



U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

**DOT Appropriately Relied on
Unsubsidized Carriers in Accordance
With Its Policy but Conducted Limited
Oversight of the Essential Air Service
Communities They Serve**

OST

Report No. AV2021024

May 19, 2021





DOT Appropriately Relied on Unsubsidized Carriers in Accordance With Its Policy but Conducted Limited Oversight of the Essential Air Service Communities They Serve

Mandated by the Federal Aviation Administration (FAA) Reauthorization Act of 2018

Office of the Secretary of Transportation | AV2021024 | May 19, 2021

What We Looked At

The Airline Deregulation Act of 1978 (ADA) gave airlines the freedom to determine which markets to serve and what fares to charge. However, it also raised concerns that communities with relatively low traffic levels might lose service entirely if carriers shifted their operations to larger, potentially more lucrative markets. Through the Essential Air Service (EAS) Program, the Department of Transportation (DOT) determines the requirements for each eligible community and subsidizes air carriers when necessary. In 2018, Congress directed our office to determine whether DOT was providing sufficient oversight of the unsubsidized air carriers providing basic essential air service. Accordingly, our objectives were to evaluate whether DOT (1) appropriately relied on unsubsidized air carriers for small communities and (2) conducted oversight of the services provided by those air carriers.

What We Found

DOT appropriately relied on unsubsidized air carriers in accordance with its policy. Specifically, if an air carrier proposed to provide air service without a subsidy and the Department determined the carrier could reliably do so, DOT relied on the carrier's service as proposed. Federal law does not require DOT to consider community views when it relies on unsubsidized carriers, and the Department did not prescribe specific content for their proposals. We also found that DOT conducted limited oversight of the EAS communities served by unsubsidized carriers. Federal law requires eligible communities to be provided with basic essential air service and air carriers to file a 90-day notice of their intent to end, suspend, or reduce such service. While unsubsidized carriers typically met the minimum departure criteria for their communities, officials in seven of the nine communities we reviewed were unaware that they could petition Department when issues arose. DOT also did not conduct required periodic reviews of the designated levels of service in unsubsidized communities, which limited its awareness of their essential air service needs.

Our Recommendations

We made two recommendations to improve DOT's oversight of EAS communities served by unsubsidized carriers. The Department concurred with recommendation 1 and partially concurred with recommendation 2, which we consider to be open and unresolved pending a decision from DOT.

Contents

Memorandum	1
Results in Brief	3
Background	4
DOT Appropriately Relied on Unsubsidized Air Carriers in Accordance With Its Policy	5
DOT Conducted Limited Oversight of the EAS Communities Served by Unsubsidized Carriers	8
Conclusion	12
Recommendations	12
Agency Comments and OIG Response	12
Actions Required	13
Exhibit A. Scope and Methodology	14
Exhibit B. Organizations Visited or Contacted	17
Exhibit C. List of Acronyms	18
Exhibit D. List of 17 EAS Communities, 2005–2018	19
Exhibit E. Major Contributors to This Report	20
Appendix. Agency Comments	21



Memorandum

Date: May 19, 2021

Subject: ACTION: DOT Appropriately Relied on Unsubsidized Carriers in Accordance With Its Policy but Conducted Limited Oversight of the Essential Air Service Communities They Serve | Report No. AV2021024

From: Matthew E. Hampton
Assistant Inspector General for Aviation Audits

To: Assistant Secretary for Aviation and International Affairs

The Airline Deregulation Act¹ of 1978 (ADA) gave airlines the freedom to determine which markets to serve and what fares to charge, which resulted in lower fares, the expansion of the regional airline industry, and increased flight choices for many Americans. During the pre-ADA debates in Congress, however, the prospect of allowing carriers to terminate scheduled service without prior Government approval raised concerns. Communities with relatively low traffic levels feared they would lose service entirely if carriers shifted their operations to larger, potentially more lucrative markets.

Congress created the Essential Air Service (EAS) Program in 1978 to ensure that small communities previously served by air carriers would continue to receive air service. Under the EAS Program, the Department of Transportation (DOT) determines the requirements for each eligible community: minimum number of roundtrips, characteristics of the aircraft to be used, and the specific hub that will link the community to the national network. DOT subsidizes² the air carriers, if necessary, to provide the air service in EAS communities.

The Federal Aviation Administration (FAA) Reauthorization Act of 2018 directed our office to review orders the Department issued between 2005 and 2018 and determine whether DOT provided sufficient oversight of unsubsidized³ air carriers providing basic essential air service to eligible communities. Accordingly, our objectives were to evaluate whether DOT (1) appropriately relied on unsubsidized

¹ Airline Deregulation Act of 1978, Pub. L. No. 95-504 (1978).

² As of April 2020, 160 eligible communities were receiving subsidized essential air service.

