

138049

Order 2001-9-1

Served: September 10, 2001



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

Issued by the Department of Transportation
on the 5th day of September, 2001

Essential Air Service at
Ottumwa, Iowa
under 49 U.S.C. 41731 *et seq.*

Docket OST-00-8323-16

FINAL ORDER TERMINATING SUBSIDY

Summary

By this order, the Department is terminating the subsidy eligibility of Ottumwa, Iowa, because the cost of subsidizing each passenger using the local airport exceeds the \$200 per passenger statutory ceiling.

Background

By Order 99-2-21, February 22, 1999, the Department authorized an annual subsidy rate of \$380,039 for Great Lakes Aviation, Ltd, d/b/a United Express, to provide essential air service at Ottumwa, Iowa, consisting of 12 nonstop or one-stop round trips a week to Chicago O'Hare Airport with Beech 1900 aircraft. On November 15, 2000, Great Lakes filed a 90-day notice of its intent to terminate all scheduled air service at Ottumwa effective February 14, 2001, stating that its then existing subsidy rate was inadequate. Great Lakes is the only air carrier providing scheduled service at the community.

While examining Great Lakes' existing subsidy rate as well as its proposal for an even higher rate, we discovered that for the year ended September 30, 2000, the most current year for which we had historical passenger data, the subsidy equated to \$233 per passenger, even at the \$380,039 annual rate based on the 1,627 passengers who used the service during that 12-month period. Now, with the data available for the full year that ended on December 31, 2000, Ottumwa generated 1,678 passengers. Again, based on the annual subsidy amount of \$380,089, the amount of subsidy was \$226 per passenger. Under statutory eligibility criteria the Department is prohibited from subsidizing service at communities where subsidy amounts to more than \$200 per passenger, unless they are more than 210 highway miles from the nearest large or medium hub airport

On July 18, 2001, the Department issued show-cause Order 2001-7-11, tentatively concluding that the subsidy per passenger exceeded \$200 and that Ottumwa appeared to be less than 210 miles from Kansas City International Airport, and thus terminating Ottumwa's subsidy eligibility. Consistent with longstanding show-cause procedures, we allowed interested persons 20 days to file objections to our tentative decision. If objections were filed we would consider them before reaching a final decision; if no objections were filed, the show-cause order would become final by its own terms.

At the request of the community, we extended the due date to file objections from August 13, 2001, until August 27, 2001. We received objections from the Governor of Iowa, the Iowa Department of Transportation, the City of Ottumwa, and the Indian Hills Community College. In a letter filed on August 23, 2001, the City reiterates its earlier objections stating that the distance to the Kansas City hub exceeds 210 miles and the local passenger demand would be greater if the service were provided to either the St. Louis or Kansas City hub rather than to the hub at Chicago.

In a nutshell, the community makes two arguments. First, they state that Ottumwa is not within 210 miles of either the Kansas City airport or the Omaha, Nebraska, airport and second that the subsidy per passenger exceeds \$200 because Great Lakes' service has been poor, thus depressing passenger levels and increasing the subsidy per passenger.

Community Objections and Final Decision

Upon a complete review of the record we affirm our earlier decision to terminate Ottumwa's subsidy eligibility. We will address the mileage issue first, then the subsidy per passenger.

Mileage

We do not disagree with many of the points made by the community. We fully acknowledge that there may be several routes to drive from Ottumwa to both the Omaha and Kansas City Airports that are farther than 210 miles. Nor do we dispute the veracity of measurements provided by the local police department, nor the condition of the

highway depicted in the video tape between Ottumwa and the Kansas City International Airport. However, the issue is not whether there are reasonable routes between Ottumwa and the hub airports that are greater than 210 miles; there clearly are, including one using the new four-lane highway to Des Moines. Rather, the only issue is whether there is a single highway route that is less than 210 miles. In that regard we have been consistent program-wide in how we measure the 210-mile distances. The point of a mileage standard is clear: how far would people have to drive if there were no air service at their local airport? We therefore measure from the center of the Essential Air Service community to the entrance of the nearest large or medium hub airport. To make those measurements we have consistently relied on a 1996 Rand McNally software program and published the results on the Department's homepage.¹ However, this serves only as a first cut. If we are challenged as we have been here, we turn to a more precise measurement. The Department's Federal Highway Administration (FHWA) uses a Geographic Information System (GIS) system which is the most accurate measurement available. At distances in the 200-mile range such as here, it is accurate to within plus or minus 80 meters, or 262.5 feet.

