska than in other locations. Figure 3 contrasts the number of communities receiving EAS-subsidized service with the change in funds (in constant dollars) obligated to EAS between 1988 and 1999.

[13]When appropriations are at or below the amount necessary to support subsidized service to all communities that require subsidies, DOT can use more restrictive criteria to determine which communities require such service. Under these conditions, DOT is not required to provide subsidized service to communities located less than 55 miles from the nearest small-hub community or less than 45 miles from the nearest nonhub airport enplaning at least 100 passengers a day. According to DOT officials, Oshkosh, Wisconsin, a community that now requires subsidized service, is an example of a community that would lose its subsidized service under these conditions because it is 22 miles from Appleton, Wisconsin, a nonhub airport with service to hub airports.

Figure 3: Change in the Number of Communities Receiving EAS-Subsidized Service and Change in Total EAS Obligations (Constant Dollars), 1988-99



Note: For the purpose of our analysis, we treated the Kodiak (Alaska) bush communities as one because, in calculating a subsidy, DOT treats them as one community. For the purpose of this figure, however, to show the historical change in the number of communities receiving subsidized service, we treated the Kodiak bush communities as individual communities. Thus, the number of communities shown includes the 12 Kodiak bush communities that received subsidized service in 1995 and the 8 that received such service in 1999.

Source: GAO's analysis of DOT's data.

Program Costs for the Continental United States, Hawaii, and Puerto Rico Rose More Than 40 Percent

Overall, for service to communities in the continental United States, Hawaii, and Puerto Rico, EAS subsidies increased by 41 percent, from about $30 million to $43 million, between 1995 and 1999 while the number of communities receiving subsidized service decreased by eight. During this same period, the total number of EAS passengers declined slightly, from 536,675 to 516,493 (4 percent).[14] As a result, the average subsidy per passenger increased from $56 to $82 per passenger (47 percent). Between 1995 and 1999, on average, about 19 percent of the available seats on each aircraft were utilized in each year.

To obtain a better understanding of how the costs and the level of service changed between 1995 and 1999, we examined changes in subsidies, aircraft capacity, and passenger levels in the 63 communities that received subsidized service in 1995 and 1999.[15] In 1999, these communities represented 91 percent of all communities receiving subsidized service in the continental United States. For these 63 communities, we found the following:

- For service at the vast majority (57) of communities, air carriers received higher total subsidies in 1999 than they did in 1995, with total increases ranging from $330.89 (0.1 percent) for service to Cape Girardeau, Missouri, to $948,954 (264 percent) for service to McCook, Nebraska. Subsidies for service at 22 communities more than doubled. Subsidies declined for service to only six.

[14]Throughout this report, all dollar figures, except as noted, are expressed in constant 1999 dollars.

[15]For each community that received subsidized service in 1995 and/or 1999, app. II provides data on the subsidy awarded to carriers, aircraft capacity (expressed in terms of total seats available each week), and average subsidy per passenger for both 1995 and 1999, along with the percentage changes over time.

- Aircraft capacity increased at half of these 63 communities between 1995 and 1999. As expressed by the number of weekly seats available to potential passengers (seats available for purchase in each aircraft multiplied by the weekly flight frequency), capacity increased in 33 communities. The number of weekly flights increased at 20 of these communities while the size of the aircraft providing service increased at the others.[16] At another 20 communities, capacity remained the same. At only 10 communities did capacity drop. Of those 10 communities, subsidy levels rose at 8 and fell only for service to Mattoon and Mount Vernon, Illinois.[17]
- Most communities receive 18 flights per week—more than the statutory minimum of 12 round-trip flights per week. EAS program officials explained that offering fewer than 18 round-trip flights per week could deter potential passengers from using this service. Of the 63 communities, only 13 received the statutory minimum of 12 round-trip flights per week in 1999.
- At all 63 communities that received subsidized service in both 1995 and 1999, the total number of passengers increased by 5 percent. Passenger traffic increased at about half of these communities and decreased at the other half. The median change in the number of passengers was an increase of 27 passengers.[18] Nevertheless, the number of passengers using subsidized service varied widely by community. For example, over 6,200 additional people (138 percent) flew to or from Kearney, Nebraska, even though capacity there decreased. In contrast, the number of passengers flying to or from Kirksville, Missouri, decreased by 1,824 (41 percent), while its capacity increased by 33 percent.
- In both 1995 and 1999, commuter air carriers making EAS flights were doing so with aircraft that were relatively empty. In 1995, on average, passengers filled about 19 percent of the available seats. In 1999, on average, passengers filled about 15 percent of the available seats. In other words, for flights using 19-seat aircraft (the most common size

[16]The subsidy per passenger was no more likely to increase at communities with an increase in available seats than at those that did not have an increase in available seats.

[17]DOT decided recently that Mount Vernon, Illinois, no longer qualified for subsidized service because its average subsidy per passenger exceeded $200. For the same reason, DOT also since decided that Fairmont, Minnesota; Lamar, Colorado; and Goodland, Kansas, no longer qualified for subsidized service.

[18]The median is the statistical point at which half of the communities' change is greater and the other half of communities' change is less. The median may not equal the arithmetic average (mean).