³ Air carriers that provide commercial air services to EAS communities without a subsidy are referred to as unsubsidized carriers.

air carriers for small communities and (2) conducted oversight of the services provided by those air carriers.

We conducted this audit in accordance with generally accepted Government auditing standards. Exhibit A details our scope and methodology; exhibit B lists the entities we visited or contacted; and exhibit C is a list of acronyms. Exhibit D lists the 17 EAS communities within the scope of our review.

We appreciate the courtesies and cooperation of Department of Transportation (DOT) representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1987, or Marshall Jackson, Program Director, at (202) 366-4274.

cc: The Secretary
DOT Audit Liaison, M-1

Results in Brief

DOT appropriately relied on unsubsidized air carriers in accordance with its policy.

Specifically, if an air carrier proposes to provide air service without a subsidy and the Department determines the carrier can reliably provide basic essential air service without a subsidy, DOT relies on the carrier's service as proposed. DOT did not enter into contracts with unsubsidized carriers, but did so with subsidized carriers to establish the amount, terms, and conditions of the subsidy. According to officials from the Office of the Secretary of Transportation (OST), the Department relies on an unsubsidized carrier to provide basic essential air service when the carrier (1) submits a proposal in response to a RFP, (2) notifies DOT that it intends to serve an EAS community without a subsidy, or (3) starts providing air service without notifying the Department. While Federal law requires DOT to consider community views—*that is, a community's preference for a particular air carrier*—when it selects a subsidized carrier, there is no such requirement for unsubsidized carriers. Further, DOT relied on unsubsidized air carriers to provide basic essential air service but did not prescribe specific content for proposals to provide that service. Our analysis of the DOT orders for the 17 EAS communities reviewed in this audit (see exhibit D) found that, in accordance with its policy, OST generally issued RFPs and appropriately relied on unsubsidized carriers to provide basic essential air service to communities.

DOT conducted limited oversight of the EAS communities served by unsubsidized carriers.

Federal law⁴ requires eligible communities to be provided with basic essential air service. According to OST officials, the Department monitors all EAS communities served by unsubsidized carriers by routinely checking whether the carriers schedule flights that meet the basic EAS requirement. Federal law⁵ also requires air carriers to file a 90-day notice of their intent to end, suspend, or reduce basic essential air service. We found that in communities served by unsubsidized carriers, the airlines typically met the minimum departure criteria.⁶ Specifically, unsubsidized carriers in five of the nine communities we contacted met the criteria at least 95 percent of the time. In the remaining four communities, the percentage of carriers meeting the departure criteria ranged from a high of 91 percent to a low of 30 percent. Although some officials in these communities did not know the specific reasons for the lower departure rates, they expressed

⁴ 49 U.S.C. § 41732.

⁵ 49 U.S.C. § 41734.

⁶ Please see exhibit A for our methodology for determining the minimum departure criteria.

concerns about frequent flight cancellations and high fares. Officials contacted in seven of the nine communities were not aware that they could petition DOT about issues with basic essential air service. Furthermore, the Department did not conduct periodic reviews of the designated level of essential air service in communities that receive unsubsidized air service. According to OST officials, they review air carrier schedules via multiple channels, including airline websites, to check on EAS communities served by unsubsidized carriers and stay in contact with community and airport officials via telephone calls. However, Federal regulations provide a specific process for completing these periodic reviews, which the Department did not follow, limiting DOT's awareness of essential air service needs of eligible communities.

We are making recommendations to improve DOT's oversight of EAS communities served by unsubsidized carriers.

Background

Federal law sets minimum requirements for basic essential air service to EAS communities. Title 49 of the U.S. Code (U.S.C.), section 41732, defines basic essential air service⁷ as two daily roundtrips, 6 days a week, with no more than one intermediate stop on each flight; flights at reasonable times that consider passenger needs for connecting flights; and prices that are not excessive compared to generally prevailing prices for similar service, among other requirements. Additionally, Federal regulations require the Department to periodically review the designated level of essential air service for each eligible community.

Some communities receive unsubsidized service because air carriers are willing to offer service without a subsidy. While some have received subsidized service since the EAS program was created, others initially supported unsubsidized service but later sought subsidized service. Some communities received subsidized service but later lost their eligibility status and are no longer in the program. At some point in time between 2005 and 2018, 17 communities received unsubsidized essential air service. In February 2012, the FAA Modernization and Reform Act amended EAS eligibility, and 7 of the 17 communities were no longer eligible.

