

S. HRG. 106-991

**THE IMPACT OF PILOT SHORTAGES ON AIR
SERVICE TO SMALLER AND RURAL MARKETS**

FIELD HEARING
BEFORE THE
SUBCOMMITTEE ON AVIATION
OF THE
COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE
ONE HUNDRED SIXTH CONGRESS
FIRST SESSION

SEPTEMBER 10, 1999

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

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CONTENTS

	Page
Hearing held September 10, 1999	1
Statement of Senator Burns	1
Prepared statement	4

WITNESSES

Denny, Craig, executive vice president and chief operations officer, Big Sky Airlines	8
DeVany, Dennis J., chief, Essential Air Service and Domestic Analysis Division, U.S. Department of Transportation	31
Prepared statement	34
Ferguson, Mike, administrator, Montana Aeronautics Division	5
Prepared statement	7
Palmersheim, Robert A., director of flight operations and secretary-treasurer, Lynch Flying Service, Inc	10
Prepared statement	12
Stimpson, Edward W., chairman, "Be A Pilot Program," and vice chairman of the General Aviation Manufacturers' Association	25
Prepared statement	28
Voss, Douglas G., chairman, president and ceo, Great Lakes Aviation, Ltd	14
Prepared statement	17

APPENDIX

Bissell, Gib, electronic correspondence dated September 13, 1999, to Senator Burns	41
McNutt, Walter L., Montana State Senator and Member of the Governor's Essential Air Service Task Force, letter dated September 9, 1999, to Senator Burns	41

IMPACT OF PILOT SHORTAGES ON AIR SERVICE TO SMALLER AND RURAL MARKETS

Friday, September 10, 1999

U.S. SENATE
SUBCOMMITTEE ON AVIATION
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
Kalispell, MT

The subcommittee met, pursuant to notice, at 9 a.m. in room Springcreek B of the Hampton Inn, 1140 Highway 2 West, Kalispell, Montana, Hon. Conrad Burns presiding.

Staff members assigned to this hearing: Ann Choiniere, Republican senior counsel; Michael Reynolds, Republican counsel; and Sam Whitehorn, Democratic senior counsel.

OPENING STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Senator BURNS. We'll call the subcommittee to order. We like to start on time, and that way we get through the business at hand here.

Mike, you have a chair up here. We'll just have you bring the whole panel up here, because before it's all over, I would imagine that we'll just get in a round-table discussion, as it's a good time to give and take.

This morning we're going to welcome you to this field hearing of the Senate Aviation Subcommittee. As you know the chairman is Senator Slade Gorton of Washington. We've been able to use our position on the aviation subcommittee to look at Montana and what is going on across the country and to make sure that we are ahead of the curve.

Air service in Montana is very, very important. It's important to us in many, many ways, not only in the economic climate but also from the perspective of having a heavy tourism state. Our current needs are well served by Delta, United, and Northwest Airlines and complemented by Horizon and Big Sky regional airlines. We are favored in Montana, to be honest with you, with very good air service. But it's an every day fight to maintain those levels of service.

A couple of months ago, I began hearing about an impending domestic pilot shortage due to a number of factors. After much research and discussion and an examination of today's market, it's very apparent that we are on the verge of a potentially serious pilot shortage. It's also apparent that the hardest hit economies will be those that are rural in nature and rely on regional service. Montana fits that description.

I don't need to tell anybody here how important adequate air service is to the economy of Montana. Monte Eliason, manager of the Glacier International Airport, has been a very proactive leader in his pursuit to retain competitive air service in this region. Although there are many elements driving this pilot shortage issue, we are here to discuss what role the Federal government plays. It's important that Congress address this issue.

I intend to use this hearing as a springboard for further hearings in Washington under the banner of this subcommittee. I am convinced that the testimony we hear today will convince my colleagues of the serious nature of these proceedings.

Before we hear from today's witnesses, I would like to briefly discuss some of the elements that have attributed to the pilot shortage crisis. Because the national economy has done fairly well over the last few years, the major airlines have been in something of a boom to their business. They've seen that. As with any business, when times are good, the big airlines are expanding, which means they are hiring pilots in almost record numbers. However, the major airlines tend to hire their pilots from the regional airlines. That leaves smaller airlines scrambling to replace those who move on.

When the regional airlines get caught with too few pilots, that means they sometimes have to cancel flights. We'll hear testimony corroborating that statement. If the rate of loss of pilots is too severe, entire routes may have to be abandoned. It doesn't take a rocket scientist to figure out that the flights and routes that are canceled in these situations are those that are least profitable. And the sad part is that the least profitable of a particular route tends to be for an airline, the more important it tends to be for the people who are served by that route.

If a regional airline is the only carrier serving a particular community and it cancels a route, what are the residents in those communities supposed to do then? Air service is an essential lifeline for many individuals in rural communities. Without it, the area can be devastated economically.

Montana's participation in the EAS, Essential Air Service program, has been a solution to that issue in the case of smaller, isolated communities, but is jeopardized if these operators cannot supply pilots. So the loss of pilots is very, very important to rural states.

The loss of pilots to major airlines also affects the charter operations airlines. With so many pilots being hired away, a lot of small businesses are being hit hard. I hope to hear more about the specifics of these problems from at least one of our witnesses today.

Pilot shortages have already led to canceled flights by regional airlines such as Big Sky and Great Lakes, and the problem may be only get worse in the near future. The military used to supply pilots for the industry. But a large number of those pilots who were trained by the military during the Vietnam era are getting to the point where they are forced to retire because of Federal regulations, the so called age 60 rule.

Since the late 1950's, airline pilots have been forced to retire when they reach the age of 60. I heard a great statement the other day from a ninety year old farmer friend of mine in Great Falls.

I said, Emil, how are you getting along? He responded, when you get up around 90, Conrad, we're just circling the drain. I would hate to characterize age sixty as just circling the drain.

I understand that there is great opposition to changing the rule, and some worry about the safety implication. But perhaps accommodation or compromise can be reached, if the demand for qualified pilots continues to exceed the supply. It may only provide temporary relief, but the air service needs of all small and rural communities are very important, and we shouldn't rule out any resolution.

Also, I find it quite disturbing that the Federal Government can apply a blanket regulation, like the age sixty rule, determining that a pilot exceeding that age is considered a hazard. Federal rules that restrict how many hours a pilot may fly also have an impact on the demand for pilots. While current rules were adopted many years ago, the industry has developed a complex scheduling system to keep their route structures running. However, the FAA is proposing changes to flight and duty time rules that could impact the rate of pilot shortages and impact service here in Montana and other rural states.

According to the airlines, the FAA's proposal would force them to hire more pilots, because the right airlines would hire pilots from the regional carriers at an even faster rate. The carriers are going to be in a very, very tough spot. So cancellation of flights and routes can skyrocket. Without enough pilots to fly all their routes, these carriers aren't going to stop flying between the big and medium-sized cities, they are going to stop flying to the smaller communities and communities just like Kalispell, Montana. The prospect of a significant drop in the level of air service in Montana is just not acceptable. We cannot afford route frequency or capacity decreases. The economic impact would be enormous at a time when Montana is reaching out to attract new business and as, of course, the states tourism business continues to grow.

Now, I know the general aviation community is trying to encourage people to become pilots because general aviation is the grass roots of the aviation industry. This effort can help ease the situation, and I look forward to hearing more about that with some of our witnesses this morning.

Our witnesses this morning are here, and we thank you for coming. But I would hope that we can work together on a solution so this problem doesn't continue to grow and become a cancer so widespread that it probably will not be able to be corrected at all.

We are fortunate this morning to have a very good panel. When we have a field hearing, it's important that we hear from people that are on the ground, at the grass roots, because those are the testimony offered here; the give and take and the dialog is what leads to other things when we start talking about this kind of situation in the halls of Congress and Washington, D.C. As you know, I made a speech yesterday on the floor. I said it would be wonderful in Washington if we were hit by a sizable bolt of common sense every now and again there. That would help us to solve some of our problems faster than anything else.

So I am very, very happy with the panel today, and I appreciate their efforts. I want to express my thanks for coming and making

the effort to get here, considering this is a little out of the way, Mr. Voss. I understand you had a little bit of trouble—We did too. We couldn't get out of Washington last night due to the weather.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF CONRAD BURNS, U.S. SENATOR FROM MONTANA

Good morning, and welcome to this field hearing of the Senate Aviation Subcommittee. As many of you know, I have been able to use my position on the Senate Aviation Subcommittee to help ensure Montana's very fragile relationship with adequate and affordable air service. Although our current needs are well served by Delta, Northwest and United, it seems we are always fighting to maintain our current service levels.

A couple of months ago, I began hearing about an impending domestic pilot shortage due to a number of factors. After much research and discussion, and an examination of today's market, it is very apparent we are on the verge of a serious pilot shortage. It is also apparent that the hardest hit economies will be those that are rural in nature and rely on regional service. Montana fits that description.

I don't need to tell anybody here in the far reaches of the state how important adequate air service is to the economy. Monte Eliason, manager of the Glacier International Airport, has been very proactive in his pursuit to retain competitive air service in the region.

Considering many of the elements that are driving this pilot shortage originate in our federal bureaucracy, it is important that Congress address this important issue. I intend on using this hearing as a springboard to further hearings in Washington under the banner of this subcommittee. I am convinced that the testimony we hear today will convince my colleagues of the serious nature of these proceedings.

Before we hear from today's witnesses, I would like to briefly discuss some of the elements that have attributed to this pilot shortage crisis.

Because the national economy has done fairly well over the last few years, the major airlines have seen something of a boom in their business. As with any business when times are good, the big airlines are expanding—which means they are hiring pilots in almost record numbers. The only problem is that the big airlines tend to hire their pilots from the regional airlines. That leaves the smaller airlines scrambling to replace those who move on.

When the regional airlines get caught with too few pilots, that means they sometimes have to cancel flights. We'll hear testimony corroborating that statement. If the loss of pilots is too severe, entire routes may be abandoned. It doesn't take a doctorate in economics to figure out that the flights and routes that are canceled in these situations are those that are least profitable. The sad part is that the less profitable a particular route tends to be for an airline, the more important it tends to be for the people served by that route.

If a regional airline is the only carrier serving a particular community, and it cancels the route, what are the residents of that community supposed to do then? Air service is an essential lifeline for many individuals and communities. Without it, an area can be devastated. Montana's participation in the Essential Air Service program has been a solution to that issue in the case of smaller isolated communities but is jeopardized if these operators cannot supply pilots.

The loss of pilots also affects the charter operators. With so many pilots moving on up, a lot of small businesses are being hit hard. I hope to hear more about the specifics of these problems from at least one of our witnesses today. Pilot shortages have already led to canceled flights by regional airlines, such as Big Sky and Great Lakes, and the problem may only get worse in the near future. The military used to supply a lot of pilots to the industry. But a large number of pilots who were trained by the military during the Vietnam era are getting to the point where they have to retire because of federal regulations.

Since the late 1950's, airline pilots have had to retire when they reach the age of 60. But some pilots aren't ready to retire at that age and many are probably fit enough to keep flying. I understand there is great opposition to changing the rule and some worry about the safety implications, but perhaps some accommodation or compromise could be made if the demand for qualified pilots continues to exceed the supply.

It may only provide temporary relief, but the air service needs of small and rural communities are very important, and we shouldn't rule out anything. Also, I find it quite disturbing that the federal government can apply a blanket regulation like the Age 60 rule determining that a pilot exceeding that age is considered a hazard.

