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UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 7th day of August, 2001

Essential air service at

MUSCLE SHOALS, ALABAMA	Docket OST-2000-7856-13
HOT SPRINGS and JONESBORO, ARKANSAS	Docket OST-1997-2935-26
PUEBLO, COLORADO	Docket OST-1999-6589-9
HANA, HAWAII	Docket OST-1999-6502-12
KAMUELA, HAWAII	Docket OST-1997-2833 25
TOPEKA, KANSAS	Docket OST-1996-1352 23
AUGUSTA/WATERVILLE, MAINE	Docket OST-1997-2784 11
OWENSBORO, KENTUCKY	Docket OST-2000-7855 29
ALAMOGORDO, NEW MEXICO	Docket OST-1996-1901-9
UTICA, NEW YORK	Docket OST-2000-7556-22
WATERTOWN, NEW YORK	Docket OST-1997-2842-13
ENID, OKLAHOMA	Docket OST-1997-2401-20
OIL CITY/FRANKLIN, PENNSYLVANIA	Docket OST-1997-2523 4
PONCE, PUERTO RICO	Docket OST-1999-6592-18
JACKSON, TENNESSEE	Docket OST-2000-7857-58
OSHKOSH, WISCONSIN	Docket OST-1999-5712-34

under 49 U.S.C. 41731 *et seq.*

STATEMENT OF PROPOSED POLICY REGARDING PROGRAM REDUCTIONS

Summary

The Department is proposing the policy it would implement should the essential air service program reductions contained in the Administration's fiscal year 2002 budget proposal be enacted. The reductions would be necessary to ensure that the program can continue to operate under a budget limitation of $50 million for the next fiscal year. The proposed reductions would terminate subsidy for scheduled air service at the 17 communities listed above as of October 1, 2001. Persons objecting to the Department's tentative decision may file objections within 20 days of the date of service of this statement of proposed policy.

Background

In its budget proposal for fiscal year 2002, the Administration has proposed $50 million for the essential air service program -- the same funding level as the program has been receiving since fiscal year 1998. However, the Department is currently spending program funds at a rate that

provides for no escalation in costs. Subsidy expenditures over the past few years have been impacted by sharp increases in commuter carriers' operating expenses, particularly those related to fuel; crew turnover and training; more stringent Federal Aviation Administration safety requirements; and carrier decisions to retire 19-seat aircraft, which have long been the backbone of the program, in favor of larger, more expensive aircraft.[1]

Because a $50 million budget can no longer cover the program's current commitments, the Administration's budget proposal also includes a proposal to revise some of the standards under which communities are ineligible for subsidy-supported scheduled air service. Under the proposed revisions, communities would not be eligible if they are:

- Located within 100 highway miles of the nearest large or medium hub airport.[2] The current standard is 70 highway miles for both large and medium hubs.

- Located within 70 highway miles of the nearest small hub airport. There is no current standard addressing communities' proximity to small hub airports.

- Located within 50 highway miles of the nearest non-hub airport offering jet service. There is no current standard addressing communities' proximity to non-hub jet service.

The statutory prohibition against continuing to subsidize communities requiring subsidy of more than $200 per passenger, except for exceptionally isolated points, would remain unchanged.

The proposed revisions would allow the Department to continue to meet its core obligation of ensuring that truly isolated communities continue to receive at least a minimum level of scheduled air service and thereby remain connected to the national air transportation system. At the same time, it would curtail spending for local service at communities that are within reasonable driving distances of service at other airports.

The Department faced a similar situation in 1989, when program funding was not sufficient to maintain the existing levels of subsidized service. At the request of Congress, we examined a number of options to reduce program spending in order to bring it within budgetary limits. After a thorough analysis, we concluded that communities' distance from other scheduled air service was the single most meaningful measure of their need for local service. In our report to Congress, we therefore recommended that isolation/proximity standards should be the primary tool in evaluating communities' continued subsidy eligibility because they were consistent with the overriding purpose of the program: to keep communities connected to the national air

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[1] The subsidy we pay to carriers represents the difference between revenues and economic costs (operating costs plus a five-percent profit element). Increases in costs thus raise subsidy requirements disproportionately.

[2] Hub classifications are published in the Federal Aviation Administration's annual report, *Airport Activity Statistics of Certificated Route Carriers*, and are based on each community's enplanements as a percentage of all U.S. enplanements. A large hub accounts for at least 1.00 percent, a medium hub for at least 0.25 but less than 1.00 percent, and a small hub for at least 0.05 but less than 0.25 percent.

transportation system.[3] By applying such standards, communities losing their eligibility would also be those in the best position to retain reasonable, if sometimes less convenient, access to that system by means of another, nearby airport. Congress adopted our recommendations, which have remained part of the program's standards for the past 12 years.[4] The Administration's budget proposal for fiscal year 2002 is a logical extension of those standards.

Tentative Decision

In light of the program's current spending rate and the Administration's budget proposal, we have decided to issue this statement of proposed policy now, to give the communities and carriers ample notice of the program reductions that we will implement in the event that Congress enacts them into law. Those reductions will result in the termination of subsidy at the 17 communities listed below as of October 1, 2001 -- the first day of fiscal year 2002 -- and will allow the carriers providing subsidized service at those communities to discontinue service on the same date, if they choose, without the need to provide individual notice. Implementation of the reductions at the very outset of the next fiscal year is necessary for program spending to remain within the proposed $50 million budget. Waiting to initiate the process until Congress has already acted could delay implementation of the reductions and require us to make even deeper program cuts, affecting more communities, in order to remain within our budgetary constraints.