The EAS Program is particularly critical for communities that are almost completely reliant on air transportation. For example, Kalaupapa, HI, can only be

⁷ The requirements for communities in Alaska are different. Alaska requires a level of service at least equal to the level provided in 1976 or two roundtrips a week, whichever is greater.

accessed by airplane or walking a 2.5-mile trail with 26 switchbacks up and down a 1,600-foot cliff. The Secretary of Transportation delegated responsibility for the program to the Office of Aviation Analysis, EAS and Domestic Analysis Division, which issues requests for proposals (RFP) for providing air service to EAS communities. The Office of the Assistant Secretary for Aviation and International Affairs subsequently selects the air carriers.

DOT Appropriately Relied on Unsubsidized Air Carriers in Accordance With Its Policy

DOT expected unsubsidized carriers to provide basic essential air service to eligible communities. Yet the Department was not required to enter into contracts or consider community views when it relied on unsubsidized carriers.

DOT Expected Unsubsidized Carriers To Provide Basic Essential Air Service

As long as “an air carrier proposes to provide essential air service without a subsidy and the Department determines that basic essential air service, as required by 49 U.S.C § 41732, can be reliably provided without such compensation,”⁸ DOT does not continue the process of selecting a subsidized carrier. According to OST officials, the Department relies on an unsubsidized carrier to provide basic essential air service when the carrier (1) submits a proposal in response to a RFP, (2) notifies DOT that it intends to serve an EAS community without a subsidy, or (3) starts providing air service without notifying the Department. DOT did not establish contracts with unsubsidized carriers, but did enter into contracts to compensate subsidized carriers. These contracts selected the subsidized air carriers and established the amount, terms, and conditions of the subsidy. DOT was required to consider factors such as the airline’s service reliability, interline agreements,⁹ and marketing efforts during the selection process for subsidized carriers.

While DOT relied on unsubsidized air carriers to provide basic essential air service to eligible communities, it did not prescribe specific content for proposals from these carriers. Our analysis of DOT orders for the 17 EAS communities we

⁸ DOT Order 2017-11-13 requesting proposals for Kalaupapa, HI, November 2017.

⁹ Interline agreements between airlines provide for the mutual acceptance of passenger tickets, baggage checks, and cargo waybills, as well as establish uniform procedures in these areas.

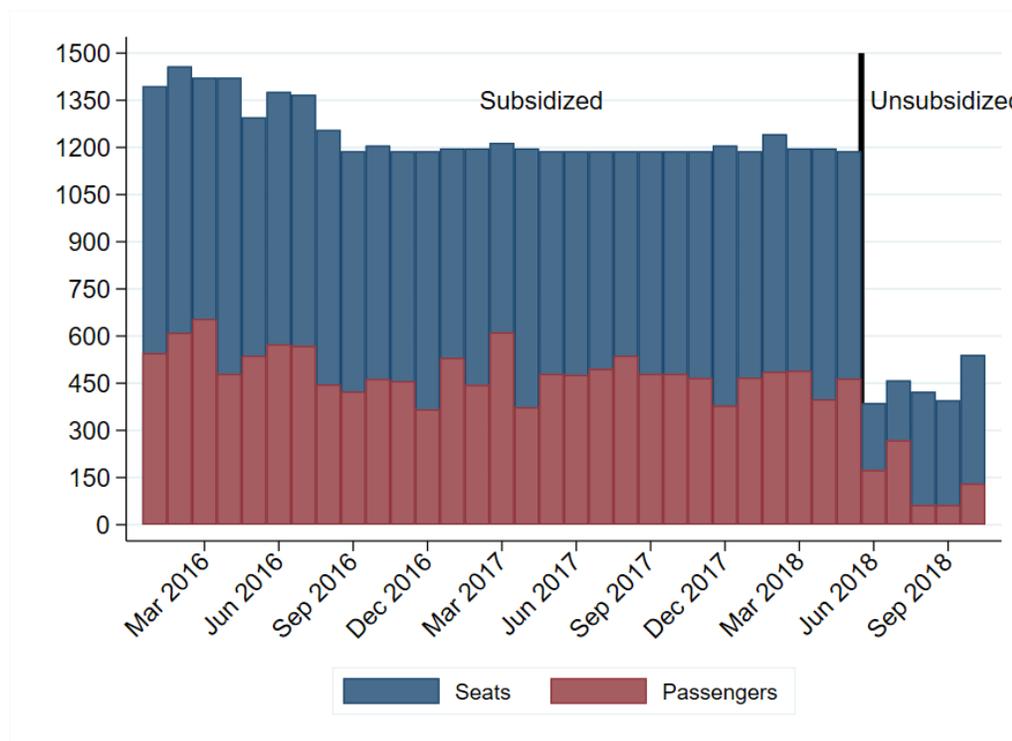
reviewed (see exhibit D) found that OST generally issued RFPs and appropriately relied on unsubsidized carriers to provide basic essential air service.