Federal rules that restrict how many hours a pilot may fly also have an impact on the demand for pilots. The current rules were adopted many years ago, and the industry has developed a complex scheduling system to keep their route structures running. However, the Federal Aviation Administration (FAA) is proposing changes to the flight and duty time rules that could worsen the pilot shortage and impact air service here in Montana and other rural states.

According to the airlines, the FAA's proposal would force them to hire a lot more pilots. Because the big airlines would hire pilots away from the regional carriers at an even faster rate, smaller carriers are going to be in a very tough spot. Cancellations of flights and routes could skyrocket. And without enough pilots to fly all their routes, these carriers aren't going to stop flying between the big and medium-sized cities—they are going to stop flying to small communities—communities just like Kalispell.

The prospect of a significant drop in the level of air service in Montana just isn't acceptable. We cannot afford route, frequency, or capacity decreases. The economic impact would be enormous in a time when Montana is reaching out to attract new business and tourism growth.

I know that the general aviation community is trying to encourage people to become pilots. Because general aviation is the grassroots of the aviation industry, this effort could help ease the situation. I look forward to hearing more about that from one of our witnesses this morning.

I thank everyone for being here this morning, and I especially appreciate the participation of those witnesses who came here from outside the state. As I'm sure you noticed, it can already be tough to get here at a reasonable price on a convenient flight. I'm hoping it doesn't get any worse.

We have Mike Ferguson who is the administrator of the Montana Aeronautics Division out of Helena. Mike, with years and years of experience working for many great administrations both bipartisan, but his first love is aviation, and he has displayed that many, many times. If I receive questions on aviation in Montana, there's not a better man to go to than Mike Ferguson. So, Mr. Ferguson, we welcome you to this subcommittee this morning, and we look forward to what you have to tell us.

STATEMENT OF MIKE FERGUSON, ADMINISTRATOR, MONTANA AERONAUTICS DIVISION

Mr. FERGUSON. Thank you, Senator. Well, Senator Burns, for the record, my name's Mike Ferguson, the administrator of the Montana Aeronautics Division. We're based in Helena. I'll try to keep my remarks within the 5-minute time constraint, so I'll read most of it. Much of it's going to be redundant from what you've just talked about, of course, and I imagine there will be a lot of redundancy today. The pilot shortage problem in the United States is a real thing. And it's, as you mentioned, due to the significant growth in air travel which has resulted for a tremendous economic upturn for the airlines and which has, of course, caused huge expansions. This is all very good for the airlines and the entire nation. But these expansions have placed an alarming demand on the pilot population of this country. To meet these expansion demands, the major airlines are being forced to hire pilots away from the regional airlines, placing an extreme hardship on the regional carriers. These regional airlines, of course, a lot of them, as you mentioned, are hiring pilots away from the fixed-base operators, the commercial charter operators. They're fortunate when they can do that because they have pilots who are already trained and more experienced.

However, that's not what's happening. It's becoming more and more prevalent that the regionals are having to hire pilots with very little experience, and they assume a great financial risk when

they're doing this. They have to hire them with minimal experience and pay for extensive training to meet their flying requirements. Even after the training, the cost involved, many of these pilots don't cut the mustard. So it's a vicious circle. They have to go back and hire more—another pilot, again, and put them through training. Hopefully they will continue with the airline.

However, when they do get a little bit of experience, then the major carriers hire them away or rob them, as many refer to it, but they're forced to. Where else do they go? They are not assuming the great financial burden that the regionals are. Because these pilots are already trained. Even though a lot of them have minimal experience, they've still reached that certain level that the majors are pretty much assured, as they are with the military pilots, that that pilot's going to cut the mustard and be a value to their airline.

I believe that—of course, you mentioned this other factor, and I think it's a major factor in addressing the pilot shortage problem, is the FAA's archaic age sixty rule which forces highly skilled and experienced air carrier pilots to retire on their sixtieth birthday. There are at least 44 countries that do not agree with the FAA's age sixty rule. Our U.S. Government, through the FAA, allow over sixty-five-year-old pilots from 44 other countries, worldwide, to fly into the United States, carrying U.S. citizens every day of the week, using our aviation services and air space, yet they refuse to allow our own United States citizen pilots to fly beyond age sixty. The countries of Australia, New Zealand, Chile, and even Canada have completely done away with any age restriction for pilots. They may continue to fly if they pass extensive medical exams and flight checks. When questioned, the National Institute of Health has responded that all pilots may be tested to determine their continued health and competence and that best insures their ability to fly safely after age sixty. If a pilot can successfully pass a first-class medical exam, which includes an extensive mental, neurological and cardiovascular exam, every 6 months, why does our government allow the FAA to discredit the medical profession saying these same individuals are unsafe to perform their job the day they become sixty years of age? I ask you and myself, would we rather fly with a sixty-year-old physically and mentally fit 20,000-hour highly experienced pilot or a twenty-three-year-old physically and mentally fit 300-hour minimally experienced pilot? I think we all know the answer to that question.

I believe that another factor in the pilot shortage problem is what you mentioned, is the regulation—they're trying to change the proposed flight and duty time regulation. I think that while they mean well on that, it's another example of overregulation and is totally unnecessary.

I mentioned before, the military. They're also greatly impacted by this carrot being hung out there in front, after the government spends millions of dollars training these pilots. Then, of course, they leave the military to go with the major air carriers. Nobody can blame them for that, of course, because the pay and the retirement are both very attractive. I think we need to look at that. I think from the—both those points, the economic benefits of staying with the military. Of course, with the military cutbacks, it's a major problem.

In Montana, the Essential Air Service program is just as it's titled, essential. Due to the vast distances in Montana, this program is critical. Montana's regional air carrier provides their service to seven essential air service communities. We do have another air carrier out of Utah that's providing service to another EAS point at West Yellowstone. This service is vital to Montanans who rely on this program for medical needs, the movement of freight and mail and, of course, economic development. I believe that the FAA must assist in solving the problem, that they've helped create the problem. I think they need to rescind the age sixty rule and also drop their proposal for change in flight and duty time restrictions. In conclusion, I respectfully urge your committee to include language in the FAA appropriation bill to mandate the FAA to present to Congress documented evidence from a credible independent, not FAA, independent medical authority why they should keep the age sixty rule. If they still maintain that there's a safety risk by allowing pilots over age sixty to fly, then prohibit all foreign air carriers who allow their pilots to fly beyond age sixty from flying in the United States' air space. Otherwise, repeal the age sixty rule. Again, Senator, I thank you for inviting me to testify before you today.

[The prepared statement of Mr. Ferguson follows:]

PREPARED STATEMENT OF MIKE FERGUSON, ADMINISTRATOR, MONTANA AERONAUTICS
DIVISION

Chairman Burns and members of the committee, for the record my name is Mike Ferguson. I am the Administrator for the State of Montana Aeronautics Division in Helena, Montana.

The pilot shortage problem in the United States is REAL. Due to significant growth in air travel the resultant economic upturn for the airlines has resulted in huge major airline expansions. These expansions have placed an alarming hiring demand on the pilot population in this country. To meet these expansion demands the major airlines are being forced to "rob" pilots from the regional airlines placing an extreme hardship on the regional airlines. These regional airlines assume a great financial risk when they hire young pilots with minimal experience and pay for extensive training to qualify these pilots for their flying requirements. Even after extensive, costly training some of these new pilots are unable to meet the minimum requirements and another new hire is required. These same regional airline pilots are then hired away by the major airlines after gaining adequate hours and experience. The major airlines have very little risk when hiring a pilot from a regional airline. They are already assured that the pilot meets minimum qualifications and the only risk is in providing additional training in the major airlines aircraft.

The regional airlines are being forced to lower their minimum hiring requirements in order to keep pilots in the cockpit. Is the safety of the U.S. airline passenger being jeopardized?

I believe that one factor in addressing the pilot shortage problem is the FAA's Age 60 Rule which forces air carrier pilots to retire upon reaching their 60th birthday. There are at least 44 countries that do not abide by our FAA's Age 60 Rule. Our United States government through the FAA allow 65-year old, or older, pilots from 44 other countries worldwide to fly into the United States, carrying U.S. citizens, using our aviation services and airspace yet refuses to allow their own United States citizens to do the same. The countries of Australia, New Zealand, Chile and Canada have completely done away with any age restriction for pilots. They may continue to fly if they can pass extensive medical exams and flight checks. When questioned, the National Institute of Health has responded that "all pilots may be tested to determine their continued health and competence and that best ensures their ability to safely fly after age 60." If a pilot can successfully pass a first class medical exam which includes an extensive mental, neurological and cardiovascular exam every six months why does our government allow the FAA to discredit the medical profession saying these same individuals are unsafe to perform their job the day they become 60 years of age? I ask you, and myself would we rather fly with a 60-year-old physically and mentally fit 20,000 hour highly experienced pilot or a

23-year-old physically and mentally fit 300 hour minimally experienced pilot? I think we all know what our answer will be.

I believe that another factor in the pilot shortage problem is that the FAA continues to over regulate the aviation industry. The proposed flight and duty time regulations are one example. The FAA should be looking for ways to support and boost the industry rather than creating further obstacles.

The regional airlines are not the only ones impacted by the pilot shortage problem. United States taxpayers pay enormous amounts of money for young men and women to be flight trained by our military. These same individuals are being "robbed" by the major airlines. Due to military cutbacks, the military is training fewer pilots and is also placed at a disadvantage when these pilots join the airlines.

In Montana, the Essential Air Service Program is just as it is titled "essential." Due to the vast distances in Montana this program is critical. Montana's regional air carrier provides air service to seven essential air service communities. This service is vital to Montanans who rely on this program for medical needs, the movement of freight and mail and economic development in Montana.

The FAA must assist in solving the problem that they have helped create by rescinding the Age 60 Rule and dropping their proposal for a change in flight and duty time restrictions.

In conclusion, I respectfully urge your committee to include language in the FAA appropriations bill to mandate the FAA to present to Congress documented evidence from a credible independent medical authority why they should keep the Age 60 Rule and if they still maintain that there is a safety risk by allowing pilots over age 60 to fly then prohibit all foreign air carriers who allow their pilots to fly beyond age 60 from flying in United States airspace. Otherwise repeal the Age 60 Rule.

Thank you for inviting me to testify before you today.

Senator BURNS. Thank you, Mike. We appreciate those words very much.

We have Craig Denney now, Executive Vice President, Big Sky Airlines here in Montana, and will talk about the impact of local service.

Thanks for coming this morning.

Mr. DENNEY. Thank you. Good morning. My name's Craig Denney. I'm the Executive Vice President of—

Senator BURNS. Oh, by the way, excuse me for a second. If you could make your written statement available to us for the record, why we would appreciate it. But if you have written statements, we'd sure like to have copies of them. Thank you.

**STATEMENT OF CRAIG DENNEY, EXECUTIVE VICE PRESIDENT
AND CHIEF OPERATIONS OFFICER, BIG SKY AIRLINES**

Mr. DENNEY. Again, my name is Craig Denney. I'm the Executive Vice President and Chief Operations Officer for Big Sky Airlines, based in Billings, Montana. Also with me today is Kim Champney, our President and Chief Executive Officer. He certainly can be available for any questions or answers, as well, before or after the hearing.

