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Subsidies Keep Airlines Flying to Small Towns

By JEFF BAILEY

PUEBLO, Colo. — Hoping for an empty seat beside you on your next flight? No problem — just schedule a trip to someplace like Kingman, Ariz.; Brookings, S.D.; or Pueblo.

They are among more than 100 locales around the country that receive federally subsidized airline service, and the average number of passengers on each flight is about three.

Most of these flights on 19-seat prop planes have plenty of elbow room — a rare luxury in this age of jampacked commercial jets. Some major airlines have cut their fleets about 20 percent since 2001 and have abandoned unprofitable routes, meaning planes are flying fuller than at any time since World War II.

The more tranquil cabins come courtesy of the Essential Air Service, put in place when the airline industry was deregulated in 1978. The idea was to help travelers in smaller cities adjust to the new competitive era of air travel. The intention was for the service to go away after 10 years, but it was renewed for a second decade — and then made permanent.

Over time, though, the program has come to seem mostly expensive and, to its critics, unessential.

After all, travelers adjusted very well after deregulation, and started driving the extra distance to busier regional airports nearby that offered increasingly cheap and plentiful jet service. That left the program with mostly empty planes, making them more costly to fly. Add in higher maintenance and fuel costs, and spending has more than quadrupled since 1996, to $110 million.

That, of course, is not a lot in the federal scheme of things. But the program is a good case study of how poorly the government sometimes keeps pace with the free market and consumer tastes, and how entrenched interests, even in the face of some creative map-drawing, can keep such a program aloft in the face of efforts to ground it.

Mike Boyd, a consultant to airports, said truly remote routes — those in Alaska, northern Maine, parts of the Western states — should be retained. But he said that most routes should be eliminated.

“The Essential Air Service program is one of those well-meaning federal programs that often results in money wasted on trying to recreate those wonderful days of the 1950’s,” Mr. Boyd said in a recent note to clients. “Somebody needs to tell Congress that Ozzie and Harriet are gone.”

From Lewistown, Mont., Jerry Moline, the airport manager, is used to driving 110 miles to shop at the Wal-Mart in Great Falls. Likewise, most of his neighbors drive 125 miles to the airport in Billings, which has jet service, rather than fly there on the subsidized 19-seaters. The Lewistown flights attracted fewer than three people a day in 2005; each passenger’s one-way ticket was subsidized with $472.78 paid by taxpayers.

The emptier the subsidized flights, it seems, the more cherished the program became. Members of Congress regularly pressured the Transportation Department to continue subsidies to towns they represented. A lobbying group sprang up solely to fight to preserve and expand the program.

To qualify for Essential Air Service, towns must have had scheduled commercial air service in October 1978 when deregulation occurred; be at least 70 miles from a large or medium hub airport; and be able to attract service from a regional airline with a one-way per passenger subsidy of no more than $200.

For towns more than 210 miles from a large or medium hub, however, there is no cap on the subsidy per passenger.

After Sept. 11, 2001, airlines withdrew from some smaller unsubsidized markets and more cities needed subsidies to maintain service. That pinched the Essential Air Service budget.

Over the next several years, the Transportation Department tried to weed out some locales.

The agency took a harder look at its map and decided that Brookings, S.D., was less than 210 miles from the Minneapolis-St. Paul International Airport; that Alamogordo, N.M., was similarly close to Albuquerque’s airport; and that Lancaster, Pa., was less than 70 miles from Philadelphia’s airport.

At those distances, Lancaster did not qualify for any subsidy and the two other markets qualified only for $200 or less per passenger, far less than needed to sustain service.

The towns made tempting targets. Flights from Brookings, which is less than an hour’s drive from jet service at Sioux Falls, were attracting about three passengers a day. Alamogordo drew four or five a day. Both required big subsidies. And Lancaster is not that far from competitive airports, with Southwest Airlines bringing low fares to Philadelphia and Baltimore.

The towns and a lobbyist, Maurice Parker, president of Regional Aviation Partners — it is financed by the Mesa Air Group, which flies subsidized routes — swung into action. The termination notices persuaded Senator Arlen Specter, Republican of Pennsylvania, and others in Congress to pass legislation that required the Transportation Department to measure the distances along the most commonly traveled routes. It also gave the governor of each state the final word on the matter.