DOT Is Not Required To Consider Community Views When It Relies on Unsubsidized Carriers

Federal law¹⁰ requires DOT to consider community views when selecting subsidized carriers but not unsubsidized carriers. We interviewed community officials in 9 of the 10 EAS communities with unsubsidized air service. While each community is unique with respect to location, population size, and the demand for air travel, we found that five communities (56 percent) were dissatisfied with their unsubsidized air service. For example, community officials in Kalaupapa, Hana, and Rampart expressed concerns about flight schedules and flight cancellations; officials from two of these communities also said that unsubsidized carriers were more likely to cater to tourists than to respond to the communities' flight needs. As the bar chart in figure 1 shows, seats and passengers on flights from Kalaupapa decreased after the move from subsidized to unsubsidized air service.

¹⁰ 49 U.S.C. § 41733(c)(1)(D).

Figure 1. Seats and Passengers on Flights from Kalaupapa

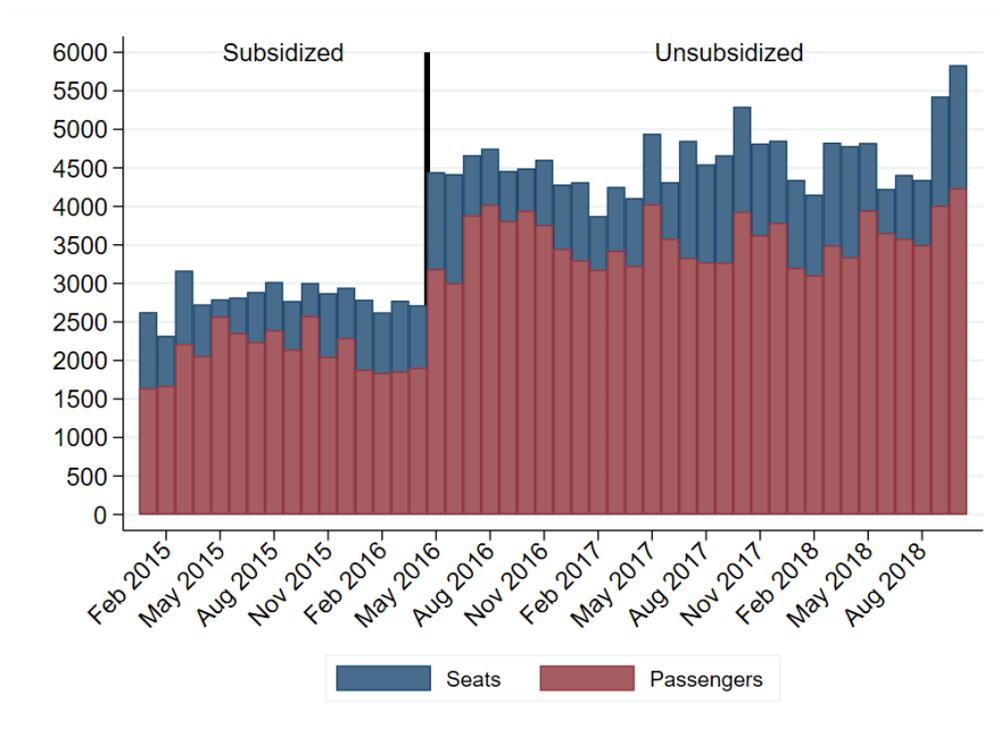


Source: OIG analysis of Bureau of Transportation Statistics (BTS) data

In Kalaupapa, on average, 451 passengers per month used the subsidized carrier during the 3-month period between March and May 2018. In comparison, when the unsubsidized carrier began serving Kalaupapa, the average number of airline passengers dropped to 169 passengers per month between June 2018 and August 2018—a 63-percent decrease. Community officials expressed concerns about flight times—specifically, flights arrived in the late morning, and there were no early flights for employees working on the island. In addition, they described a lack of accommodation for patients living in Kalaupapa, who complained about having to make an additional stop on the way to Honolulu for medical appointments.

In contrast, officials in Sioux City, IA, were satisfied with their unsubsidized air service because the air carrier added more roundtrips and served a new hub airport. As the bar chart in figure 2 shows, the number of airline passengers significantly increased after Sioux City began receiving unsubsidized air service in May 2016.