Big Sky Airlines currently serves seven states, 24 cities. We employ approximately 215 people. Of those 24 cities we serve, 16 are under the Essential Air Service program. Seven of those 16 cities are in Montana. The rest are in Texas, Arkansas, Missouri, and Oklahoma. So EAS is a critical part of our company's operations. The impact of the crew shortage issue is kind of mixed for us because of the two regions of the country we serve, Billings versus Dallas. Dallas, we experience a higher turnover of pilots because of the—for example, at Dallas-Fort Worth, American Airlines is based there. Other airlines are certainly serving that city, so there's a greater demand on pilots down there, where if you're a pilot looking for a job, there's a lot of opportunities in those states. In Bil-

lings, we don't have as much turnover but we are having more problems because of it. Our greatest shortage from pilots occurs when a pilot gives 2 weeks' termination notice because he just got hired by a major airline, and it takes us 6 weeks to hire and train a replacement. That 4-week gap is where we're experiencing the bulk of our problems.

To address those issues, when we do have that 4-week gap, we've done a number of things. First, we have had to adjust our flight schedules. In Sidney, Montana, for example, starting this week, they used to have a flight that would go nonstop Sidney to Billings. It would go early in the morning, very well timed to make out-bound connections out of Billings, and then it would return late at night, again. So that customer could leave out of Sidney, go to Minneapolis, go to Denver, do a day's worth of business and come back that night. Regretfully, because of our shortage of pilots right now, we've had to combine that flight with our Glendive and Miles City flight. So that passenger now has to leave Sidney at 5:30 in the morning versus a 6:15 nonstop flight and make two stops en route. At least they have service. So they have an option of getting to Billings that way, but it's not desirable.

In addition, we have had to combine flights, as I just mentioned, with the Sidney/Glendive/Miles City example. When we hire replacement pilots, we still get a lot of pilot applications today. However, as Mr. Ferguson mentioned, the time and experience these pilots have is not as great as once—we were once fortunate to have. These pilots we're having today are still safe. They still have to go through the same testing and training procedures as more experienced pilots, but our failure rate, our washout rate of pilots has definitely been increased. Which, what it does, is just increase our costs for training.

At the same time, the FAA has mandated the crew rest/duty time requirements. We are having serious problems with the FAA in having funds available for a budget. Currently, right now, we work out of the Helena, Montana flight standards district office. They're on a freeze right now of their budget. Their inspector that we need to fly with our pilots during their pilot training classes, we have to bring an airplane to Helena, as we did yesterday afternoon, to get pilots their check ride. They can't stay overnight in Billings. Their budgets have been frozen. It's ludicrous to think that on one hand, they're mandating more regulations on the airlines and the pilots and on the second side—on the opposite side, they don't have enough inspectors for our type of aircraft. When they do have inspectors, they have no funds for traveling.

We're using various sources to hire new pilots. Rocky Mountain College in Billings has a 4-year pilot training program that has produced a number of good pilots. We will probably continue to work closely with that facility, as well as other institutions, to get new pilots. But the cost of an individual to go through a 4-year degree anymore is very, very expensive, especially when you add on the flying aspect of it. So it's going to be a challenge for us, I think, for quite some time.

Not only the impact of when we have pilot shortages today are the service levels to communities, our company, in addition to the additional training costs, we lose revenues due to the tickets not—

not being able to carry passengers. We lose a Federal subsidy for that flight, and probably the most important thing that we've been losing is the faith and trust of the traveling public. Because we normally don't try to cancel a flight until the very last minute, because we still have hopes of getting alternate pilots to rearrange their schedules to fly a certain flight for us. When you have to cancel a flight at very short notice, the faith of the traveling public can be lost very quickly. It takes so long to get it back. So I think, again, it kind of—and being repetitive with what Mr. Ferguson said, the age sixty rule waiver, the duty time and reserve issue for pilots. Virtually—and I think Mr. Voss will agree to this—the operators, the airlines, had little if no say of parietal input on the crew rest/duty issue. That needs to be addressed very quickly.

That concludes my presentation. Thank very much.

Senator BURNS. OK, thank you, Mr. Denney, we appreciate that very much.

In general aviation, we have Robert Palmersheim, Director of Flight Operations, Lynch Flying Service in Billings.

Robert, thank you for coming today. Your face in general aviation in Montana is a very familiar one and has been for a long, long time. Watch that microphone, it's going to—push that microphone back in the cradle a little bit. There you are; OK. We thank you for coming this morning.

STATEMENT OF ROBERT PALMERSHEIM, DIRECTOR OF FLIGHT OPERATIONS AND SECRETARY-TREASURER, LYNCH FLYING SERVICE, INC.

Mr. PALMERSHEIM. Thank you, Senator. I'm Bob Palmersheim, Director of Flight Operations, as well as Secretary-Treasurer of Lynch Flying Service, in Billings, Montana. We might be offering just a little different perspective on air service here in Montana. Just a little background on our company.

Our company has been in existence fifty-nine years in Montana starting in 1940 as a CPT contractor, training pilots for the military at Montana State College in Bozeman. We are a full-service FBO and have been associated with Cessna Aircraft Company as the distributor and a dealer for over fifty years. We currently operate 29 aircraft in our charter and flight training operations. We have 55 full-time employees of which 15 are full-time pilots in our charter department. Our company flies over 10,000 hours of on-demand air charter per year. As a Part 135 on-demand air charter operator, our charter department contributes approximately 49 percent of our total sales revenue of the company. And as an unscheduled on-demand charter operator, a good share of our market is to the rural areas that are not served by the scheduled carriers.

There's over 12,000 airports in the United States, and less than a fourth of those are served by scheduled carriers. There's a whole bunch in Montana; Libby, Ekalaka, Poplar, Shelby, Plentywood, just to name a few. We are very well aware of the acute pilot shortage, having lost some 30 pilots to the major airlines and commuters; 21 just in the last 2 years. With the critical shortage of qualified pilots, our company is extremely concerned that the FAA is attempting to include on-demand operators in the same category as the scheduled carriers, under the flight duty time regulations.

For the on-demand air charter industry, there are two times recognized for pilots in the regulations; duty and rest. Essentially, a pilot is either working on duty or at rest. In the past, the FAA has observed the crew assignments and on-demand air charter and determined this practice is in compliance with the regulation. After completing a flight and fulfilling a required rest period, a pilot is not working. He's not on duty and is, again, for the purposes of regulation compliance, at rest. FAA principal operation inspectors in the air charter industry have used this basic principle for years. We, therefore, contend that under the provisions of Part 135 that apply to us, a pilot can only be in two states; duty or rest.

The FAA's new interpretation of the existing flight and duty time regulation could have a devastating financial effect on the on-demand air charter industry.

It is very important to understand the nature of the on-demand industry before we discuss the negative effects that the new interpretation will have on it. First of all, on-demand air charter exists for two primary reasons. One is that it provides flexibility to its users that no other mode of air transportation can provide, such as emergency air ambulance services to save lives, just-in-time cargo needs, emergency blood service transportation, organ transplant transportation, just to name a few. Charter serves communities that scheduled carriers do not serve. They also provide transportation to customers on the customer's schedule, not the airline's schedule. Second, on-demand air charter is used as an alternative to cheaper scheduled transportation for a variety of reasons but, mostly, because there are no other options available. For example, Senator, you're settled into first class on United Airlines heading to Washington, D.C. for a mandatory Senate vote. The captain comes on and notifies you that the plane is broke and the flight is canceled. You call all the other airlines and find that nothing is available to get you there on time for the vote. You know that you have the tie breaker for an important piece of legislation. But if you don't get there, the vice president will be the tie breaker. Your next call is to Lynch.

Senator BURNS. We're not going to comment on that. Mr. Palmersheim: The next call is to Lynch. They scramble a crew and aircraft and have you in Washington, D.C. for lunch.

Companies like Lynch have built their foundation with the on-demand niche due to the flexibility it provides its customers. It is a very specialized niche. The FAA's new interpretation of flight duty time is designed for scheduled airlines and would not work at all in this industry. It is another attempt by the FAA to blanket policy "One size fits all" to an industry that is diverse. You can't require scheduled crews in an unscheduled environment. It would only devastate this important segment of the industry. The FAA should know by now that these blanket policies fail and they fail miserably. It's like implementing a policy at the zoo, making all the animals eat bananas. It's great for the monkeys, but the tiger thinks it's a bad deal.

Currently on-demand pilots are either assigned duty or they are off duty, at rest. This allows the operator to draw pilots who have had their required rest to duty assignments when an on-demand trip comes up. Under the new interpretation, the pilot would need

to have been assigned 10 hours of rest in the last 24 hours prior to being assigned duty. Unfortunately, nobody knows when the phone is going to ring for a trip, so it is nearly impossible to assign rest periods, other than the one that is required after a duty assignment.

What this means is scheduling your on-demand pilots to 10 hours of rest every day, even if they haven't flown for a week. Our company would have to nearly double the pilot pool to cover the same number of flights it currently accepts. The average pilot flies 40 hours per month now, which would be cut in half. Retaining quality pilots which are already in short supply, would be much more difficult than it is now. Keeping pilots current would be a whole other issue to deal with.

The options available to companies like ours, under this new interpretation, are pretty simple. Comply with the new interpretation and be forced to turn down probably half the trips that come in without being able to decrease our overhead or pilot staff. This would lead to the eventual demise of the charter department or an extreme down-sizing. Or we could comply with the new interpretation, double the pilot staff in order to handle the current level of business and still accept a higher pilot turnover and pilots who aren't totally current. This also would lead to the eventual demise of the charter department. Or we could convert the charter department to a fractional ownership program with the current base clientele and operate under Part 91. The only way to stay in business would be to get out of the business. Unfortunately, this option would leave the public, who at times really needs us, out of luck.

So, Senator, please don't let the FAA feed us any more bananas. Thank you.

[The prepared statement of Mr. Palmersheim follows:]

PREPARED STATEMENT OF ROBERT A. PALMERSHEIM, DIRECTOR OF FLIGHT OPERATIONS AND SECRETARY-TREASURER, LYNCH FLYING SERVICE, INC.

My name is Robert A. Palmersheim, Director of Flight Operations, as well as secretary-treasurer of Lynch Flying Service, Inc. in Billings, Montana.

Our company has been in existence 59 years, starting in 1940 as a CPT Contractor for the military through Montana State College in Bozeman.

We are a full service FBO and have been associated with Cessna Aircraft company as a distributor and dealer for over 50 years. We currently operate 29 aircraft in our charter and flight training operations. We have 55 full time employees of which those, 15 are full time pilots in our charter department. Our company flies over 10,000 hours of on demand air charter per year.

As a FAA part 135 on-demand air charter operator, our charter department contributes approximately 49 percent of the total sales revenue of the company. As an unscheduled on-demand charter operator, a good share of our Market is to rural areas not served by the scheduled carriers.

We are very well aware of the acute pilot shortage, having lost some 30 pilots to the major airlines and commuters, 21 in just the last two years. With the critical shortage of affiliated pilots, our company is extremely concerned that the FAA is attempting to include on-demand operators in the same category as the scheduled carriers under the flight and duty time regulations.

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After completing a flight and fulfilling a required rest period, the pilot is not working...not on duty...and is again, for purposes of regulation compliance,...at rest. FAA principal operations Inspectors and the air charter industry have used this

basic principal for years. We therefore contend that under the provisions of part 135 that apply to us, a pilot can only be in two states...duty or rest.

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One is that it provides flexibility to its users that no other mode of air transportation can provide: i.e. emergency air ambulance to save lives, just in time cargo needs, etc. charter serves communities that scheduled air carriers do not serve. They also provide transportation to customers on the customers schedule not the airlines schedule.