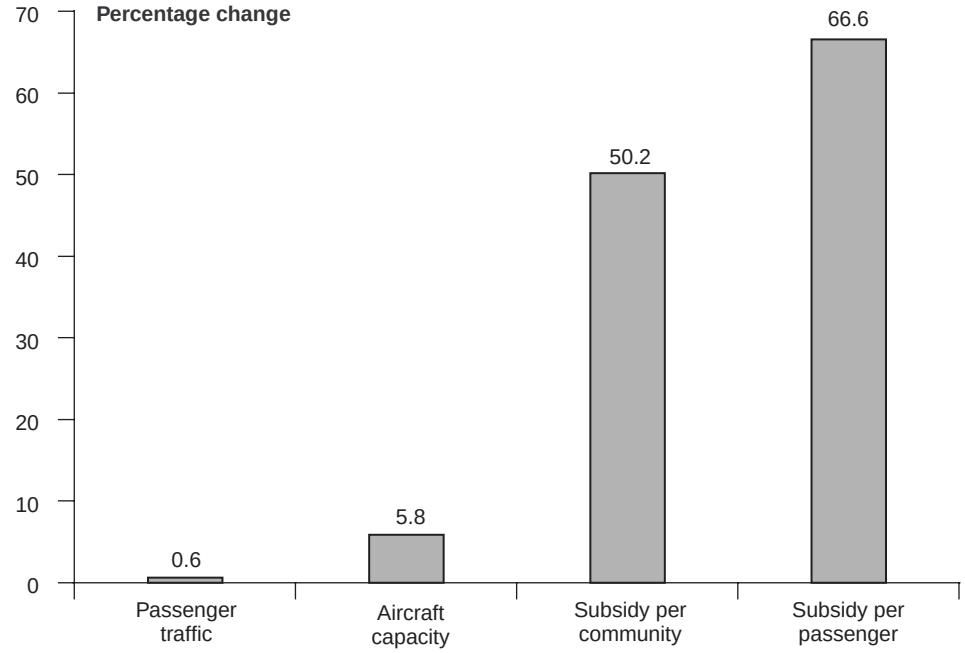
used on EAS routes in both 1995 and 1999), on average only 3 or 4 passengers flew on each trip. By contrast, in 1999, the percentage of available seats bought by passengers on major U.S. passenger airlines was 71 percent.

Because of the large increase in subsidies paid and the small increase in passenger traffic, the overall average subsidy per passenger increased by 50 percent for these 63 communities, from $57 to $86. Between 1995 and 1999, the average subsidy per passenger increased at 47 communities (75 percent). The average subsidy per passenger rose less than 10 percent for 4 communities but more than doubled for service to about half of the 47 communities. For example, the average subsidy per passenger increased from $72 to $75 (4 percent) for service at Rutland, Vermont, but from $37 to $146 (294 percent) at Clovis, New Mexico. Similarly, the average subsidy per passenger increased from $42 to $91 (117 percent) for service at Merced, California. On the other hand, the average subsidy per passenger decreased for service at 16 communities. For example, the average subsidy per passenger decreased from $360 to $283 (21 percent) at Miles City, Montana.[19]

For the communities that received subsidized service in both 1995 and 1999, the median change in average subsidy per passenger was $49.03 per community; the median percentage change was an increase of 67 percent. Figure 4 summarizes the median percentage changes in passenger traffic, aircraft capacity, subsidy per community, and subsidies per passenger.

[19]Since Miles City, Montana is more than 210 miles from the nearest medium- or large-hub community airport, it is not subject to the statutory requirement that the average subsidy per passenger not exceed $200.

Figure 4: Median Percentage Changes in Passenger Traffic, Aircraft Capacity, Subsidy per Community, and Subsidies per Passenger for Communities That Received EAS-Subsidized Service in Both 1995 and 1999



Source: GAO's analysis of DOT's data.

Alaskan Increase in EAS Subsidies More Moderate

Between 1995 and 1999, total EAS subsidies for Alaska rose by 12 percent, from $2.0 million to $2.2 million, compared to the 41-percent total increase for the other states. During this period, the total number of communities in Alaska receiving subsidized service increased from 18 to 20, and the total number of passengers decreased from about 80,000 to 73,000 (9 percent). As a result, the average subsidy per passenger increased by 23 percent, from about $25 to $30. In 1999, funding for Alaskan communities represented about 5 percent of total EAS funding, and Alaskan passengers represented about 12 percent of all passengers.

Of the 18 communities that received subsidized service in both 1995 and 1999, the total amount paid in EAS subsidies increased by over $215,000. Subsidies for service increased at 11 communities and decreased at the others. The total number of passengers traveling at those locations declined by a net 8,000. Most communities had less passenger traffic in

1999 than they did in 1995. However, decreases in passengers at two communities (Petersburg and Wrangell) accounted for over 6,300 passengers. Passenger traffic increased at only three communities, and only at Seward was the growth relatively large (1,018 passengers). As a result of the overall net increase in subsidies accompanied by a decrease in total passenger traffic, the average subsidy per passenger increased by 23 percent, from $25 to $30. Table 2 summarizes the median changes between 1995 and 1999 in the number and percent of passengers, subsidies, and subsidies per passenger for Alaskan communities that received subsidized service in both years.