Figure 2. Seats and Passengers on Flights From Sioux City



Source: OIG analysis of BTS data

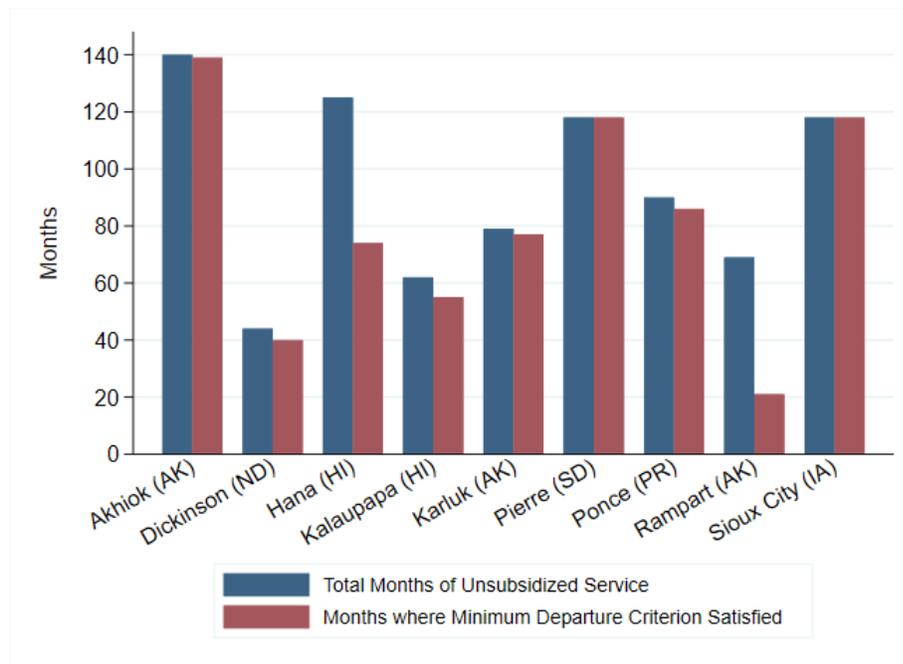
DOT Conducted Limited Oversight of the EAS Communities Served by Unsubsidized Carriers

Some EAS communities served by unsubsidized carriers did not consistently receive the minimum number of roundtrips required by Federal law. In most of the communities, officials were not aware they could petition the Department about excessive airfares. In addition, in accordance with Federal regulations, DOT did not conduct periodic reviews of designated levels of essential air service in communities served by unsubsidized carriers.

Some Unsubsidized Carriers Did Not Consistently Operate the Minimum Number of Roundtrips to EAS Communities

Federal law¹¹ requires eligible communities to receive basic essential air service. OST officials told us that the Department monitors all unsubsidized EAS communities by routinely checking whether carriers have scheduled flights that meet the basic EAS requirement. Federal law¹² also requires air carriers to file a 90-day notice of their intent to end, suspend, or reduce service below the basic essential air service level. However, we found that some air carriers providing unsubsidized service did not consistently operate the required minimum number of roundtrips.

Figure 3. Unsubsidized EAS Departure Summary, 2005–2018



Source: OIG analysis of BTS data

As figure 3 shows, in most communities served by unsubsidized carriers, the airlines typically met the minimum departure criteria. Unsubsidized carriers in five of the nine communities we contacted met the criteria at least 95 percent of the

¹¹ 49 U.S.C. § 41732.

¹² 49 U.S.C. § 41734(a).

time. In the remaining four communities, the percentage of carriers meeting the departure criteria ranged from a high of 91 percent to a low of 30 percent. Although some officials in these communities did not know the specific reasons for the lower departure rates, they shared their concerns about frequent flight cancellations and high airfares. We looked at flight data from BTS T-100 segment database, but it does not provide reasons for dropped flights. However, OST officials stated that, due to weather, lower completion rates are common in Alaskan communities, including Rampart, where flights have been canceled due to fog and other poor weather conditions.

Most Communities Were Not Aware They Could Petition the Department About Excessive Airfares

According to Federal law,¹³ flight prices for basic essential air service should not be “excessive compared to the generally prevailing prices of other air carriers for like service between similar places.” OST officials did not believe it would be advisable to establish universal procedures for setting airfares. They consider market-supported airfares to be acceptable and thus compliant with the basic essential air service requirement. They added that if a community believes it has been charged excessive airfares, it can petition the Department for relief.¹⁴

However, officials in seven of the nine communities we contacted were not aware they could petition the Department about issues with basic essential air service. In five of those communities, officials stated they were concerned about high airfares. One community did reach out to DOT on this issue. In 2011, Kalaupapa officials complained to the Department about excessive airfares charged by Pacific Wings, an air carrier that, at the time, provided unsubsidized service. DOT determined that Pacific Wings was indeed charging excessive airfares and subsequently selected a subsidized carrier to serve the community. Although the Department does not define excessive airfares, OST officials told us they make these determinations on a case-by-case basis, accounting for the facts and circumstances of the community and the relevant market prices. DOT did not collect pricing data from unsubsidized air carriers between 2005 and 2018. According to BTS officials, current rules require them to collect airfare data from large certificated carriers.¹⁵ However, many of the carriers serving EAS communities did not operate large aircraft and thus were not required to report

¹³ 49 U.S.C. § 41732.

¹⁴ 44 Fed. Reg. 52658 (1979).