Secondly, on-demand air charter is used as an alternative to cheaper schedule transportation for a variety of reasons, but mostly because there are no other options. For example:

You are settled into first class on United Airlines heading to Washington, D.C. for a mandatory Senate vote. The captain comes on and notifies you that the plane has mechanical problems and the flight is canceled. You call all the other airlines and find out nothing will get you there for the vote on time. You know that you have the tiebreaker for an important piece of legislation, but if you don't get there the vice president will be the tiebreaker. Your next call is to Lynch. They scramble a crew and aircraft and have you in Washington D.C. in time for lunch.

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Retaining quality pilots already in short supply would be much more difficult than it is now and keeping pilots current would be a whole other issue to deal with.

The options companies like ours would have under this new interpretation are pretty simple:

1. Comply with the new interpretation and be forced to turn down probably half the trips that come in, without being able to decrease overhead or pilot staff. This would lead to the eventual demise of the charter department or at least extreme downsizing.

2. Comply with the new interpretation, double the pilot staff in order to handle the current business at hand and accept higher pilot turnover and "rustier" pilots. This also would lead to the eventual demise of the charter department.

3. Convert the charter department to a "fractional ownership" program with the current base clientele and operate under far part 91. The only way to stay in business would be to get out of the business. Unfortunately, this option would leave the public, who at times really needs us, out of luck.

Please don't let the FAA feed us any more bananas.
Thank-you.

Senator BURNS. Thank you, Robert. Thank you for coming and offering those views.

You know, we don't know how this whole thing will affect fixed-base operations and charter on-demand situations.

We have Doug Voss, who is CEO and President of Great Lakes Aviation out of Spencer, Iowa. I hope you get along with an old friend down there I have, I used to travel with a long time ago.

We'll talk about him later, because he's the most miserable son of a gun I've ever run into in my life. But he's a dear, close friend. Spencer, Iowa and, Mr. Voss, we appreciate the effort that you made to come to Kalispell, Montana to offer your testimony.

**STATEMENT OF DOUGLAS G. VOSS, CHAIRMAN, PRESIDENT
AND CEO, GREAT LAKES AVIATION, LTD.**

Mr. VOSS. We thank you, Senator Burns for the opportunity to present a few views that we have. Certainly this pilot shortage, whether we've liked it or not, has been making news, even outside of the company. For us, in particular, we just recently underwent a significant surge in August.

Again, for the benefit of those that are not familiar with Great Lakes--and we have provided some written statements. I believe they're behind me on the counter over here. In an effort to eliminate redundancy, I'm not going to try to dwell too much on that document. But for the benefit of those that are not familiar with the company, we are a United Express carrier serving the Chicago and Denver hubs. This year we'll generate a little over 135 million dollars serving 70 cities in 15 states, with 40 Beach 1900's, eight Brasilias. We are providing exclusive service—I believe it's in 38 cities out of the 70, but we are a heavy EAS provider. I think we have almost 35 or 40 percent of the Federal budget, which is not something we've necessarily been proud of, but it's just a generic nature of the geography that we serve.

The company has, for years, recognized the fact that it's effectively a graduate school for pilots. In the early years we went through many different generations of how to handle hiring for the sake of longevity and management of costs. The cost, especially in today's regulatory environment, has become extremely expensive for the transitioning and training. The initial indoctrination of first officers and upgrades to captain is—requires a tremendous investment on the part of the company. The unfortunate part about being the graduate school is that we do not control the graduation date. In August alone, July and August, we experienced a period where we lost 65 pilots in 60 days. The good news here in the latter part of August, we thought it was going to die off and we'd see the attrition rate drop. Unfortunately, yesterday, as an example, we lost six pilots. That's out of a pool of about 380. They're coming in surges.

There's no question that recent rules interpretations change, it wasn't even a proposed regulatory change, it was a rather arbitrary—or at least from the company's point of view, a rules interpretations change that was made effective June 15th to be implemented on December 12th is having a dramatic effect on the planning and scheduling of training events, in the efforts on the part of the major carriers, to cover their existing lines of flying, commencing with this interpretation to be implemented on December 12th.

Some carriers, we're being told, are anticipating a need to have to boost pilot staffing by as much as 15 percent in order to simply protect what they're currently flying, not considering any potential expansion. Having recently worked with United on this issue and because of the level of interest that was caused by the cancellations that we were forced to do in the latter part of August and early

September, we became a little closer to United on the subject. United, interestingly enough, pointed out that the crew shortage is very significant within their own operation. In the month of September alone, they are canceling ten 737 lines of flying because of crew shortages. It's the constantly changing influence of the regulatory process, the way the availability of crews is being managed is creating a crisis not only for the regionals but there is a significant problem to and including carriers such as United.

For the company, Great Lakes, who—we've been providing scheduled service since 1981. In the early years of the company we were really rather fortunate in that we grew relatively slowly compared to most of the regionals. Part of that was the fact that we were very focused on Chicago O'Hare. We couldn't expand in O'Hare due to the slot restrictions. But historically the company grew profitably year over year. We had a successful public offering in 1994, raised 30 million dollars. At the time, the concept behind raising the money was to utilize the funds to expand and improve the quality of the service by adding more 30-passenger airplanes into the system where we had capacity spillover. Specifically, we needed it in Chicago.

We discovered, though, that due to the massive wave of regulatory change that took place following the accidents—the regional accident in Indiana, in particular, in 1994, that we were required to transition to 121 operational rules.

One of the—one of those rules that impacts the pilot staffing levels is that historically, prior to the transition from 135 to 121, we had—and it's partly due to the nature of the fact that we were serving the upper midwest—we had a pool of what were forced retirements from having been Republic or Northwest Airlines where we would--pilots would leave Northwest due to the sixty age rule, and we were requiring some very experienced people. Unfortunately for us, a lot of those types of pilots would come to the company and they became mentors for a lot of the youthful people we would bring into the system. With the force changed from 135 to 121, we now see that pool of pilots no longer available and no longer able to really utilize talents and skills that they certainly still possess. That's added considerable pressure onto the pilot pool that we draw from.

We do coordinate with several universities to draw the majority of today's—the pilots that we actually hire are being drawn from the instructor pools. I was just visiting with Ed Stimpson here earlier. He mentioned that they've had a hundred percent turnover in the instructor force at Embry Riddle down in Florida. We're one of the carriers that are very aggressive about trying to hire the highly experienced instructors that are flying a great deal in these college programs. That, of recent, has become the largest tap that we have for pilots that meet the types of qualifications.

Because we have seen a decline in total experience, it is forcing, as Craig had mentioned, us to put substantially more investment into the training than we would normally have done with a more experienced pilot applicant. For us, we are now seeing a turnover rate running to where a captain is normally only with us for about a year and a half, and they're moving on to that seniority number at a major carrier that we cannot compete with, either through the

form of wages or benefit or increases at the end of the day. That seniority number is golden. There is no real method by which we have seen that we can become more effective. Unfortunately for us, as our expenses increase across the board, that is going to put a lot of pressure on small communities.

Today, as we speak, we have at least six markets in Chicago alone that are nonEAS that we are having to consider being put on the bubble, even though they would—they're clearly potentially profitable markets. The demand for resources and the prioritization of some of the Essential Air Service flying is creating a situation where there will be service discontinuations that we'll be forced to do, based on what we have to work with for resources.

This rule as interpretation change that we have seen the FAA implement here, from our point of view, I think it's fairly clear that the change was made without at least airline management input to the extent that we're familiar with. It was done in a very short period of time. It appears to us that there is—I think a portion of this has been the intense focus on things such as hot line calls. I know the FAA is deluged, under the current hot line rules, to grant listening ears to what in many cases are labor issues between air carriers and their employees. It's putting them in a sensitive position. I think they're doing the best they can in managing it—managing the situation. Unfortunately, it does make the progression in how the relationships function with the employees more complex, because for all practical purposes, you've added third and sometimes fourth parties to the process.

I know for Great Lakes, as we went through this shortage here in late August, in particular, we found ourself having to weigh the need to protect customers versus the need to protect certain Essential Air Service markets. By law, we're required to maintain at least two round trips of service into a market that's been guaranteed access by the current Essential Air Service rules. For us that put us in a position of having to make some very difficult choices in late August.

There are markets within the EAS program that the company, at least from the Great Lakes' perspective, believe that need a healthy, serious review. There are markets that are over \$200 per passenger of subsidy being paid that technically—and I think—I don't know that it's a deliberate rule, but it's been guidance from Congress that whenever those types of situations exist, that a review of their eligibility occur.

Certainly in Montana you've got geography issues that weigh out substantially different. But in places like Fairmont, Minnesota, which are a 2-hour drive down an Interstate highway system to a super hub like Minneapolis, we cannot be an effective competitor with low-frequency service. This product is not going to be convenient, and unfortunately, it's become extremely expensive to provide EAS to markets such as Fairmont or Mount Vernon, Illinois.

When we have to weigh up canceling markets that are carrying a hundred to 150 passengers a day versus a market that's carrying two to five, it turns into a serious internal struggle as to what's the right thing to do. Unfortunately for us, when we upset the customers, they don't come back. So it's made for a challenging period. I think we've reached an accommodation over the period in late Au-

gust and September. Hopefully with some stability now as we go—or at least a slowed down pilot attrition, we should be able to return things to normal. Our goal is to return them to normal by November. We do have over 65 pilots in the training pipeline today, and we're expecting a recovery on staffing by mid to late November.

I think the last thing I'd like to mention—you know, the company has, over the years, been, I think, as aggressive as probably any regional in the group in trying to work with the congressional members on issues, specifically slots. We're one of the only carriers, one of the unique carriers, in that we're providing Essential Air Service into a slotted airport. But we have had, for the last six to 9 months, some amendments that we've been trying to promote through Senator McCain and specifically a Harkin and Grassley amendment that speaks to the phaseout of the slot rules at O'Hare and the inclusion of turbo prop equipment in what is currently planned to be an initial exemption that's designed to help small communities. When we see a Congress having such a difficult time moving things like the FAA reauthorization bill and we run into the issues such as this pilot shortage, it's putting stresses in the system where I think we, in particular—and I mentioned earlier we had six markets in Chicago that today we lose money in but we know could be profitable if the slot rule wasn't there hindering our ability to compete with the other product pipelines.

We'd like to encourage you, to the extent that we have any impact, that the movement of the reauthorization bill, the aviation legislation, gains some momentum soon because otherwise we're going to be forced to simply choose to stop tolerating the losses in some of these markets that really require legislative relief, in this particular case in the form of slot relief, because we simply can no longer afford it, especially when all other costs are rising the way they are. The pilot training costs alone, with what we've experienced in turnover in the last 6 months, it's adding literally a hundred thousand dollars a year of an expense per aircraft line. On 40 aircraft, it's running into the millions of dollars. As of the end of August, we'd spent over three million dollars on pilot training alone, which was twice what we would have liked to have seen under what we would have considered to be a more normal pilot attrition period. Again, we appreciate the opportunity to have presented a few views, and certainly encourage you to take the time to read our written statement. There's a lot of additional detail that can help you understand our situation.

[The prepared statement of Mr. Voss follows:]

PREPARED STATEMENT OF DOUGLAS G. VOSS, CHAIRMAN, PRESIDENT AND CEO,
GREAT LAKES AVIATION, LTD.