As we mentioned earlier, on our first cut the Rand McNally program showed that the Kansas City airport was slightly less than 210 miles from Ottumwa and that the Omaha airport was slightly more than 210. As a result, we asked the FHWA to measure the distances from Ottumwa to both airports. The FHWA's GIS system reports the Ottumwa-Kansas City airport distance as 210.44 miles and the Ottumwa-Omaha airport distance as 206.43 miles.² We thus agree with the community's assertion that Ottumwa is not within 210 miles of the Kansas City airport as we had tentatively found in Order 2001-7-11. Nonetheless, while not disputing the community's assertions that some routes between Ottumwa and Omaha exceed 210 miles, we find that Ottumwa is in fact within 210 driving miles of the Omaha airport, and thus the community is not exempt from the \$200-per-passenger cap that we discuss next.

Subsidy Per Passenger

The community has also stated that one of the main reasons that its passenger levels are so low -- and thus the subsidy-per-passenger high -- is that Great Lakes has provided poor service to the community from 1985 on. The community states for example that passenger enplanements averaged 4,499 for each of the nine years before Great Lakes began to serve the community, but an average of only 1,820 for each of the nine "best enplanements' years since 1985."³ The fundamental point is that Ottumwa has never been a strong traffic-generating community. The last year that Ottumwa averaged double

¹ They are available as a MS Excel worksheet at <http://ostpxweb.dot.gov/aviation/> (click on: Subsidized EAS Communities: Proximity to Hubs and Jet Service).

² A map showing the distance provided by the FHWA is attached as Appendix A.

³ Letter dated July 25, 2001, from Mayor Dale M. Uehling to Secretary of Transportation Norman Y. Minetta

digit enplanements per day was 1979 when it was served by Ozark Airlines with F-27 aircraft. And the last year that Ottumwa averaged more than even five enplanements per day was 1981, well before Great Lakes served the community.

The community argues that if Great Lakes service were replaced by another carrier, Corporate Airlines specifically, the resulting subsidy per passenger would be below \$200 if we used Corporate's passenger *forecast*. Corporate's proposal requested \$1,015,837 and it forecast 5,168 annual passengers – over three times the number of Ottumwa-generated passengers in 2000. It is the Department's longstanding program policy to base subsidy-per-passenger calculations on actual traffic, not carrier forecasts. To rely on carriers' passenger forecasts to determine communities' eligibility would be to abrogate our statutory obligations and turn over to the carriers the authority to determine which communities would remain in the program and which would be eliminated.

Overall, these objections do not provide a basis for ignoring the statutorily mandated \$200 subsidy-per-passenger cap.

It appears that Ottumwa's ability to generate traffic at its local airport is hampered by the fact that it is literally surrounded by air service hubs. In addition to Des Moines, Kansas City and Omaha, low-fare service is available at Moline, Illinois, and even Cedar Rapids (93 miles) is close enough to draw some local demand away from Ottumwa.

Finally, if the subsidy amount per passenger were only slightly over the \$200 cap, we could be justified in sustaining service for a short period of time to determine whether a concerted community-carrier effort could reduce the subsidy cost below the cap. That is not the case here. Moreover, the number of passengers necessary to keep the subsidy cost per passenger below \$200 has grown markedly in recent years at most communities, not just Ottumwa. Significant increases in airline fuel, labor, and other costs require even greater numbers of passengers for carriers operating 19-seat aircraft to earn profits. In other words, with rising airline costs and thus ever higher subsidy requirements, it is very unlikely that Ottumwa could ever generate sufficient passengers to reduce the subsidy below \$200 per passenger.

In summary, we do not find an acceptable reason not to apply the statutory ceiling of \$200 per passenger at this time. Thus, we conclude that we are required to terminate subsidy support for scheduled air service to Ottumwa, and we do so not later than 45 days after the service date of this order. Interested carriers may, of course, provide scheduled service to Ottumwa at their own initiative at any time now or in the future; our action here simply makes Ottumwa ineligible to receive subsidized air service.

In an effort to provide an orderly and smooth shutdown in service, and before Great Lakes terminates service, we expect it to contact all passengers holding reservations for

travel, to notify them of the suspension of service and the availability of nearby air services, and to assist them in making alternate travel arrangements.