¹⁵ An air carrier that operates aircraft designed to have a maximum passenger capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds, among other requirements.

such information. Due to the lack of airfare data, we could not determine whether unsubsidized carriers serving EAS communities charged excessive airfares during the 2005–2018 timeframe.

DOT Did Not Conduct Required Periodic Reviews of the Designated Levels of Essential Air Service in Unsubsidized Communities

Under the EAS program, the Department determines¹⁶ the designated level of essential air service at eligible communities. Federal regulations require the Department to periodically assess the appropriate level of essential air service for communities. These reviews are supposed to start within 3 years of the date of the previous determination for eligible places with unsubsidized carriers and within 2 years of the previous determination date for eligible places in Alaska. Yet we did not find any evidence that OST conducted the required periodic reviews of essential air service levels in communities with unsubsidized carriers. According to OST officials, they review air carrier schedules via multiple channels, including airline websites, to monitor EAS communities with unsubsidized carriers and stay in contact with community and airport officials via telephone calls. However, the regulations provide a specific process for completing these periodic reviews.

Specifically, Federal regulations require DOT to:

1. Send a questionnaire to municipal, airport, and State officials;
2. File responses to questionnaire on the public docket;
3. Allow other interested persons to submit information relevant to the questionnaire responses; and
4. Issue a determination about the essential air service level at the end of the review process.

DOT did not conduct periodic reviews based on any of these mandatory process requirements. For example, the Department did not issue a final determination on essential air service for Kalaupapa since it first became an EAS community in 1991. Instead, DOT treated the interim determination as final.

¹⁶ This determination is based on the minimum level of service each community is required to receive—the minimum number of roundtrips and the passenger seats, the characteristics of the aircraft, and the maximum number of permissible stops to a medium or large hub airport.

Community officials in eight of the nine EAS communities we contacted reported that OST officials did not interact with them outside the RFP process. DOT regulations provide a process for reviewing designated levels of essential air service, but this process does not determine whether unsubsidized carriers are providing basic essential air service. Since the Department did not conduct such reviews periodically as required, it had limited awareness of essential air service needs of eligible communities.

Conclusion

The Essential Air Service Program is vitally important to communities that depend on air service to connect to the national air transportation system. In accordance with its policy, DOT relied on unsubsidized air carriers to provide essential air service to eligible communities and was not required to consider community perspectives during this process. Still, the limited oversight inhibited DOT's ability to determine whether EAS communities were receiving the levels of service required by law.

Recommendations

To improve DOT's oversight of Essential Air Service communities served by unsubsidized carriers, we recommend that the Assistant Secretary for Aviation and International Affairs:

1. Notify communities of their right to petition the Department about issues with basic essential air service.
 2. Conduct periodic reviews of the level of basic essential air service in accordance with Federal regulations.
-

Agency Comments and OIG Response

We provided OST with our draft report on February 25, 2021, and received its formal response on March 29, 2021, which is included as an appendix to this report. OST concurred with recommendation 1 and provided a planned completion date. OST partially concurred with recommendation 2.

For recommendation 2, OST stated that its method of interacting with eligible communities is more effective than the periodic reviews prescribed by Federal

regulations, which it described as a “protracted, static, and antiquated paper-based questionnaire process.” The Department acknowledges that it needs to review the regulations and will decide by December 31, 2021, whether to initiate a rulemaking to revise them.

Until the Department makes its decision and provides us with its intended actions, recommendation 2 will remain open and unresolved.

Actions Required

We consider recommendation 1 resolved but open pending completion of OST’s planned action. We consider recommendation 2 open and unresolved until OST makes a decision and provides us with its intended actions. We request that OST keep us up to date on its planned actions.

Exhibit A. Scope and Methodology

We conducted this performance audit between July 2019 and February 2021 in accordance with generally accepted Government auditing standards as prescribed by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives were to evaluate whether DOT (1) appropriately relied on unsubsidized air carriers for small communities and (2) conducted oversight of the services provided by those air carriers. To accomplish our objectives, we reviewed relevant laws and regulations, DOT policies, OIG reports, Government Accountability Office reports, and a Congressional Research Services report on the EAS program. OST provided a list of 17 EAS communities that received unsubsidized air service at some point between 2005 and 2018 (see exhibit D). To validate the 17 EAS communities, we compared those locations to an OST-provided list of subsidized carriers serving EAS communities and checked Delphi, DOT's e-Invoicing system, for DOT subsidy payments. Overall, we found the list to be sufficiently reliable for the purposes of this audit

We downloaded (from www.regulations.gov) and reviewed orders the Department issued between 2005 and 2018 to determine if it relied on unsubsidized carriers to serve the 17 EAS communities in accordance with its policy. We interviewed officials in DOT's EAS and Domestic Analysis Division about their processes for evaluating proposals to provide essential air service, as well as their oversight of the air carriers. Additionally, we interviewed officials from the Aviation Consumer Protection Division regarding community complaints about the EAS program, and BTS officials about the availability of airfare data.