Thank you, Mr. Chairman and Fellow Members of Congress for the opportunity to present our views and offer a few insights as to our company's position with regard to flight staffing requirements along with other past, present, and future challenges in this highly competitive airline industry. By way of background, Great Lakes Aviation, Ltd. is a now a 22-year old, Iowa grass roots aviation company whose United Express operations serve 70 cities in 15 states with primary hubs at Chicago O'Hare and Denver. The Company was originally formed in April of 1977 to provide Fixed Base Operations (FBO) and airport management services for the Spirit Lake, IA, Municipal Airport. In June of 1980, the Company was contracted to manage the Spencer, IA, Municipal Airport.

Great Lakes first began providing scheduled passenger service in October of 1981. The company's fleet today is made up of 40 Raytheon/Beechcraft 19-seat stand-up cabin 1900 C's, eight 30-passenger Embraer 120% and four all-cargo Raytheon/Beechcraft 1900 C's.

Great Lakes, many years ago recognized the fact that its operations are providing valuable experience for pilots who have committed themselves to the goal of flying jets in the airline industry.

As the number of surviving regional carriers continues to shrink, we have actually seen increases in unsolicited pilot resume submission. The fact that we are one of the few remaining graduate schools for pilot careers has not gone unnoticed. The unfortunate problem that our Company and the communities we serve have is that we do not control the timing of graduation day.

We have also learned that our ability to incentivize crew members with the company by offering increased wage or benefit packages is relatively futile. The pilot pay progression rates at the large unionized jet carriers force pilot candidates to obtain their seniority number as early in life as possible. No independent regional carrier can compete with the earning power of major carrier seniority numbers.

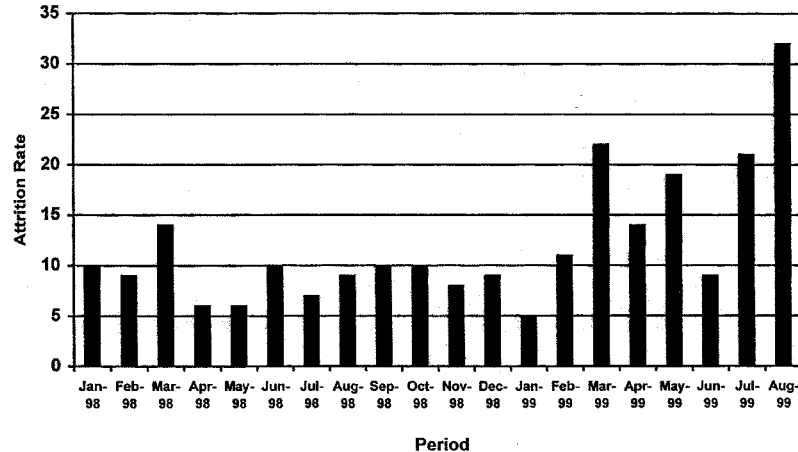
Recently, Great Lakes Aviation has been experiencing a substantial increase in the pilot attrition rate as the graph on the following page demonstrates. In a recent 52-day period, attrition rates averaged one pilot per day. Compared to the same period last year, we have experienced a year-to-date attrition rate increase of 65%. This represents to the airline the loss and subsequent required replacement of 154 pilots since the first of this year. What is even more alarming is the economic impact on the company. It currently takes eight weeks to replace or back-fill a captain's position; five weeks to train a new hire and an additional three weeks to upgrade a first officer to a captain's position. The cost to replace one captain, not inclusive of salaries, exceeds \$21,000 dollars. Year-to-date company pilot training expenditures have exceeded three million dollars.

The acceleration in the recent attrition rate appears to have been significantly influenced by an FAA rules interpretation notice issued on June 15 of this year. This change in policy on the part of the FAA will require increased crew staffing for existing levels of flying for most air carriers.

As an airline, Great Lakes Aviation employees approximately 350 pilots in its scheduled passenger operations. This number equates to approximately 7.2 pilots per scheduled aircraft, allowing for scheduling flexibility and a proper reserve pilot complement. To meet our staffing requirements, Great Lakes hires pilots with both civilian and military experience backgrounds. Preferred hiring minimums have been established at 1200 hours of total fixed wing flight time and 200 hours of fixed wing multiengine. Many of the military and civilian general aviation flight instructors and FAR 135 on-demand pilots meet these requirements.

As a formidable training entity and airline involved with the transportation of this nation's traveling public, we hold our pilots to the very highest standards of skill and professionalism. Over the course of the past 24 months, we have seen a decline in the experience levels of our new hire candidates. We attribute this to increased controls placed on both FAR 141 and 61 flight schools. Many students are not, for a variety of reasons, being allowed to go out in our nation's airspace system and validate their knowledge and flight skill. Training accidents are believed to be the reason for many of the more restrictive policies adopted by flight schools.

Great Lakes Aviation Pilot Attrition



To counter this trend, Great Lakes Aviation has sponsored internship programs with three of its closest educational facilities. As a part of the internship program, we have the ability to immerse a student into our corporate processes giving them insight into what is to be expected of them in today's airline environment. By being involved in programs such as this, we feel that we will be able to maintain the quality of our new hire pilot force even though we may see future declines in total flight time minimums.

With respect to the industry as a whole, we anticipate that major carriers will be recognizing the need for stronger alliances with their regional partners. Downsizing within the military over the last seven years has brought about a reduction in the number of qualified military applicants available for hire by the majors. Major carriers will continue to hire more and more from the regional and commuter ranks, due in part to the pilot's familiarity with the major carriers product, airline culture and associated operating philosophies.

Unfortunately for the communities served by today's regional airlines, the rapidly rising costs associated with pilot training, pay and benefit packages will be passed along in the form of fare increases.

In markets where EAS subsidies are being paid, Congress should expect significant increases in the cost to maintain the EAS program. If pilot attrition were to continue at present rates, training cost increases per aircraft committed to a schedule would alone increase by over \$100,000 annually. If Congress fails to fund EAS to levels that recognize this rapidly increasing cost environment, it should be prepared for and anticipate the need to remove EAS cities from the program in a very expeditious manner. The DOT's EAS program managers must be given additional latitude free from political micro-management to expedite a more rational use of precious funding.

RECENT COMPANY BACKGROUND

In January of 1994, the Company successfully raised \$30 million in a public offering. The proceeds of that offering were originally intended to provide capital to upgrade to larger thirty passenger aircraft from what had been an all nineteen-seat fleet. In hindsight, that \$30 million in capital ultimately has allowed Great Lakes to survive five very traumatic years in this industry including the period where federal budget cuts had this company subsidizing the unfunded EAS mandate to the tune of several million dollars. In 1998, after four years of significant losses, the company returned to profitability having reported an operating profit of \$6.4 million

and a net profit of \$2.7 million on revenues of \$114 million. This amounts to slightly more than a 2% return. I am sure my shareholders agree with me that this is an unacceptable return on investment especially given the strength of the current economy. Results for the six months ending June 30, 1999 have shown some year-over-year improvement with operations having generated three million dollars operating profit and a net of 1.25 million dollars on revenue of 62.5 million.

In reviewing how we turned the corner back to profitability, there are a number of noteworthy evolutionary changes we were required to make in order to survive:

1. Great Lakes transitioned a large portion of its \$225 million investment in aircraft and equipment during 1998 to United's Denver hub to substantially improve aircraft utilization. We currently provide United Express service to 45 cities from the Denver hub. The attached System Route maps (Exhibits A and B) will provide a clear picture of the shift in capacity that has taken place within the last year. It is important to note that all of the expansion at Denver was accomplished with no increase in the size of our fleet of 53 aircraft. Due to the inefficiencies of scheduling aircraft at Chicago O'Hare's slot restricted airport, the company can no longer compete with the Northwest Airline product into the slot free Detroit and Minneapolis hubs and to a lesser extent, the slot free TWA hub at St. Louis. (See Exhibit C for terminated O'Hare service.)
2. We are discontinuing unprofitable service to small communities as fast as the Department of Transportation's (DOT) Essential Air Service policies will allow. The facts are, that our costs rose so dramatically during the mandated transition from Federal Aviation Regulation (FAR) Part 135 Rules to FAR Part 121 Rules that Essential Air Service (EAS) negotiations and federal budget limitations could not keep pace.

Year	Revenue	Cost	Profit or (Loss)
1994	14.6	14.5	0.1
1995	15.0	15.8	(0.8)
1996	16.3	18.4	(2.1)
1997	19.5	21.5	(2.0)
1998	23.4	22.8	0.6
1999	23.2	22.6	0.6
			Year-to-Date (6-30-99)

* All statistics are cents per available seat mile.

For EAS service that remains, we have negotiated new subsidy rates that have begun to make participation in the program somewhat compensatory although some serious problem locations remain.

Annual EAS Subsidy Received	
1994	\$2,749,026
1995	\$2,639,857
1996	\$3,512,156
1997	\$6,358,126
1998	\$15,249,375
1999	\$8,496,508
	Year-to-Date (6-30-99)

3. We continue to increase yield (revenue per passenger mile) by raising fares in order to achieve maximum net revenue per segment. In doing so, if load factor drops, we attempt to eliminate capacity or drop markets altogether.

Year	Yield	Load Factor
1994	30.5	44.6
1995	31.6	43.9
1996	34.7	44.2
1997	37.9	46.1
1998	37.4	51.2
1999	41.2	46.0

The balance between pricing and capturing the customer on our turbo-prop product verses a car trip to a lower fare jet carrier is our greatest challenge.

Pricing competition in our markets has always included neighboring airports. If, for example, fares are lowered in Omaha to a level that diverts significant amounts of passenger traffic, we will most likely reduce capacity at markets like Grand Island, NE; Norfolk, NE; and Spencer, IA. Profit margins are so thin in such markets (almost always 5% or less) that price matching has become a competitive tool that we cannot often afford to use. Once you've sold your product below your cost, there is a tendency for the discretionary consumer to believe that should always be the price. The customer is constantly demonstrating they are in control of today's air travel market place.

In order to keep truly small community service on a rational progressive path, Great Lakes would like to recommend the following federal policies be reviewed.

1. Given today's dramatically increased cost for EAS capacity, DOT needs additional latitude to adjust eligibility of communities in the Essential Air Service Program. With the tremendous recent investments made in our highway systems and the increase in speed limits on most freeways, subsidizing competition against the car can be futile. Congress should encourage DOT adherence to the \$200 per passenger subsidy cap.

2. Monies saved by reducing eligible points should be used to increase frequencies at remaining EAS communities. Perception of poor reliability in EAS service can only be repaired by improving total convenience of service. Perceived and actual reliability will be substantially improved by offering backup service in the form of increased available departures in a given day.

3. With any lifting of the high-density rule, one of the first priorities must be the elimination of slot requirements for small community turbo prop service. Today, all subsidized O'Hare EAS service is limited to two round trips. This policy virtually insures the failure of the program's stated objectives.

4. Traditional formulas used by the airlines and the communities they serve to measure success are not compatible. In order to improve relations between airlines and the communities we serve, it is our suggestion that the method for measurement of success between the two parties must change. In the airline business, growing passenger enplanements does not necessarily equate to success. A classic example of this conflict exists in the community of Spencer where we are currently headquartered. As the airport manager, I am motivated to push for increased enplanements to qualify for federal funding necessary for airport improvements. The greatest stimulant to increased consumer usage will always be lower fares. In today's regulatory environment, with its increased cost structure, lowering fares in the quickest way to bankruptcy court for the airline. The airline needs net revenue per segment that exceeds the cost incurred per segment or in other words—*profit*. Because the formulas for success are not aligned, this is creating an ever widening communications barrier between airlines, the communities they serve and the consumers that utilize the service. Government and community leaders need to utilize the public data that is available to measure airline profitability before assuming that growing passenger traffic means they have a success story at their local airport.