“Lancaster is 66 miles from the Philadelphia International Airport if you travel along Route 30, which is the old Lincoln Highway, where there is a traffic light every other block,” Senator Specter said in introducing the legislation in June 2003. He added that “any rational person” would take Interstate 222 to the Pennsylvania Turnpike, a faster route, at about 80 miles. Similar arguments were made for Alamogordo and for Brookings.

The termination efforts were dropped. And all three markets retained subsidized service. Transportation Department officials declined to comment. Michael W. Reynolds, an acting assistant secretary, in testimony before a Senate subcommittee last month, said towns had come to view the program as “an absolute entitlement.”

Brookings, averaging 2.5 passengers a day in fiscal 2005, received a one-way subsidy of $677.11 per passenger.

Regional airlines in the program are paid a subsidy that, combined with fares they expect to collect from passengers, will allow for a profit. Fares vary widely. A recent one-way ticket from Pueblo to Denver, bought a few days before the flight, was $124.50.

Kerry Caruselle, a tax preparer for Army employees, was ready for the unexpected when she flew a Great Lakes 19-seater prop plane from Denver to her home in Pueblo last week. On her last flight on that route, a bumpy turboprop trip about a decade ago, she said, “My kids were in middle school and they both threw up.”

Last week’s 30-minute flight was smooth, yet Ms. Caruselle was the only passenger. “Just me,” she said. There was also a pilot and a co-pilot but no flight attendant.

Colorado Springs Airport, offering nonstop jet service to 14 major cities, is about 40 miles away. Denver’s huge hub is within about 110 miles. In fiscal 2005 Pueblo’s two daily subsidized flights to Denver drew a combined five passengers a day.

“That may be generous,” confided Jerry Brienza, manager of the Pueblo Memorial Airport. “We were close to three a day last year.” The government calculated the one-way subsidy at $255.06 a passenger.

Traffic has picked up to about eight a day in 2006, Mr. Brienza said.

Excluding Alaska, where many air routes are subsidized, the Transportation Department paid out about $74 for each one-way passenger in the program in fiscal 2005. That is more than Amtrak’s famously large per passenger subsidy, which is $19 to $52, depending on how it is calculated.

The Bush administration now wants to cut funding to $50 million. So, the Transportation Department is proposing changes to reduce the program costs. Towns more than 100 miles away from a large or medium hub would have to chip in on the subsidy. Towns closer than 100 miles would get a partial subsidy — for bus service to a hub.

But a perennial favorite with much of Congress, Essential Air Service seems unlikely to face cuts. Spending panels in each house of Congress favor a slight increase in funding for fiscal 2007, to $117 million. Many in Congress regard the program as a good way to connect remote towns to the air service system.

Probably the biggest beneficiary in recent years has been the Raytheon Company. It manufactured the 19-seat Beech 1900 prop planes that fly most of the subsidized routes. Tighter safety rules enacted in the mid-1990's made operating those more expensive. And the rapid spread of regional jets preferred by passengers forced Raytheon to halt production of the 1900 in 2002.

"The average untrained traveler equates jets to safety," said David Carter, a Raytheon spokesman. "They're not so sure about turboprops."

Having financed the acquisition of most of the 1900's by regional carriers and others, Raytheon faced huge losses. It in essence still owned 511 of the planes valued at $1.6 billion. It wrote the value of those planes down by $693 million in 2001. Since then, it has slowly been selling the planes in overseas markets, but is still stuck with 218 of them as of June 25 of this year, valued at $435 million.

Without the subsidies, most of the roughly 100 1900's remaining today in the United States could be idled, said Jonathan Ornstein, chief executive of Mesa Air, which once operated 122 of the planes and has cut its fleet to 20.

"We don't make money in the program; we do it because we have the equipment" and owe more than $1 million on each of the planes, Mr. Ornstein said. Mesa, with annual revenue of more than $1 billion, mostly operates jets now. "No one I'm aware of has figured out how to operate the 1900 outside the Essential Air Service program."