Table 2: Median Changes in EAS Passengers and Subsidies Among Alaskan Communities Receiving Subsidized Service in 1995 and 1999

Number of passengers		Subsidy to carrier		Average subsidy per passenger	
Median change	Median percent change	Median change	Median percent change	Median change	Median percent change
-68.0	-16.6	$1,309.1	15.8	$11.9	37.5

Source: GAO's analysis of DOT's data.

Increased Safety Requirements and Other Factors Contributed to Increase in EAS Subsidy Costs

Overall, EAS subsidy costs increased because the costs of serving EAS communities increased without an offsetting increase in passenger revenues. The increase in inflation-adjusted EAS program operating costs between fiscal years 1995 and 1999 can be attributed in part to two general causes. First, air carriers' operating costs rose in response to FAA's Commuter Safety Initiative mandating that commuter air carriers—the type that typically serve EAS communities—meet more rigorous air safety rules.[20] These rules imposed new requirements on commuter air carriers that forced their operating costs to increase. In addition, for some communities, EAS subsidies rose because of unique circumstances associated with particular markets (e.g., fluctuations in the local economy

[20]According to FAA, the Commuter Safety Initiative was expected to cost all U.S. air carriers $75 million over 15 years. FAA projected that the cost to the flying public would be 30 cents per passenger flying on 20- to 30-seat aircraft and 62 cents per passenger on aircraft with 10 to 19 seats.

causing changes in passenger traffic) and the airlines serving those markets (e.g., acquisition of new aircraft).

Information from the four airlines that served 80 percent of the passengers flying on EAS- subsidized service in 1999 revealed that complying with FAA's regulatory rules requiring commuter carriers to meet more rigorous safety standards increased their operating costs.[21] Officials from Mesa and Colgan emphasized that the Commuter Safety Initiative's new training and personnel requirements were costly. For example, Colgan officials said that training costs increased by an additional $27,000 per month, in part due to having to hire full-time trainers. Mesa officials noted that because pilots who formerly required 4 hours of cockpit training now require 30 hours, the company had to hire additional pilots to ensure that it could fully staff its operations. According to its 1998 10-K report filed with the U.S. Securities and Exchange Commission, Mesa estimated that pilot training costs rose by $2.0 million due to stricter operating requirements under the rule. Officials with Great Lakes reported that commuter rule compliance drove up its wages for mechanics between 30 and 35 percent. According to its 1996 10-K report, Great Lakes reported that salaries, wages, and benefits increased about 8 percent from 1995 to 1996, due in part to the Commuter Safety Initiative.

In addition, changes in local economic conditions caused an increase in operating costs. For instance, the cost of flying passengers to Denver increased significantly because fees at Denver International Airport are much higher than those at Denver's Stapleton International Airport, which closed in February 1995. DOT estimated that the cost of airport fees for flights departing from Denver to Alliance, Chadron, and McCook, Nebraska, increased from $173 per departure to $235 per departure (35 percent) between 1996 and 1997. This increase in airport fees affected the cost of providing EAS-subsidized service to 16 communities. Changes in the local economy also adversely affected the ability of air carriers to generate passenger revenues in some communities. For instance, Big Sky reported that passenger traffic at Glendive, Montana, varies with changes in local oil production.

[21]These airlines were Great Lakes, Mesa, Colgan Airlines (Colgan), and Big Sky Airlines (Big Sky). They vary by size, the part of the United States they generally serve, and the significance of EAS to their operations. For Big Sky, Colgan, and Great Lakes, subsidized service constitutes a significant portion of their operations.

The availability of air service at nearby airports, especially from low-fare carriers, has affected the ability of EAS carriers to compete successfully for local passenger traffic. Subsidized service was suspended at Keene, New Hampshire, in part because local residents were driving to Manchester, New Hampshire, (less than 60 miles away) to take advantage of low fares offered by Southwest Airlines and US Airways' low-fare subsidiary, MetroJet. Similarly, according to officials with Great Lakes, Southwest's presence at Omaha has motivated potential EAS passengers to drive hundreds of extra miles rather than use more conveniently located air service offered at EAS communities such as North Platte, Nebraska. This air carrier also reported that low-fare carrier Vanguard, which operates at Des Moines, has depressed passenger traffic at Ottumwa, Iowa, as well.

In addition, changes and consolidation in the airline industry have likely affected the cost of providing air service to smaller communities. Between 1995 and 1999, the number of air carriers serving subsidized EAS communities decreased from 17 to 11.[22] In 1995, eight airlines carried about 80 percent of the passengers receiving EAS-subsidized air service in the continental United States. In 1999, as noted earlier, 80 percent of the EAS-subsidized passengers in the continental United States were carried by only four airlines. DOT officials reported that fewer airlines now compete to serve any given route because of dwindling interest in the program among carriers, principally because the major carriers and their code-sharing commuter partners control entire regions around hubs.