The Company would also at this time like to convey our deep concern regarding the ability of Congress to move long-term aviation legislation. As a business that is heavily influenced by Federal regulation, our willingness to continue unprofitable small community air service is waning. The Company has been proceeding under the assumption that our patience will be rewarded when proposed legislation removes slot restrictions and thus allows us to provide a competitive product.

Currently, the Company internally subsidizes six (6) cities from Chicago O'Hare. Our desire to maintain this service has been motivated by the knowledge that these markets would be profitable once the competitive barrier of existing slot rules have been removed.

As we now ready ourselves for Winter operations, wherein we expect losses to increase due to the traditional season ability of the upper Midwest, we find ourselves wondering if we can afford to wait on another act of Congress.

Failure to break the grid lock soon may force us in our efforts to manage precious resources such as flight crew staff to choose air service terminations to communities that clearly are capable of profitably supporting competitive capacity.

In summary, the higher cost of providing small communities with capacity suited to their market potential has become this industries most difficult public relations dilemma. With market presence being equal, the airline with the lowest cost will always win due to their ability to control pricing. Southwest has changed the definition of market presence in many areas of this country, including the upper Midwest, with its low cost all jet service and its usage of interstate highway system as its commuter network. Unfortunately, if Southwest's low fares are used as a yardstick to measure the success of all other airline service, many truly small communities will always feel cheated. All airlines continue to work hard to keep our costs low, but unfortunately significant further cost reductions are difficult to achieve as long as artificial barriers, such as slot controls, and new duty time rules prevent the industry from efficient use of investments in employees and aircraft.

With your help we can continue to make affordable capacity available to the small communities who will not see the benefit of low cost jet service at their local airports.

Again, we thank you for the opportunity to present our views.

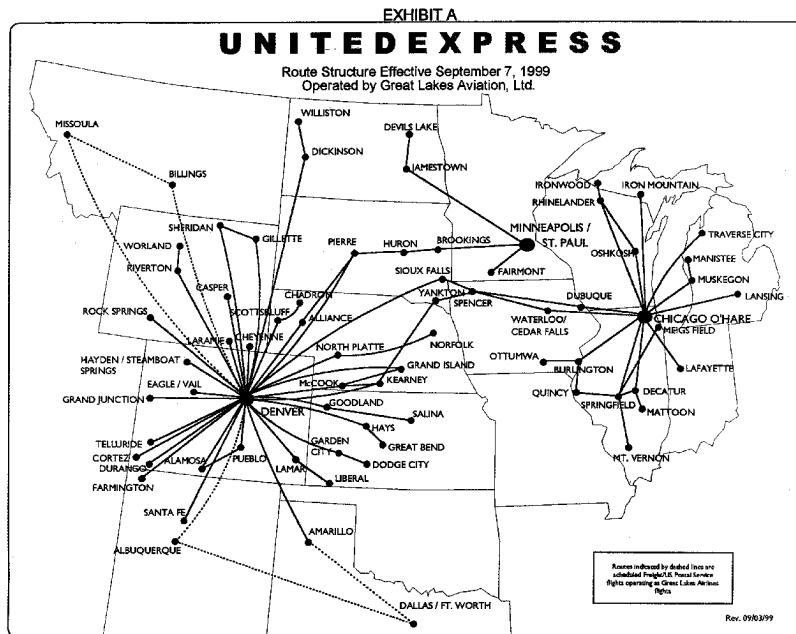


EXHIBIT B

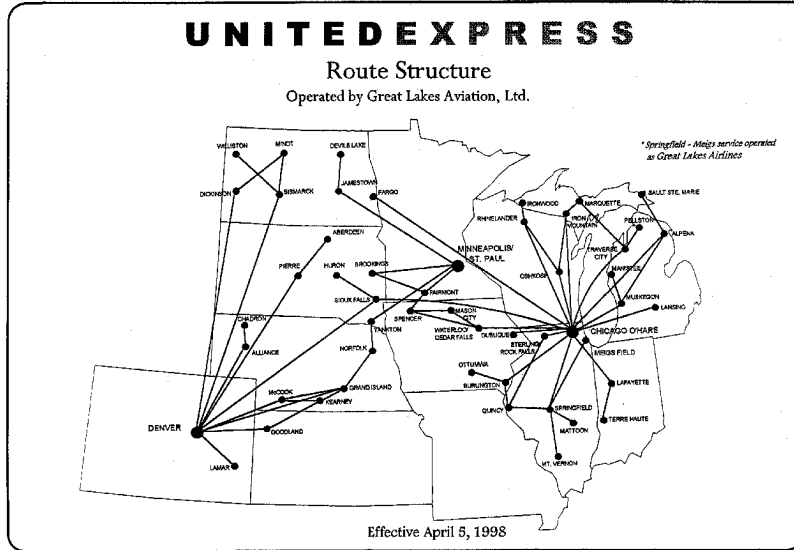


Exhibit C

United Express / Great Lakes service terminations required to complete a successful turn around in profitability during the last five years at Chicago O'Hare hub EAS points:

Michigan

- Alpena
- Escanaba
- Marquette
- Menominee
- Sault Ste. Marie
- Pellston

Remaining Services:

- Northwest Airlink - DTW (no competition)
- Northwest Airlink - MSP-DTW (no competition)
- Northwest Airlink - MSP-DTW (no competition)
- All services terminated
- Northwest Airlink - DTW (no competition)
- Northwest Airlink - MSP-DTW (no competition)

Indiana

- Bloomington
- Muncie
- Terre Haute

- All services terminated
- All services terminated
- All services terminated

Illinois

- Carbondale
- Danville
- Galesburg
- Sterling/Rockfalls

- All services terminated
- All services terminated
- All services terminated
- All services terminated

Iowa

- Mason City
- Fort Dodge
- Sioux City

- Northwest Airlink - MSP (no competition)
- Northwest Airlink - MSP (no competition)
- Northwest (MSP)/Trans World Express (STL)

Senator BURNS. Thank you very much. While I've got a fantastic memory, it's short. Would you give me your commentary on what if we just did away with the slot rule at the four airports in the United States?

Mr. VOSS. Well, I think it's been considered common knowledge for some period of time that O'Hare has been ready for a 20-percent increase in air-side ATC handling capability. For various different reasons, these slot rules tend to be hard to move. From our perspective, O'Hare, in particular, has been ready for elimination of the slot rule for quite sometime.

Senator BURNS. Why are we reluctant to do that?

Mr. VOSS. I think, you know, there's been tensions that go all the way back to the PACO strike, where there's caution and concern over not having a situation where you overwhelm the airport with traffic, specifically at peak periods. In three, 4 years ago when the economic engine was not as strong as it was, I think if you would have seen the rule go away, you would have probably discovered that there would not have been a significant growth at O'Hare just due to the tremendous amount of activity where carriers were flying markets and losing money but they were flying the markets because they had to protect the control over the slots. Today, as the industry's seen the benefit of a stronger economy, there will be pressure to do additional expansion. From our point of view, O'Hare is still prepared—or is still ready on the air side to handle it. There will be a natural management that—from the industries—at least from the United and American's point of view that they have limited gates and limited concrete to park airplanes. So they'll have to prioritize how they use that. But there are certain times of the day at O'Hare where there is a lot of concrete that's not being used, and it would be made much more efficient if you eliminate the rule. There would be additional capacity and United and American would certainly become a more effective competitor to Northwest in the upper midwest. Clearly Northwest has been a huge beneficiary of the slot rules that have prevented United and American from maintaining market presence in a lot of, especially upper midwest, markets. Our situation alone, we've dropped over 12 cities out of Wisconsin and Michigan, simply because the additional growth and the capacity that Northwest has placed in the market has made it unprofitable.

It is clearly in the public's best interest to see this slot rule go away and go away soon and let the industry sort out the best utilization and the best efficiency of how the concrete and the gates base gets managed at O'Hare.

Senator BURNS. Same would also be true at Washington and New York?

Mr. VOSS. Certainly, you don't have the runway capabilities in Washington National. It's a completely different animal. Now with the development of what you can really describe as a real hub at Dulles and the growth in the area surrounding near Dulles, I don't think the pressure on National will be as great today as it was five or 6 years ago to expand it at National because a lot of relief has been provided in Baltimore and in Dulles. I can't really speak to the specifics because we don't have an intricate working knowledge of the operational. But from an outsider's point of view, to com-

pletely relinquish the rule has probably got problems in it due to runway configurations. New York, similar situation. I personally don't have the working knowledge of what it's capable of doing.

Senator BURNS. Good enough. Well, I appreciate those views.

We have Edward Stimpson, Chairman of Be A Pilot, who works in that wonderful seventeen square miles of logic free environment in Washington, D.C.

Mr. STIMPSON. That was logic free, you said?

Senator BURNS. No, lodging free.

So we appreciate your making the effort and coming out, Mr. Stimpson. We look forward to your testimony.

Mr. STIMPSON. Thank you, Mr. Chairman.

**STATEMENT OF EDWARD W. STIMPSON, CHAIRMAN OF THE
"BE A PILOT PROGRAM," AND VICE CHAIRMAN OF THE GEN-
ERAL AVIATION MANUFACTURERS' ASSOCIATION**

I'm Edward W. Stimpson, Chairman of Be A Pilot, which is an industry-wide effort supported by over 170 companies to research, to educate, to reach out to new potential pilots. I also serve as Vice Chairman of the General Aviation Manufacturers' Association.

We very much appreciate this hearing you're holding today. It was just about 10 years ago that the Senate Aviation Subcommittee, Senator McCain, Senator Ward and Senator Glenn at the time, expressed concern about the supply of civilian and military pilots. This led to the establishment of a blue ribbon panel which predicted a possible shortage of pilots and aviation mechanics with skills and experience necessary to provide the industry with sufficient numbers of well-qualified personnel.

Unfortunately, some of the pilot shortages projected by the blue ribbon panel have already been exceeded today. According to AIR, an extremely knowledgeable source on pilot hiring, 14,413 new airline pilots were hired last year; an all time record. The rate of hiring in 1999 continues to be strong, with approximately 14,500 new pilot jobs expected. In addition, the rate of hiring in business and corporate aviation and other professional pilot jobs is also increasing. Keep in mind that blue ribbon panel predicted hiring at these levels would not occur until about 2004, and this did not include a lot of the projections for professional pilots and corporate aviation that are being hired today.

Today, I would like to recap some of the efforts that are being done to address these shortages today and for tomorrow. As we discussed earlier, this morning, Mr. Chairman, we were very appreciative of the action you and others took in the Congress to pass the General Aviation Revitalization Act in 1994 which put a cap on liability. The efforts of this committee have really proven to work out. Today, GARA has proven to be a huge success. The stated goals of this legislation have been met. Over 25,000 new jobs have been created. Aircraft production is up over a hundred percent. Our exports have doubled. The balance of trade is again positive for general aviation, and new aircraft and new products have been introduced again and investment is being made in the industry.

Following the passage of GARA in 1994, the industry set up what we call the Piston-Engine Aircraft Revitalization Committee (PEARC). We asked how we should take advantage of what you in

Congress had done by capping liability? After working for nearly twelve months, a report was issued and a lot of conclusions were reached. The research showed there were about 1.2 million Americans who wanted to learn to fly, who wanted to become pilots. We found the numbers to be very positive. But the most important thing that came out of this report was that we had to take advantage of GARA and increase our student pilot population in America.