Under the Administration's proposed standards, the following 17 subsidized communities stand to lose their subsidy eligibility:[5]

Within 100 highway miles of the nearest large or medium hub airport	
Hana, Hawaii	32 highway miles from Kahului (medium)
Topeka, Kansas	71 highway miles from Kansas City (medium)
Ponce, Puerto Rico	77 highway miles from San Juan (medium)
Jonesboro, Arkansas	79 highway miles from Memphis (medium)
Enid, Oklahoma	84 highway miles from Oklahoma City (medium)
Jackson, Tennessee	85 highway miles from Memphis (medium)
Oil City/Franklin, Pennsylvania	86 highway miles from Pittsburgh (large)
Oshkosh, Wisconsin	86 highway miles from Milwaukee (medium) as well as 49 from Green Bay (small) and 20 from Appleton (non-hub jet service)
Alamogordo, New Mexico	91 highway miles from El Paso (medium)

[3] U.S. Department of Transportation, *Report to Congress on Subsidized Air Service under the Essential Air Service Program -- Ways to Reduce Annual Subsidy Expenditures*, September 1989.

[4] See Orders 89-12-29, December 19, 1989, and 89-12-52, December 29, 1989.

[5] The list of affected communities is based on hub classifications for calendar year 2000, the latest available.

Within 70 highway miles of the nearest small hub airport

Kamuela, Hawaii	39 highway miles from Kailua Kona
Pueblo, Colorado	43 highway miles from Colorado Springs
Utica, New York	49 highway miles from Syracuse
Hot Springs, Arkansas	53 highway miles from Little Rock
Watertown, New York	65 highway miles from Syracuse
Augusta/Waterville, Maine	68 highway miles from Portland
Muscle Shoals, Alabama	69 highway miles from Huntsville

Within 50 highway miles of the nearest non-hub jet service

Owensboro, Kentucky	42 highway miles from Evansville

Responses to Tentative Decision

We will give interested persons 20 days after the date of service of this statement to submit any objections, especially if they believe that we have incorrectly applied the proposed standards to any communities. Objections should be fully documented and contain complete information on the data used by the person objecting.

We recognize that the Administration's budget proposal for fiscal year 2002 has not been enacted, and what we set forth here represents only the approach that we intend to take if the proposal is, in fact, enacted in its present form.[6] However, because of our interest in providing affected communities and carriers with as much advance notice as possible, we are issuing a statement of policy now. If the Administration's budget proposal is ultimately enacted, this statement of policy will serve as the formal notice to show cause to implement the proposal. Unless objections are received, the policy proposed in this statement will be implemented if the Administration's budget proposal is enacted.

This statement is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. In the event that the Administration's fiscal year 2002 budget proposal for the essential air service program is enacted into law by Congress, we announce our intention to terminate the subsidy rates authorized for the provision of essential air service at Muscle Shoals, Alabama, Hot Springs and Jonesboro, Arkansas, Pueblo, Colorado, Hana and Kamuela, Hawaii, Topeka, Kansas, Augusta/Waterville, Maine, Owensboro, Kentucky, Alamogordo, New Mexico, Utica and Watertown, New York, Enid, Oklahoma, Oil City/Franklin, Pennsylvania, Ponce, Puerto Rico, Jackson, Tennessee, and Oshkosh, Wisconsin, as of October 1, 2001;

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[6] At this point, the Senate has approved the Administration's proposal, but the House has approved a $63 million program budget without any revisions to the current eligibility criteria. Differences between the House and Senate versions will ultimately be reconciled in conference committee.

2. In the event that the subsidy rates for the communities listed in paragraph 1 above are terminated as of October 1, 2001, we allow Air Midwest, Inc., d/b/a US Airways Express, Air Nevada Airlines, Inc., d/b/a Pacific Wings, Big Sky Transportation Co., d/b/a Big Sky Airlines, Colgan Air, Inc., d/b/a US Airways Express, Commutair d/b/a Continental Connection, Express Airlines I, Inc., d/b/a Northwest Airlink, Great Lakes Aviation, Ltd.. Hyannis Air Service, Inc., d/b/a Cape Air, and Mesa Air Group, Inc., d/b/a US Airways Express, to discontinue their subsidized services at the communities as of that date without notice;

3. We direct any interested persons having objections to the tentative findings set forth in this policy statement to file such objections no later than 20 days from the date of service of this policy statement;[7]

4. These dockets will remain open until further order of the Department; and

5. We will serve copies of this policy statement on the mayors and airport managers of Muscle Shoals, Alabama, Hot Springs and Jonesboro, Arkansas, Pueblo, Colorado, Hana and Kamuela, Hawaii, Topeka, Kansas, Augusta/Waterville, Maine, Owensboro, Kentucky, Alamogordo, New Mexico, Utica and Watertown, New York, Enid, Oklahoma, Oil City/Franklin, Pennsylvania, Ponce, Puerto Rico, Jackson, Tennessee, and Oshkosh, Wisconsin; the Governors and state aviation offices of the affected states; Air Midwest, Inc., d/b/a US Airways Express; Air Nevada Airlines, Inc., d/b/a Pacific Wings; Big Sky Transportation Co., d/b/a Big Sky Airlines; Colgan Air, Inc., d/b/a US Airways Express; Commutair d/b/a Continental Connection; Express Airlines I, Inc., d/b/a Northwest Airlink; Great Lakes Aviation, Ltd.; Hyannis Air Service, Inc., d/b/a Cape Air; and Mesa Air Group, Inc., d/b/a US Airways Express.

By:

SUSAN McDERMOTT
Deputy Assistant Secretary for Aviation
and International Affairs

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[7] Objections should be filed with the Documentary Services and Media Management Division, SVC-124, Room PL-401, Department of Transportation, 400 7th Street SW, Washington DC 20590. Since we are providing for the filing of objections to this policy statement, we will not entertain petitions for reconsideration.