Because some factors that affect subsidy costs are often distinct to each EAS community receiving subsidized service, we identified four communities that were served by the same carrier in both 1995 and 1999 and examined why per passenger subsidy costs increased. Subsidy costs changed for each of these communities for a variety of reasons:

- Colgan served Beckley, West Virginia. Between 1995 and 1999, projected operating costs increased by 29 percent and projected passenger revenues decreased by 16 percent. As a result, the average subsidy per passenger increased from $42 to $129 (204 percent). Officials with Colgan and DOT attribute a 25-percent decline in passenger traffic to the willingness of passengers to drive to Charleston, West Virginia, or Roanoke, Virginia, to take advantage of frequent jet service.

[22]Several air carriers, such as Lone Star Airlines, have gone bankrupt, and others, such as CCAir, merged with or were bought by other carriers.

- Big Sky served Wolf Point, Montana. Between 1995 and 1999, projected operating costs increased 47 percent and projected passenger revenues decreased 21 percent. [23] As a result, the per passenger subsidy cost for this community increased from $115 to $233 (103 percent). According to Big Sky and DOT officials, the primary reason that operating costs increased was Big Sky's upgrading its aging fleet of 15-seat Metro II aircraft with 19-seat Metro IIIs. Officials with Big Sky told us that these aircraft were approaching the end of their useful economic life. Additionally, because Big Sky was the last carrier in North America flying Metro IIs, finding spare parts had become increasingly difficult.
- Mesa served Clovis, New Mexico. Between 1995 and 1999, projected direct operating costs increased 46 percent while projected passenger revenues decreased 23 percent. Thus, the subsidy per passenger increased from $37 to $146 (294 percent). According to DOT, the Commuter Safety Initiative was the main reason behind the increase in Mesa's operating costs, especially those costs associated with operating an aging fleet of 19-seat aircraft. In addition, Mesa's maintenance costs further increased as a consequence of its operating under a consent order with the FAA.[24]
- Great Lakes served Devils Lake, North Dakota. Between 1995 and 1999, the average subsidy per passenger increased from $48 to $117 (141 percent). This increase can be attributed to a 37-percent increase in projected direct operating costs. According to DOT and Great Lakes officials, operating costs increased because the cost of serving Devils Lake was no longer offset by revenue obtained from serving nonsubsidized communities, such as Fargo, North Dakota, that were taken over by Northwest Airlines (Northwest). In addition, attracting passengers for Great Lakes has been difficult because potential passengers would just as soon drive to Fargo, North Dakota, to take advantage of the more efficient connections offered by Northwest to its hub in Minneapolis. Although Great Lakes provides Devils Lake service to Minneapolis, as a code-sharing partner with United Airlines, it can only provide efficient hub connections at Denver and Chicago O'Hare International Airport.

[23]The differences in operating costs are approximate because DOT did not calculate these costs the same way. In 1995, DOT calculated Wolf Point's subsidy rate together with that for Glasgow, Montana. For 1999, DOT calculated Wolf Point's subsidy rate together with those for six other Montana communities.

[24]As a result of a special review by FAA, Mesa signed a consent order with FAA in September 1996 requiring the carrier to pay a civil penalty of $300,000.

DOT Not Required to Spend EAS Funds on Rural Air Safety

DOT did not apply any of the increase in program funding to rural air safety projects. DOT was not authorized to apply the increase in program funding to such projects because EAS funding did not come from the source originally designated by the Congress. As part of the Rural Air Service Survival Act of 1996, the Congress instructed that EAS be funded from new fees that FAA was to collect from international aircraft flying over but not landing in or taking off from an airport in the United States (e.g., a nonstop flight between Montreal, Canada, and San Jose, Costa Rica).[25] The Congress directed that $50 million of these "overflight fees" be used to fund the EAS program starting in fiscal year 1998 and that fees not obligated by EAS be used for safety projects at rural airports. However, because foreign airlines successfully challenged the right of the United States to collect these overflight fees, FAA was not able to collect them and make them available to the EAS program. Instead, funding for EAS was taken directly from FAA's budget, in accordance with the act.

In fiscal year 1998 and fiscal year 1999, DOT obligated $46.1 million and $46.3 million, respectively, for EAS. However, DOT was not authorized to spend the remaining balance of $50 million on rural air safety projects because the law specified that only unobligated overflight fees go to fund rural air safety programs. Since EAS funding in those 2 years came from FAA's budget instead, DOT was not authorized to spend the few million dollars left over from the original $50 million authorization on projects that would enhance rural air safety.

Conclusions

The EAS program has generally met its objective of ensuring that communities continue to receive subsidized service where market forces might otherwise have prevented airlines from offering any scheduled commercial service. Over time, the Congress has tightened the conditions under which communities can receive subsidized air service, and DOT has used those criteria to remove subsidized service from communities. In 1998, the Congress substantially increased the program's authorized funding level, which DOT used to cover the increased costs of providing subsidized service to communities that required such service. By implementing a policy that allowed it to permanently prohibit certain

[25]The Federal Aviation Reauthorization Act of 1996 (P.L. 104-264) directed FAA to impose these new fees for air traffic control services to aircraft overflying the United States. The Rural Air Service Survival Act was contained within this act.

communities from receiving subsidized service, DOT sought to limit program subsidy costs. Should funding become inadequate to fund subsidized service to all communities that require it at current levels, program officials may have to implement austerity measures or look to the Congress for additional legislative guidance that they can use to target program subsidies.