To implement the PEARC report, Be A Pilot Team 2000 was created. I was elected the chairman. Phil Boyer, President of the Aircraft Owners and Pilots Association was elected President of the association. We have a 15-member board representing all segments of the industry; the airlines, manufactures, FBOs. We came forward with a program to reach out to new pilots and to try and get them to take advantage of a \$35 introductory ride at their local flight school. We've used cable TV including the Discovery and Learning channels to reach our audience. We've heavily promoted our web site where potential pilots can receive information about becoming a pilot. Over 1600 flight schools are participating in this program. A flight school advisory committee has been established. A bi-monthly newsletter goes to all these flight schools.

I'm pleased to report that this program is working. We are receiving over 2,000 inquiries a week on our web site and 888 toll-free number. Through the first 6 months of this year, new student starts are up by over 10 percent. The twenty-year decline in our pilot population has been reversed.

In Montana, we have eleven flight schools participating. Lynch is one of our members. So far this year, we've received about a hundred leads of people in Montana who want to become pilots.

According to FAA statistics, in 1980 there were 827,000 pilots in the United States. In 1997 this had declined to 616,000. In 1998, the number of active pilots jumped up just slightly, but there is still cause for alarm. In 1996, fewer people learned to fly in the United States than anytime since the Korean War. This total number was 56,500 plus. You know, a few years ago we were doing like 150,000 new students a year. This dropped to 56,000.

Fortunately, again, we are on the up swing a bit and we are hopeful that we can continue. If we don't have new students where it all begins--this is the base. General aviation is sort of at the bottom of the pyramid. You heard Mr. Ferguson and others discuss that pilots start going up, moving from GA to regional to commercial. We don't have the military anymore training the vast number of pilots that they did just a few years ago.

Bob Baker, Executive Vice President of Operations at American, recently said, "The commercial airline industry draws the majority of its pilots from general aviation. We need a healthy general aviation industry producing pilots." He couldn't be more right. I think every one of the witnesses here bears that out in what they've said this morning. With a decline in military pilot training, general aviation is becoming even more important.

Now, today, we have a number of challenges facing us, not only in the general aviation student pilot side but the military. General Ryan, in his testimony before our Senate Armed Services earlier this year said, "Today we are over 700 pilots short of our require-

ments....” By 2002 we expect to be 2,000 pilots short. “That will be 15 percent fewer than needed for Air Force requirements.” The number of training institutions—and I’ve been on the board of Embry Riddle for many years, and Mr. Voss just quoted my number here—we’ve had a hundred percent turnover of flight instructors in the last twelve months. The last graduation at Embry Riddle where we have 300 aeronautical students come across with their degrees, their 4-year degrees and their commercial pilots licenses, normally about 75 percent of them have jobs when they walk across that graduation. But these 300 pilots at the last graduation, between our two campuses, 98.9 percent of the graduates had jobs at graduation. That’s a pretty high number. So people who say, Hey, there’s no pilot shortage, whatever you want to call it, there’s a heck of a demand out there.

You know, we look at what we need to do about this in addition to the programs that I briefly touched on. I would like you to see our annual report which describes in further detail about our promotional efforts and our educational efforts in trying to interest people in flying again. You know, the government must also play a role and establish a regulatory framework which will allow new technologies, new techniques to go ahead. You heard about the government role from our panelists this morning, but I’m talking today about new computer-based technologies which are now entering the field. To do a better job at training pilots; to make training faster; do it safer; do it as we do an excellent job training pilots today. The rare new technologies that we can adopt along the line, and government must respond to some of these in a meaningful fashion.

FAA must also work with the industry in a partnership to evaluate how well some of our programs are working. For example, we badly we need an FAA Reauthorization bill, as you know. One of the provisions in the House side would allow us to get the names of new pilots. For many years we’ve gotten names of new pilots, of new students. We look at these names. We send safety information to them. We send information about new products to them. The DOT and the FAA have determined we can no longer have that list of names due to privacy concerns. We say, Give us an opt-out provision. If somebody doesn’t want to get our safety information, if they don’t want to get our product information, we won’t send it to them. But the FAA Reauthorization bill in the House contains a provision where we can send information to people. We hope that if you get—when you get, I should say, into conference, the Senate will adopt this House provision which allows us better communication with people who are interested in learning to fly and becoming pilots.

So in summary, Mr. Chairman, our nation’s pilot base is a very important resource. It must be nurtured, it must be allowed to grow, we must stimulate it, and there’s a lot that we can do together as government and industry in the 1600 flight schools, and in the universities out there involved in flight training, to get people to stop dreaming and start flying.

[The prepared statement of Mr. Stimpson follows:]

PREPARED STATEMENT OF EDWARD W. STIMPSON, CHAIRMAN OF "BE A PILOT PROGRAM" AND VICE CHAIRMAN OF THE GENERAL AVIATION MANUFACTURERS' ASSOCIATION

Mr. Chairman, I am Edward W. Stimpson, Chairman of the "Be A Pilot Program", an industry-wide effort supported by over 170 companies and associations to perform research, educate the public and reach out to new potential pilots. I also serve as Vice Chairman of the General Aviation Manufacturers Association, which represents over 50 companies involved in the manufacture of general aviation aircraft, engines, avionics, pilot supplies and component parts.

We very much appreciate the fact that you are holding this hearing today. The Senate Aviation Subcommittee held hearings just ten years ago when Senators McCain, Ford and Glenn expressed concern about the supply and training of civilian and military pilots. This led to the establishment of a Blue Ribbon Panel, which predicted a possible shortage of pilots and aviation maintenance technicians with the skills and experience to provide the industry with sufficient numbers of well-qualified personnel.

Unfortunately, some of the pilot shortages projected by this Blue Ribbon Panel have already been exceeded today. According to AIR, an extremely knowledgeable source on pilot hiring, 14,413 new airline pilots were hired in 1998, an all-time record. The rate of hiring in 1999 continues to be strong with approximately 14,500 new pilot jobs expected. In addition, the rate of hiring in business and corporate aviation and other professional piloting jobs is increasing. Keep in mind, the Blue Ribbon Panel had predicted hiring at these levels would not occur until 2004.

Today, I would like to recap what is being done to address this problem and to increase our nation's pilot supply. I would also like to suggest how we can work together to resolve the issue of pilot shortages.

GENERAL AVIATION REVITALIZATION ACT (GARA)

Just five years ago, on August 17, 1994, the President signed the General Aviation Revitalization Act (GARA). We appreciate the efforts of this Committee and the Congress in achieving passage of this important legislation. As you will recall the legislation was intended to breathe life into an industry which had experienced a 95 percent decline in production and a loss of over 100,000 jobs.

You will be pleased to know that GARA has proven to be a huge success. The stated goals of this legislation have been met. Production lines have reopened and over 25,000 new jobs have been created. Aircraft production is up over 100 percent. The United States has regained its world leadership in general aviation manufacturing. Our industry is again contributing positively to our balance of trade with exports that are almost double previous levels. New aircraft and new products have been introduced and investment is again being made in the industry.

Following the passage of GARA, all segments of the aviation community came together to form the Piston-Engine Aircraft Revitalization Committee (PEARC) to determine how to best realize the potential of the new legislation. Working for nearly 12 months, the PEARC conducted research and utilized new thinking as to how to reverse the decline of general aviation in the United States. We were encouraged by the research that showed over 1.2 million Americans, including an increasing percentage of women, were interested in learning to fly. While a number of recommendations emerged from the PEARC report, the key conclusion was straightforward. The most important thing that could be done to fully take advantage of GARA was to increase the number of general aviation pilots and new students.

BE A PILOT PROGRAM

To implement the basic recommendations of the PEARC report, a new nonprofit entity was established. I was elected Chairman of GA Team 2000 and Phil Boyer, President of the Aircraft Owners and Pilots Association, was elected President of GA Team 2000. Our 15 member Board of Directors is representative of all facets of the aviation community including the manufacturers, publications, flight training suppliers, pilot associations and the airlines. Significantly, over 170 companies and associations have pledged financial support.

Although the corporate entity is still called GA Team 2000, last year our name was changed to Be A Pilot because it better reflects our goal of attracting new student pilots. We seek to attract new pilots whether for career opportunities with the airlines or in business aviation or for personal or recreational purposes. The theme "Stop Dreaming. Start Flying." is a call for action and appears on the informational materials.

Through research, Be A Pilot has identified the target audience of people who have an interest in becoming pilots and their reasons for wanting to learn to fly. While many of these people have been attracted to the romantic aspects of flying, many recognize the practical advantages of holding a pilot license. They often get the urge to fly at a young age and are interested in scientific/technical and outdoor activities. They have traits of being adventurous, take-charge, competent individuals.

We try to reach this target audience through an educational campaign by offering a \$35 Introductory Flight at a local flight school. We have used shows on cable television such as the Discovery and Learning Channels to reach our audience. We have heavily promoted our website, www.beapilot.com, where potential pilots can receive information about becoming a pilot and receive the Introductory Flight coupon.

Over 1600 flight schools are participating in the program. A Flight School Advisory Committee has been established and a new Flight School Success Manual has just been published. A bimonthly newsletter containing helpful information about attracting and teaching student pilots is sent to all participating flight schools.

I am pleased to report that the program is working. In response to the television campaign, we are receiving as high as 2000 requests per week for the Introductory Flight coupon. Through the first six months of this year, student starts are up over ten percent from last year and the 20-year decline of new people learning to fly has been reversed.

THE UNITED STATES PILOT POPULATION

According to FAA statistics, in 1980 there were 827,000 active pilots in the United States. In 1997, this number had declined to 616,342. In 1998, the number of active pilots experienced a favorable turnaround and increased slightly to 618,298. This significant decrease over the past 20 years in the U.S. pilot population is cause for alarm.

The decrease is closely tied to the number of new student pilots. In 1996, fewer people began learning to fly than anytime since the Korean War. Only 56,563 people received their student licenses. There are a number of reasons for this decline. In part, it was fallout from the product liability crisis when manufacturers of training aircraft stopped manufacturing airplanes and as a result, they stopped promoting flight training. Companies and individuals for the large part stopped investing in piston aircraft and this portion of the industry came to a halt.

Thanks to GARA, a healthy economy and the Be A Pilot program, we have been able to reverse a 20-year downward trend and the U.S. pilot population is again growing. However, it is clear that we still need to expand our nation's pilot base and the number of new student pilots if there is to be a healthy industry and if we are to maintain a supply of qualified military and civilian pilots.

GENERAL AVIATION'S ROLE IN PILOT TRAINING

The best way to understand general aviation's role in pilot training is to visualize a pyramid. General aviation is at the base of the pyramid. Pilots learn to fly in general aviation aircraft. After mastering the less complex aircraft, pilots have the opportunity to move up the pyramid. Frequently, professional pilots will begin their career by flying for a charter company or in the flight department of a corporation. After building their hours they may move onto the commercial airline jobs, the smallest part of the pyramid.

Robert Baker, Executive Vice President for Operations at American Airlines recently said, "The commercial airline industry draws the majority of its pilots from general aviation. We need a healthy general aviation industry producing pilots." He couldn't be more right. With declines in military pilot training, general aviation is becoming an even more important source of pilots for the major and regional airlines.

Oftentimes, when the general aviation industry comes before you we talk about the importance of maintaining a strong general aviation infrastructure. We talk about the economic development that general aviation brings to small communities and rural areas without commercial air service. We also talk about the harm that would come to general aviation if user fees were instituted for the FAA, which would substantially increase the cost of flying and learning to fly.

