Essential Air Service: Why Reform Isn't Reducing Overall Cost

Early last year, the President signed the "FAA Modernization and Reform Act of 2012," authorizing spending for the Federal Aviation Administration and the programs it runs. Included were reforms of the Essential Air Service (EAS). Recognizing the program needed reform, in part because its costs were exploding, authorizers made eligibility changes intended to bump the most expensive airports and imposed reductions in annual funding to lessen the overall taxpayer burden.

For three primary reasons, **the reforms aren't working**. Three airports have been removed (leaving 115 non-Alaskan EAS subsidized airports), but the program's cost continues to escalate.

A quick lesson on EAS: Its funding comes from two sources: discretionary funds (levels are set by an authorization bill but ultimately controlled by annual appropriations bills) and mandatory funds (derived from fees charged to travelers that fly through U.S. airspace but don't land on US soil – called overflight fees).

Reason #1: Uncapped Program Costs

One reform intended to bring down the overall cost of the EAS program was to disqualify airports that require a subsidy of greater than $1,000 per passenger or support fewer than 10 boardings per day. This would stop taxpayer support for those airports that are the most egregiously expensive or that support just a few passengers anyway.

As a result of these changes, service has been curtailed at Ely, Nevada, and Lewistown and Miles City, Montana. All three had per passenger subsidy rates more than $1,000; the rate at Ely was nearly $3,000.

The reforms Congress passed were too modest, however, and won't do anything to bring down the overall cost of the program. Overall program costs continue to explode, and eliminating a few airports isn't going to change that.

Consider Montana. With the elimination of two subsidized airports, it should be a shining example of how Congress saved us millions with EAS reform. But what if we told you that the cost for EAS in Montana is likely set to increase, not decrease? Silver Airlines, which serves five EAS airports in Montana (and also served Lewistown and Miles City), has announced its intention to vacate service in the state. Now, the U.S. Department of Transportation has opened the bidding process to other airlines to find out what they would charge to provide service (see the chart).

Current and Proposed Costs of Montana EAS Service (to cities currently served by Silver Airways)				
City	**Silver (current)**	**Cape Air**	**Great Lakes**	**Boutique Air**
Glasgow	$1,166,049	$2,590,286		$1,470,880
Glendive	$1,193,391	$2,440,124	$1,904,876	$848,443
Havre	$1,162,329	$2,573,713		$2,185,695
Sidney	$2,932,152	$3,777,579	$2,579,697	$4,221,519
Wolf Point	$1,502,378	$2,730,467		$1,470,880
Lewiston	$1,325,733			
Miles City	$1,621,821			
Total	**$10,903,853**	**$14,112,169**	**$4,484,573**	**$10,197,417**

As you can see, two airlines have bid to provide service to all five airports, while a third would serve two cities. Cape Air's proposal – which has the unanimous support of the five local governments – would cost some $3 million more than what Silver is currently paid to provide service to all seven airports. Boutique Air, a San Francisco-based airline, currently doesn't provide any EAS service and lost a bid to provide service in Carlsbad, New Mexico. Though its proposal would save the EAS program $700,000 overall, it would drop two cities and represent a more than $2 million increase in the five cities it will serve.

And this isn't unique to the cost of providing service to Montana. Across the program, comparing the cost of the current contract to the cost of the contract immediately preceding this one, the cost of the program has increased TWENTY-TWO PERCENT in just a few years. This cost growth is left unchecked by Congressional reforms and therefore costs will likely continue to skyrocket.

Reason #2: Appropriators Ignoring Authorizers

Appropriators are free to do what they will with the spending levels set in an authorization bill. The authorization bill had decreasing discretionary spending levels through fiscal year 2015 (see chart). Appropriators matched that amount in fiscal year 2012, but went well above it in the fiscal year 2013 continuing resolution spending bill, even after taking out a sequestration cut.

Discretionary Spending, Essential Air Service				
	FY12	FY13	FY14	FY15
Authorization Bill Level	143.0	118.0	107.0	93.0
President's Request	123.3	114.0	146.0	
House Amt.	n/a	114.0	100.0	
Senate Amt.	143.0	114.0	146.0	
Actual	143.0	135.5	?	

What happens in 2014 remains to be seen. The President requested and the Senate provided an amount well above what the authorization bill called for; the House would actually spend below that level. The likelihood of another continuing resolution could result in spending far exceeding authorized amounts.

Reason #3: Available Mandatory Funding Driving Massive Program Growth

Another problem with the Congressional reforms of the EAS program is the massive increase in mandatory funding available for the program. The mandatory funding for EAS comes from so-called overflight fees, which are paid by travelers that fly through U.S. airspace, but don't actually land here. Given that U.S. airspace includes a huge swatch of the Pacific Ocean and a significant chunk in the Atlantic Ocean, there are a great number of fliers that pay this fee. In addition, the rate was approved for an increase in 2012, 2013, and 2014, resulting in a significant increase in collections. And the FAA reauthorization made all overflight-fees available to be used to fund the EAS program. The total increase in available mandatory fees from fiscal year 2012 to fiscal year 2015 is projected to be $155 million, far more than the $111 million in cuts Congress made to discretionary funding for EAS. Most or all of this money is dedicated to the EAS program. So while authorizers envisioned decreasing discretionary appropriations, they knew full well that would be more than made up for with the increase in available mandatory appropriations. Combine that with discretionary levels that are likely to increase instead, and you can see why this program remains out of control.