The FAA Modernization and Reform Act of 2012 amended the requirements for EAS eligibility, which removed 7 of the 17 communities from the program. We conducted structured phone interviews with community officials from 9 of the 10 remaining eligible EAS communities that had unsubsidized air carrier service at some point between 2005 and 2018. Officials from all nine communities answered our questions. We were not able to contact officials in Kamuela, HI, despite several attempts. We visited two of the nine communities, Kalaupapa, HI, and Dickinson, ND, which were selected using a stratified sampling methodology where Stratum 1 was a census of one community based on a congressional request and Stratum 2 was a simple random sample of one of eight communities.

Data Preparation and Analysis

To evaluate departures, seats, and passengers on unsubsidized EAS routes, we downloaded data covering the years 2005 to 2018 from the BTS T-100 segment database.¹⁷ These data include monthly information on air traffic, including origin, destination, operating carrier, number of departures performed, passengers, and seats.

We retained data on passenger service¹⁸ for communities that had unsubsidized EAS service at some point between 2005 and 2018. For each origin and month, we computed the total departures scheduled and performed, seats, and passengers. Table A shows the minimum departure criteria we used to determine whether communities were receiving minimum number of trips.

Table A. Minimum Departure Criteria

No.	EAS Community	EAS Minimum Required Weekly Departures	OIG-Defined Monthly Departures
1	Akhiok, AK	2	8
2	Dickinson, ND	12	48
3	Hana, HI	12	48
4	Kalaupapa, HI	12	48
5	Karluk, AK	3	12
6	Pierre, SD	12	48
7	Ponce, PR	12	48
8	Rampart, AK	6	24
9	Sioux City, IA	12	48

Source: OIG analysis

Basic essential air service is defined in 49 U.S.C., section 41732, as two daily roundtrips, 6 days a week, among other requirements. Alaska is the exception; eligible communities in that State must receive a level of service that is at least equal to the level provided in 1976 or two roundtrips a week, whichever is

¹⁷ The T-100 database is administered by the Office of Airline Information within BTS, which collects air traffic data.

¹⁸ Specifically, we retained two classes of service: "Scheduled Passenger/Cargo Service F" and "Non-Scheduled Civilian Passenger/Cargo Service," which are identified in the T-100 by classes F and L, respectively.

greater. While the EAS requirements are defined on a per week basis, the T-100 database reports air traffic information from certified U.S. air carriers on a monthly basis. Based on the available data from T-100 database, we conservatively approximated the minimum monthly departure criteria.

A community designated to receive two daily roundtrips, 6 days a week, essentially received 12 departures per week. We multiplied the weekly departures by 4 weeks to represent 1 month. Thus, a community required to receive 12 departures per week received 48 departures per month. We likewise defined the minimum departures in Alaska as 4 times the weekly departure requirement.

In all cases, we provided the approximate minimum departure criteria because we defined a month as 4 weeks (28 days), although most months are 30 or 31 days. Therefore, if a carrier made 47 departures in a month, we can be certain it did not make 12 departures in at least one of those 4 weeks and thus did not meet the Federal requirement.

BTS is a Federal statistical agency required to abide by standards and guidelines that are intended to ensure that the statistical data are reliable and documented. We have used BTS T-100 data in previous audit reports and did not find any discrepancies that would lead us to an incorrect finding; thus, we determined that the data were sufficiently reliable for the purposes of this audit.

Exhibit B. Organizations Visited or Contacted

Department of Transportation

Aviation Consumer Protection Division

Bureau of Transportation Statistics

Office of Aviation Analysis, Essential Air Service and Domestic Analysis Division

Office of the Secretary of Transportation

EAS Communities

Akhiok, AK

Dickinson, ND

Hana, HI

Kalaupapa, HI

Karluk, AK

Pierre, SD

Ponce, PR

Rampart, AK

Sioux City, IA

Other Organizations

Makani Kai Air¹⁹

Mokulele Airlines

¹⁹ In June 2020, Makani Kai Air and Mokulele Airlines merged.

Exhibit C. List of Acronyms

ADA	Airline Deregulation Act
BTS	Bureau of Transportation Statistics
DOT	Department of Transportation
EAS	Essential Air Service
FAA	Federal Aviation Administration
OIG	Office of Inspector General
OST	Office of the Secretary of Transportation
RFP	Request for proposals

Exhibit D. List of 17 EAS Communities, 2005–2018

No.	EAS Community	State
1	Pierre ^c	SD
2	Karluk ^c	AK
3	Akhiok	AK
4	Ponce	PR
5	Hana ^c	HI
6	Kalaupapa	HI
7	Dickinson ^c	ND
8	Sioux City	IA
9	Rampart	AK
10	Kamuela ^{a, c}	HI
11	Columbia/Jefferson City ^b	MO
12	Riverton ^b	WY
13	Sheridan ^b	WY
14	Williamsport ^b	PA
15	Hobbs ^b	NM
16	Manhattan ^b	KS
17	Rock Springs ^b	WY

^a Despite several attempts, we were unable to contact this community.