Agency Comments

We provided DOT with a copy of our draft report for its review and comment. We discussed the draft with agency officials, including the Chief of the EAS and Domestic Analysis Division, who generally agreed with the information and conclusions in the report. The officials also made technical clarifications that we incorporated as appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to the Secretary of Transportation; the Director, Office of Management and Budget; and other interested parties. We will also send copies to others upon request. We conducted our work from August 1999 through February 2000 in accordance with generally accepted government auditing standards.

If you or your staff have any questions about this report, please call me at (202) 512-2834. Key contributors to this report are listed in Appendix IV.

Sincerely yours,

John H. Anderson, Jr.
Director, Transportation Issues

Scope and Methodology

To determine how the Department of Transportation (DOT) applied criteria to establish which communities required a subsidy under the Essential Air Service (EAS) program, we reviewed relevant statutory and regulatory guidelines. We reviewed DOT orders pertaining to EAS communities that received subsidized service for calendar years 1995 and 1999 to determine the basis of DOT's decisions regarding EAS eligibility and requirements for subsidized air service. These orders included those relating to terminating benefits at certain communities. We also interviewed officials at DOT.

To describe changes in the level of subsidies provided to eligible communities in fiscal year 1999 relative to that provided in 1995, we analyzed changes in EAS subsidy awards for 1995 and 1999. We selected 1999 because it was the current year at the time we began our analysis. We chose 1995 as the basis of comparison because it was the most recent year in which the EAS program was unaffected by reduced appropriations and because it preceded a major change in U.S. airline safety standards in 1996. For both years, we obtained data on EAS subsidy amounts, the air carriers selected to provide the service, weekly flight frequency, the size of aircraft (e.g., passenger seating capacity), and the destination airports to be served according to each DOT order awarding EAS subsidies. Because the number of communities that require subsidized service may change throughout the year as some communities no longer require subsidized service and commuter air carriers providing subsidy-free service to other communities apply for subsidies, we reviewed EAS-subsidized service to communities as of particular months in each year. We selected March 1995 and April 1999 because they represented midpoints in each fiscal year. We would have preferred to use data from April 1995, but they were not available. We obtained data on the number of passengers who flew in each EAS market (i.e., between a community that received EAS-subsidized service and the designated hub airport) from information reported by the carriers to DOT and subsequently provided to us by Data Base Products, Inc. Because the passenger data for some markets appeared to be underreported, we called airport managers to attempt to obtain better data. We also obtained other passenger counts from DOT. Since passenger data were not yet available for 1999, we used 1998 data instead. Accurate passenger counts are important to determine the average subsidy per passenger—one of the measures by which DOT determines whether communities require subsidized service. Unless otherwise noted, the average subsidy per passenger refers to the average subsidy per passenger weighted by the number of passengers using the service in each community. To ease comparisons over time, we expressed all dollar figures in constant 1999 dollars.

To identify why the level of subsidies changed between 1995 and 1999, we analyzed changes in the total number of communities awarded EAS-subsidized service. To eliminate changes caused by differences in the number of communities that received subsidized service in 1995 and 1999, we analyzed changes in the subsidized service for those communities that qualified in both years. Specifically, we examined changes in service capacity (i.e., weekly flight frequency, number of available seats, type of aircraft used) and passengers carried. To determine what factors contributed to an increase in subsidy costs, we examined costs and revenues for the four carriers that provided service to 80 percent of all 1999 EAS passengers. These carriers were Great Lakes Aviation, Mesa Air Group, Colgan Airlines, and Big Sky Airlines. We obtained data on their costs and estimated passenger revenues for selected communities from DOT orders, interviews with airline officials, and reports that these airlines may have filed with the U.S. Securities and Exchange Commission. In addition, for selected communities served by the same carrier in 1995 and 1999, we analyzed changes in the selected carrier's estimated operating costs and revenues. However, we did not verify the accuracy of the estimated operating costs and revenues contained in the orders because such a review would have required access to airline financial data unavailable to us.

To establish whether fiscal years 1998 and 1999 funds were potentially available for rural air safety and, if so, whether those funds were used on such projects, we calculated the amounts of those unobligated balances and interviewed officials at DOT, including those in DOT's budget office and Office of the General Counsel.

We conducted our review between August 1999 and February 2000 in Washington, D.C., in accordance with generally accepted government auditing standards.