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

ACCORDINGLY,

1. We finalize our tentative findings and conclusions as set forth in Order 2001-7-11, July 23, 2001, and terminate the subsidy-rate established by Order 99-2-21, February 22, 1999, for the provision of essential air service at Ottumwa, Iowa, not later than 45 days from the date of service of this order; and
2. We will serve a copy of this order on the Mayor and airport manager of Ottumwa, Iowa, the Governor of Iowa, Indian Hills Community College, the Aviation Staff of the Iowa Department of Transportation, United Air Lines, Inc., Great Lakes Aviation, Ltd., d/b/a United Express, and Corporate Airlines, Inc., d/b/a TWExpress.

By:

SUSAN MCDERMOTT

Deputy Assistant Secretary for Aviation
and International Affairs

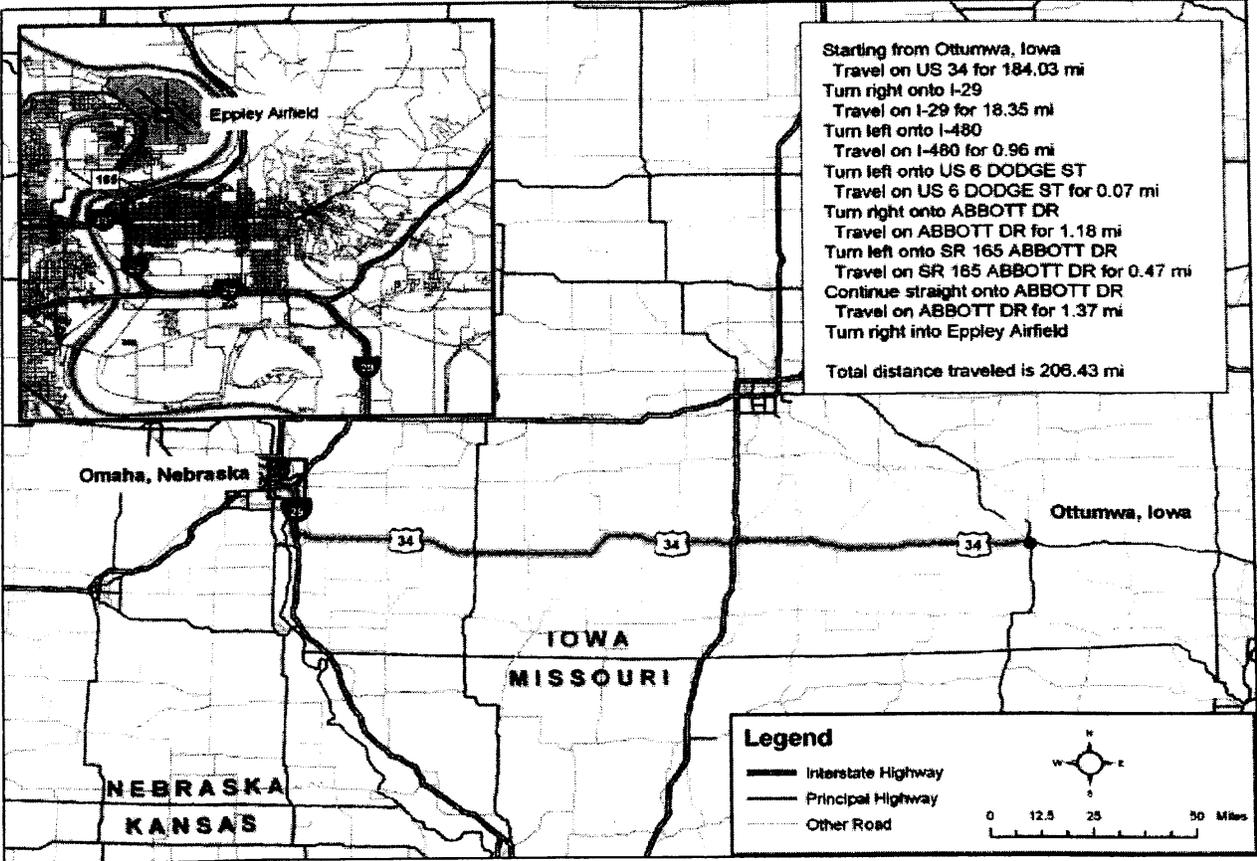
(SEAL)

An electronic version of this document is available on the World Wide Web at

<http://dms.dot.gov>

Appendix A

Map Showing the Mileage and Driving Directions in Highway Miles from Ottumwa, Iowa, to Eppley Airfield at Omaha, Nebraska



Source: Federal Highway Administration, ArcView 3.2a, with Network Analyst Extension, National Highway Planning Network Version 4.0.