^b As of February 2012, these communities were no longer eligible for the EAS program because the FAA Modernization and Reform Act of 2012 redefined EAS eligibility.

^c As of November 2020, these communities were subsidized, but they could become unsubsidized at any point if a carrier proposes to provide subsidy-free service.

Source: DOT Office of Aviation Analysis, EAS and Domestic Analysis Division

Exhibit E. Major Contributors to This Report

MARSHALL JACKSON

ADRIENNE WILLIAMS

ALI NAQVI

ALMA LARIS

JASON LEWIS

ANDREW WEAKLEY

JANE LUSAKA

PETRA SWARTZLANDER

SETH KAUFMAN

CELESTE BORJAS

BRAD SHRAGO

PROGRAM DIRECTOR

PROJECT MANAGER

SENIOR ANALYST

SENIOR AUDITOR

ANALYST

ANALYST

SENIOR WRITER-EDITOR

SENIOR STATISTICIAN

DEPUTY CHIEF COUNSEL

ASSOCIATE COUNSEL

ECONOMIST

Appendix. Agency Comments



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Memorandum

Date: March 29, 2021

Subject: INFORMATION: Management Response to the Office of Inspector General's (OIG) Draft Report on DOT's Oversight of Unsubsidized Carriers for the EAS Program

From: Todd M. Homan
Director, Office of Aviation Analysis
Office of the Assistant Secretary for Aviation and International Affairs

To: Matthew E. Hampton
Assistant Inspector General for Aviation Audits

For more than 42 years, the U.S. Department of Transportation (together with its predecessor, the Civil Aeronautics Board) has administered the Essential Air Service (EAS) program, ensuring that eligible communities maintain a crucial link to the national air transportation system. Today, the EAS program supports 168 eligible communities, working with more than 20 air carriers that provide EAS to these small and rural communities across the United States. Of the 17 communities within the scope of this audit, only two – Ponce, Puerto Rico, and Rampart, Alaska – are now served by unsubsidized carriers.

In administering the EAS program, the Department provides direct subsidies when necessary, contracting with subsidized carriers to set the terms of those subsidies. Mindful of the spirit of the Airline Deregulation Act, the Department relies on unsubsidized carriers to provide basic EAS when possible. The Department takes seriously its administration of the EAS program and its support of eligible communities – whether served on a subsidized or unsubsidized basis – and directly engages often with communities on their service needs and issues. An air carrier providing EAS on an unsubsidized basis does so subject to Federal law. As exhibited by the transitions from unsubsidized to subsidized service for many of the communities within the scope of this audit, the Department takes action if an unsubsidized carrier cannot provide, or is not providing, basic EAS, including by initiating an air carrier selection case when necessary.

Based on our review of the draft report, we concur with recommendation 1 to notify communities served by unsubsidized service of their right to petition the Department about issues with basic EAS. We plan to implement this recommendation by May 31, 2021.

We partially concur with recommendation 2 to conduct periodic reviews of the level of service requirements in accordance with Federal regulations. The EAS program will continue to periodically review EAS service at eligible communities through our air carrier selection process as well as direct contact with the communities by email, telephone, and on-site visits.

This ongoing interaction with eligible communities is more effective than the protracted, static, and antiquated paper-based questionnaire process, which was originally designed to establish minimum service needs for eligible communities in the early days of the program before the passage of 49 U.S.C. § 41733(e) and does not provide oversight of current air service issues at the community. The Department recognizes that we need to review our regulations relating to level of service determinations, and we intend to decide by December 31, 2021, whether to initiate a rulemaking to revise our regulations.

We appreciate the opportunity to review the OIG draft report. Please contact Kevin Schlemmer, Associate Director, EAS & Domestic Analysis Division, at 202-366-3176 with any questions.

3/29/2021

X Todd M. Homan

Todd M. Homan

Director, Office of Aviation Analysis

Signed by: TODD MARK HOMAN

U.S. DOT IG Fraud & Safety Hotline

hotline@oig.dot.gov | (800) 424-9071

<https://www.oig.dot.gov/hotline>

Our Mission

OIG conducts audits and investigations on behalf of the American public to improve the performance and integrity of DOT's programs to ensure a safe, efficient, and effective national transportation system.

OFFICE OF INSPECTOR GENERAL
U.S. Department of Transportation
1200 New Jersey Ave SE
Washington, DC 20590



www.oig.dot.gov