Essential Air Service Subsidies and Service for the Continental United States, Hawaii, and Puerto Rico, 1995 and 1999

Community	Total subsidy (dollars) 1995	Total subsidy (dollars) 1999 (percent change)	Number of passengers 1995	Number of passengers 1998[d] (percent change)	Number of weekly seats 1995	Number of weekly seats 1999 (percent change)	Average subsidy per passenger (dollars) 1995	Average subsidy per passenger (dollars) 1999 (percent change)
Alabama								
Anniston	870,938	N/A	5,657	N/A	570	N/A	154	N/A
Arkansas								
El Dorado/ Camden	929,677	943,347 (1)	6,005	3,512 (-42)	684	684 (0)	155	269 (74)
Hot Springs	826,944	1,049,612 (27)	6,737	6,247 (-7)	1,140	1,140 (0)	123	168 (37)
Harrison	826,944	1,049,612 (27)	4,835	1,806 (-63)	1,140	912 (-20)	171	581[a] (240)
Jonesboro	619,785	943,347 (52)	4,629	4,594 (-1)	456	456 (0)	134	205[a] (53)
Arizona								
Kingman	178,049	432,564 (143)	6,770	4,339 (-36)	684	684 (0)	26	100 (279)
Page	220,229	758,575 (244)	12,259	6,063 (-51)	684	684 (0)	18	125 (596)
Prescott	178,049	432,564 (143)	20,785	18,854 (-9)	912	684 (-25)	9	23 (168)
California								
Crescent City	326,702	189,043 (-42)	13,768	15,122 (10)	684	1,080 (58)	24	13 (-47)
Merced	548,555	750,890 (37)	13,073	8,252 (-37)	912	1,080 (18)	42	91 (117)
Visalia	231,524	N/A	14,826	N/A	684	N/A	16	N/A
Colorado								
Alamosa	N/A	950,262	N/A	9,652	N/A	684	N/A	98
Cortez	157,709	408,227 (159)	15,048	22,191 (47)	684	684 (0)	10	18 (76)
Lamar	188,170	1,009,635 (437)	2,394	2,977 (24)	456	684 (50)	79	339[a,b] (331)
Hawaii								
Kamuela	271,635	335,454 (23)	2,957	1,874 (-37)	216	192 (-11)	92	179 (95)
Iowa								

Continued

Community	Total subsidy (dollars) 1995	Total subsidy (dollars) 1999 (percent change)	Number of passengers 1995	Number of passengers 1998 (percent change)	Number of weekly seats 1995	Number of weekly seats 1999 (percent change)	Average subsidy per passenger (dollars) 1995	Average subsidy per passenger (dollars) 1999 (percent change)
Ottumwa	338,547	380,039 (12)	2,605	2,117 (-19)	456	456 (0)	130	180 (38)
Illinois								
Mattoon	629,853	218,783 (-65)	1,337	1,513 (13)	836	456 (-45)	471	145 (-69)
Mount Vernon	629,853	479,699 (-24)	1,783	815 (-54)	646	456 (-29)	353	589[b] (67)
Kansas								
Dodge City	307,032	611,662 (99)	9,335	13,601 (46)	912	912 (0)	33	45 (37)
Topeka	52,239	126,527 (142)	10,960	9,328 (-15)	912	912 (0)	5	14 (185)
Great Bend	307,032	639,097 (108)	3,550	8,678 (144)	684	912 (33)	86	74 (-15)
Garden City	307,032	246,667 (-20)	13,543	14,708 (9)	1,140	1,140 (0)	23	17 (-26)
Goodland	188,170	833,383 (343)	1,658	2,292 (38)	456	684 (50)	113	364[a,b] (220)
Hays	307,032	1,108,781 (261)	10,722	13,768 (28)	912	912 (0)	29	81 (181)
Liberal/ Guymon	188,170	191,077 (2)	6,993	9,955 (42)	684	684 (0)	27	19 (-29)
Maine								
Augusta/ Waterville	591,348	596,806 (1)	9,613	7,953 (-17)	720	912 (27)	62	75 (22)
Bar Harbor	495,067	596,806 (21)	13,126	18,944 (44)	1,064	912 (-14)	38	32 (-16)
Rockland	495,067	596,806 (21)	11,588	13,874 (20)	630	912 (45)	43	43 (1)
Michigan								
Ironwood	N/A	357,588	N/A	4,040	N/A	532	N/A	89
Manistee	N/A	158,417	N/A	2,456	N/A	456	N/A	65
Minnesota								
Fairmont	209,540	799,030 (281)	1,815	2,076 (14)	646	684 (6)	115	385[b] (233)
Mankato	209,540	N/A	1,629	N/A	646	N/A	129	N/A
Worthington	209,540	N/A	818	N/A	646	N/A	256	N/A

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Community	Total subsidy (dollars) 1995	Total subsidy (dollars) 1999 (percent change)	Number of passengers 1995	Number of passengers 1998 (percent change)	Number of weekly seats 1995	Number of weekly seats 1999 (percent change)	Average subsidy per passenger (dollars) 1995	Average subsidy per passenger (dollars) 1999 (percent change)
Missouri								
Cape Girardeau	278,229	278,560 (0)	10,846	10,922 (1)	684	722 (6)	26	26 (-1)
Kirksville	400,636	450,736 (13)	4,499	2,675 (-41)	288	384 (33)	89	169 (89)
Fort Leonard Wood	320,488	337,124 (5)	8,087	9,667 (20)	646	684 (6)	40	35 (-12)
Montana								
Glendive	665,455	671,032 (1)	1,731	1,922 (11)	360	456 (27)	384	349[c] (-9)
Glasgow	383,382	671,032 (75)	4,104	3,386 (-18)	360	456 (27)	93	198 (112)
Havre	554,939	671,032 (21)	2,832	2,431 (-14)	360	456 (27)	196	276[c] (41)
Lewistown	554,939	671,032 (21)	2,336	1,725 (-26)	360	456 (27)	238	389[c] (64)
Miles City	665,455	671,032 (1)	1,851	2,373 (28)	360	456 (27)	360	283[c] (-21)
Wolf Point	383,382	671,032 (75)	3,327	2,879 (-13)	360	456 (27)	115	233[c] (102)
Sidney	665,455	671,032 (1)	4,675	4,702 (1)	540	646 (20)	142	143 (0)
North Dakota								
Devils Lake	346,419	799,030 (131)	7,153	6,836 (-4)	646	684 (6)	48	117 (141)
Jamestown	87,719	799,030 (811)	5,680	7,108 (25)	646	684 (6)	15	112 (628)
Nebraska								
Alliance	243,800	797,133 (227)	1,002	3,585 (258)	456	684 (50)	243	222[c] (-9)
Scottsbluff	157,730	N/A	3,679	N/A	456	N/A	43	N/A
Chadron	243,800	797,133 (227)	1,145	3,839 (235)	456	684 (50)	213	208[c] (-2)
Kearny	554,952	833,383 (50)	4,522	10,753 (138)	950	684 (-28)	123	78 (-37)
Hastings	195,463	N/A	1,689	N/A	684	N/A	116	N/A
North Platte	157,730	N/A	1,319	N/A	456	N/A	120	N/A

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	Total subsidy (dollars)		Number of passengers		Number of weekly seats		Average subsidy per passenger (dollars)	
Community	1995	1999 (percent change)	1995	1998 (percent change)	1995	1999 (percent change)	1995	1999 (percent change)
McCook	359,489	1,308,444 (264)	1,635	5,322 (226)	456	684 (50)	220	246[c] (12)
Norfolk	N/A	799,030	N/A	2,880	N/A	684	N/A	277[a]
New Hampshire								
Keene	529,569	N/A	4,927	N/A	684	N/A	107	N/A
New Mexico								
Alamogordo	303,191	777,127 (156)	5,957	7,353 (23)	912	684 (-25)	51	106 (108)
Clovis	339,811	926,594 (173)	9,180	6,360 (-31)	684	684 (0)	37	146 (294)
Silver City/ Hurley/Deming	446,887	872,204 (95)	6,084	5,697 (-6)	684	684 (0)	73	153 (108)
Nevada								
Ely	794,796	867,188 (9)	4,093	1,126 (-72)	456	288 (-37)	194	770[c] (297)
New York								
Watertown	224,819	266,371 (18)	8,910	17,343 (95)	912	684 (-25)	25	15 (-39)
Massena	224,819	266,371 (18)	9,454	5,310 (-44)	684	684 (0)	24	50 (111)
Ogdensburg	224,819	266,371 (18)	5,856	5,077 (-13)	684	684 (0)	38	52 (37)
Oklahoma								
Ponca City	454,476	767,398 (69)	8,126	5,899 (-27)	684	912 (33)	56	130 (133)
Enid	454,476	767,398 (69)	5,552	3,371 (-39)	684	912 (33)	82	228[a] (178)
Pennsylvania								
Oil City/Franklin	94,943	243,923 (157)	15,619	22,201 (42)	912	912 (0)	6	11 (81)
Puerto Rico								
Ponce	355,538	N/A	39,671	N/A	1,008	N/A	9	N/A
South Dakota								
Brookings	358,770	799,030 (123)	3,415	5,159 (51)	646	684 (6)	105	155 (47)
Mitchell	358,770	N/A	1,887	N/A	646	N/A	190	N/A

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Community	Total subsidy (dollars) 1995	Total subsidy (dollars) 1999 (percent change)	Number of passengers 1995	Number of passengers 1998 (percent change)	Number of weekly seats 1995	Number of weekly seats 1999 (percent change)	Average subsidy per passenger (dollars) 1995	Average subsidy per passenger (dollars) 1999 (percent change)
Yankton	465,358	799,030 (72)	3,970	3,747 (-6)	684	684 (0)	117	213[a] (82)
Texas								
Brownwood	438,541	807,717 (84)	3,931	3,079 (-22)	456	684 (50)	112	262[a] (135)
Utah								
Cedar City	550,232	577,538 (5)	12,352	14,700 (19)	684	1,080 (58)	45	39 (-12)
Moab	529,679	769,572 (45)	3,678	5,141 (40)	324	384 (19)	144	150 (4)
Vernal	333,745	280,854 (-16)	10,787	7,754 (-28)	684	1,080 (58)	31	36 (17)
Virginia								
Danville	1,096,133	N/A	2,465	N/A	684	N/A	445	N/A
Staunton	336,743	N/A	16,495	N/A	912	N/A	20	N/A
Vermont								
Rutland	529,569	596,806 (13)	7,403	8,004 (8)	684	912 (33)	72	75 (4)
Washington								
Ephrata/ Moses Lake	357,317	219,483 (-39)	20,440	21,972 (8)	648	888 (37)	17	10 (-43)
West Virginia								
Beckley	273,827	627,512 (129)	6,461	4,876 (-25)	874	874 (0)	42	129 (204)
Princeton/ Bluefield	273,827	627,512 (129)	6,431	4,779 (-26)	874	874 (0)	43	131 (208)
Clarksburg/ Fremont	283,874	N/A	2,491	N/A	684	N/A	114	N/A
Morgantown	283,874	N/A	3,074	N/A	684	N/A	92	N/A
Wyoming								
Laramie	N/A	494,617	N/A	17,267	N/A	684	N/A	29
Rock Springs	N/A	363,993	N/A	20,245	N/A	684	N/A	18
Worland	183,190	494,617 (170)	5,036	5,427 (8)	456	684 (50)	36	91 (151)

Continued from Previous Page

Note: N/A indicates that a community did not receive EAS-subsidized service in the year indicated.

[a]DOT provided an explanation as to why each of these communities continued to receive subsidized service although their average subsidy per passenger exceeded $200. See p. 13.

[b]Since April 1999, the month for which we collected data as representative of 1999, DOT has since determined that these communities do not require subsidized service because their average subsidy per passenger exceeded $200.

[c]Although these communities have subsidies per passenger that exceed $200, they are located more than 210 miles from the nearest medium- or large-hub community airport and are, according to law, not subject to the $200 per passenger subsidy limit.

[d]Since data were not yet available for 1999, we used 1998 passenger data. We also used those data to estimate subsidies per passenger.

Essential Air Service Subsidies and Service for Alaska, 1995 and 1999

	Total subsidy (dollars)		Number of passengers		Number of weekly seats		Average subsidy per passenger (dollars)	
Community	1995	1999 (percent change)	1995	1998[a] (percent change	1995	1999 (percent change)	1995	1999 (percent change)
Atka	N/A	9,000	N/A	850	N/A	72	N/A	11
Cordova	380,611	273,097 (-28)	20,344	19,917 (-2)	3,108	3,108 (0)	19	14 (-27)
Central	7,077	10,954 (55)	112	29 (-74)	90	56 (-38)	63	378 (498)
Chatham	3,968	4,594 (16)	1	13 (1,200)	2	6 (300)	3,968	353 (-91)
Cape Yakataga	19,599	24,133 (23)	28	12 (-57)	24	24 (0)	700	2,011 (187)
Chisana	N/A	12,428	N/A	62	N/A	16	N/A	200
Funter Bay	3,968	4,594 (16)	60	34 (-43)	6	2 (-75)	66	135 (104)
Gulkana	82,090	84,082 (2)	Data not available	171	16	16 (0)	Data not available	492
Gustavus	380,611	273,097 (-28)	7,714	7,054 (-9)	1,554	1,554 (0)	49	39 (-22)
Healy Lake	40,508	37,256 (-8)	116	94 (-19)	20	20 (0)	349	396 (14)
Icy Bay	19,599	24,133 (23)	223	170 (-24)	24	24 (0)	88	142 (62)
Kodiak Bush points	90,433	144,084 (59)	1,569	585 (-63)	138	150 (9)	58	246 (327)
Nikolski	60,626	106,329 (75)	95	434 (357)	76	36 (-53)	638	245 (-62)
Circle	7,077	273,097 (3,759)	384	278 (-28)	90	56 (-38)	18	982 (5,230)
McCarthy	21,902	19,814 (-10)	212	198 (-7)	12	12 (0)	103	100 (-3)
May Creek	21,902	19,814 (-10)	4	Data not available	12	12 (0)	5,475	Data not available
Petersburg	189,338	273,097 (44)	20,528	17,611 (-14)	3,108	3,108 (0)	9	16 (68)
Seward	77,548	73,498 (-5)	1,423	2,441 (72)	108	180 (67)	54	30 (-45)
Wrangell	189,338	273,097 (44)	11,387	7,988 (-30)	3,108	3,108 (0)	17	34 (106)
Yakutat	380,611	273,097 (-28)	15,923	15,254 (-4)	3,108	3,108 (0)	24	18 (-25)

Continued

Note: N/A indicates that a community did not receive EAS-subsidized service in the year indicated.

[a]Since data were not yet available for 1999, we used 1998 passenger data. We also used those data to estimate subsidies per passenger.

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Related GAO Products

Airline Deregulation: Changes in Airfares, Service Quality, and Barriers to Entry (GAO/RCED-99-92, Mar. 4, 1999).

Airline Deregulation: Addressing the Air Service Problems of Some Communities (GAO/T-RCED-97-187, June 25, 1997).

Domestic Aviation: Changes in Airfares, Service, and Safety Since Airline Deregulation (GAO/T-RCED-96-126, Apr. 25, 1996).

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Airport Competition: Essential Air Service Slots at O'Hare International Airport (GAO/RCED-94-118FS, Mar. 4, 1994).

Airline Deregulation: Trends in Airfares at Airports in Small and Medium-Sized Communities (GAO/RCED-91-13, Nov. 8, 1990).

More Flexible Eligibility Criteria Could Enhance the Small Communities Essential Air Service Subsidy Program (GAO/RCED-83-97, May 18, 1983).

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