Given that general aviation is the primary training ground for the nation's commercial airlines, it is easy to understand why we must ensure that various legislative and regulatory proposals do not cause undue harm to this important industry.

THE CURRENT CHALLENGES

Today a number of segments of aviation face personnel shortages. The military has serious challenges in maintaining and retaining its pilot base. In his statement before the Senate Armed Services Committee earlier this year, General Michael Ryan, Chief of Staff of the U.S. Air Force said, "Today we are over 700 pilots short of our requirement and that number is steadily growing. If pilot retention remains as it is today, we will be short 2000 pilots by 2002. That will be 15 percent fewer than needed for Air Force requirements."

A number of flight training institutions are facing challenges in recruiting and keeping flight instructors. At Embry Riddle Aeronautical University, which employs about 180 flight instructors at its two residential campuses, there has been almost 100 percent turnover of flight instructors during the past year as instructors continue to move up the "food chain" into the pilot seats of regional airlines. The challenge of keeping flight instructors is being faced at practically every training school, both large and small, throughout the United States and may be the most critical pilot shortage facing the industry.

Similarly, a number of regional airlines have been seriously impacted as their pilots are hired by larger airlines. With some regional airlines, this has resulted in schedule disruptions and cancellations as they accommodate these shortages. All too often, these impacts may be felt in reduced service to less populated and rural areas.

At the same time, new opportunities are opening up in general aviation. The rapidly growing fractional ownership companies are projected to hire about 500 pilots a year for the next five years. These companies have created a completely new demand for pilots, which was not really present just a decade ago.

GOVERNMENT MUST ALSO PLAY A ROLE

FAA plays a very important role in establishing the regulatory framework for pilot qualifications and training. FAA training requirements must be updated to reflect new technologies and to incorporate new training techniques. For example, companies have recently introduced computer-based training for new pilots and these new programs are being well received in the field. New programs have also been developed for computer-based training so pilots can update their skills at home.

FAA must also work with industry in a partnership to evaluate how well programs are working and on the distribution of information. Over the years, lists of new and current pilots have been made available to the industry. These lists have been used for the mailing of safety and product information. Last year, access to these lists was denied due to privacy concerns. Legislative language is included in the House FAA Reauthorization bill to make these lists available subject to an opt-out provision for those who do not want to receive these mailings. We ask that this Subcommittee accept this provision of the House bill.

Another area in which the government could play a role is through federal financial aid programs to finance flight training. Outside an existing VA program, current law does not permit students to pay for flight training with federal student loans. Instead, students must apply for loans from private sources, considerably raising the costs of learning to fly. Expanding eligibility of federal student loans to include flight training could help to increase the number of student pilots and help to alleviate the current shortage facing the industry.

SUMMARY

The nation's pilot base is an important national resource. Similarly, the nation's flight school structure, composed of colleges and universities and independent flight schools located at airports throughout the nation, is a valuable resource.

The student pilot is at the base of our future pilot supply. It is imperative that our future pilots be well trained and qualified, whatever their career ambition or personal goals might be. Significantly, after many years of decline, both the student pilot population and the entire pilot population again appear to be growing.

Today, severe shortages are occurring in some areas. It is imperative that government and industry work together to provide the regulatory environment and infrastructure to maintain a high level of safety and encourage people to "Stop Dreaming. Start Flying."

Senator BURNS. Thank you very much; we appreciate that.

I was just sitting here thinking, for many, many years, general aviation and scheduled airlines have been the recipients of the best

trained pilots in the world, compliments of the American taxpayer. The military trained them, the biggest share of them. Now that era seems to be coming to a close. I think, these pilots are going to have to come from somewhere else.

Robert, I want to remind you that when Lynch Flying Service was first getting started over at Bozeman, Montana, they taught pilots to fly for World War II. We have a colleague in the Senate who learned how to fly there. From there he went and flew the Hump. Everybody knows him as Chairman of the Appropriations Committee, Ted Stevens. Did you know that?

Mr. PALMERSHEIM. No.

Senator BURNS. He went through that program in Bozeman, Montana.

Mr. PALMERSHEIM. Good to know.

Senator BURNS. In fact, he tells me he almost married the daughter of the president of Montana Power when he was there. I suppose that's another one of those adventures we'll hear a lot more of over a little more Merlot.

Mr. DeVany, we set this up intentionally so that you could hear all that these people have to say. You being with the Essential Air Service Domestic Analysis Division of Department of Transportation, you could hear them. That's the way I structure my hearings, because I think it's important that you not only have something to say but you also hear from the industry, and in a public forum, the challenges that we face. We thank you for coming out today, and we appreciate your presence and look forward to your testimony.

STATEMENT OF DENNIS J. DeVANY, CHIEF, ESSENTIAL AIR SERVICE AND DOMESTIC ANALYSIS DIVISION, U.S. DEPARTMENT OF TRANSPORTATION

Mr. DEVANY. Thank you very much, Senator. Although I must say I talk to Craig Denney and Doug Voss probably almost on a daily or at least weekly basis.

But in any event, my name is Dennis DeVany. I've worked in the Essential Air Service program since 1978, since its inception. I'm the last one that was hired, and the last few years I've been running the show. So I guess that tells you if you hang around long enough, you end up running it.

In all seriousness, I do want to take this opportunity to share a few observations from our perspective.

A little background on the kind of orders of magnitude. When the program first started in 1978, as you well know, it was set up to guarantee that communities that had air service, when airline deregulation was passed, would continue it. They wouldn't lose it overnight. At that time, we were subsidizing carriers over a hundred million dollars a year to serve about 300 communities. There's been a lot of evolution since then. Infrequent large-jet service has been replaced by more frequent commuter-type service that Big Sky and Great Lakes and other regionals provide.

Today, our budget is 50 million dollars a year. We subsidize air service at 27 communities in Alaska and 76 in the rest of the country.

Here in Montana, Big Sky provides essential—subsidized Essential Air Service at seven communities in the eastern part of the state; Havre, Lewistown, Glasgow, Wolf Point, Sidney, Miles City, and Glendive. I think I got them all. Generally, two round trips a day to Billings. We pay Big Sky Airlines about 4.7, 4.8 million dollars per year for that whole seven-city package. About 21,000 passengers a year use that service to get much-needed connections to the national air transportation system that they otherwise would not have.

A couple of observations. For reasons that other folks have mentioned here, carriers' operating costs have been rising rapidly, for a number of reasons. That translates directly into increased subsidy costs. I don't want to get into the mechanics too much but, essentially, the subsidy pays for the difference between anticipated expenses and the anticipated revenues. Then there's a small profit element. So if expenses go up, the subsidy goes up. If passenger revenues go up and everything else stays the same, subsidies go down.

Many of the commuter airlines—and the 19-seat airplanes that Great Lakes and Big Sky operate are the workhorse of the Essential Air Service program—are getting out of the 19-seat aircraft business, for a number of reasons. The cost of it is going up as part of the commuter safety rule that raised the cost. They're graduating to larger aircraft, some to 30-seaters, some even to regional jets. Obviously, carriers' choice of aircraft is a matter beyond our control, but it is a problem we're facing in trying to run the Essential Air Service program.

Another factor which we mentioned is the cost of Denver International Airport which opened in 1995. Because of the nature of the demographics of the country, a lot of the subsidized EAS points are in the midwest, the Dakotas, Wyoming, Montana, so on. The logical hub is Denver. As the cost of that—of operating into DIA—are a lot higher than they were in Stapleton, those are legitimate costs of doing business and those costs, again, get passed onto the EAS program. There's a little—on the other side of the ledger—I think there's a little bright side there, as I understand it. I'm certainly not a technical expert, but DIA is operationally a very good airport and there are fewer delays and so on. So there is probably a higher quality of service product to the customer.

In addition to increases in carrier costs, as you well know, we suffered a bit of a setback in 1995 when there was a major budget reduction. In the past, when we were on a budget rollercoaster, we were given the discretion to eliminate service at certain communities in their entirety, based generally on if they were fairly close or a reasonably close drive to other air service. In the 1995 cuts, we were not allowed to do that and had to do across-the-board cuts. The idea was to kind of spread the pain. Although, my analogy was we kind of built half a bridge for everybody rather than a whole bridge for some and none of a bridge for others. That had a bad effect on traffic, which I'm sure Craig Denney and Doug Voss would agree with.

Then in 1998, the program took a turn—an upward turn. The sunset date which had been September 30th, 1998 was removed. We received a 50 million dollar budget that was authorized. Essen-

tially what we did was to try and restore service to the pre-cut levels or, as I say, put Humpty Dumpty back together the way he was before the major cut in 1995.

In the case of Montana, we did that. We restored the same service levels, but we also took the opportunity to work with officials from Big Sky and used that opportunity to upgrade their fleet which had been 15-seat Metro II aircraft, which were fairly old and not as reliable as they could have been, to the more modern 19-seat Metro IIIs, which they're operating now and I think more reliably, and giving a better product to the customers in Montana. We increased the subsidy rate from \$3.1 million a year to \$4.8 million.

People have talked about stability in the program. I, for one, think that's probably the most important feature we need in the EAS program. It's been on a budgetary rollercoaster. It's been zeroed out and, put back. It's very difficult for carriers to make a long-term commitment to the EAS program, when it's hard to know from 1 year to the next whether it's going to be around. Certainly I appreciate that 19-seaters, that cost over four million dollars apiece, I think. You just don't go out and spend that kind of money when you don't know from 1 year to the next whether there's going to be a program. So there's fewer and fewer carriers willing to participate in the program. We operate under a competitive bidding system. Obviously the more competitors you have, the more service options you have available. We just don't have that nearly to the extent we had early on.

Another development—which kind of ties into that—is that, carriers have come to dominate hubs, major carriers. As a result of that, their regional affiliates tend to dominate the outlying regions for feeder service. And that also kind of limits the number of players, the number of carriers willing to participate in the EAS program. The majors, with some exceptions, tend not to put a high priority on Essential Air Service. I mean, there are some majors that just will tell their code-share affiliates just don't do it, period. I don't know how you fix that, necessarily, but it's an issue we have to be facing. As an example of the concentration, I think Big Sky and Great Lakes provide over half the EAS nationwide, right here.

Senator, you mentioned earlier about a bolt of common sense. I don't remember the exact context you said it in now. But—and Doug touched on it as well—I think the EAS program, generally, does a pretty good job. It provides a much-needed service. It's a lifeline to a number of communities. But like any program, government or any other, it probably could be improved. I think maybe it could use a good bolt of common sense—and I don't want to get into too much specifics, but, you know, where there are situations where we are subsidizing two communities that are very close to each other, just because they were listed—or they received air service on October 24th 1978. Whether it makes any sense or not isn't relevant under today's rules. The eligibility criterion is whether the community received service on October 24th.

Senator BURNS. Is that the situation like Champaign/Urbana?

Mr. DEVANY. Those are not subsidized, Senator.

Senator BURNS. I know they're not subsidized, but is it situations like that?

Mr. DEVANY. Yes, Senator.

Senator BURNS. Because I can remember old Ozark used to say—I started working for Ozark, a long time ago when we were still flying DC2s.

Mr. DEVANY. You kind of get a double whammy. Because it's at least theoretically possible, if you had an airport between A and B, and consolidated the load, maybe there would be enough critical mass to make it work. But if you subsidize A, then you pull away from B. So you're just diverting passengers from yourself.

Senator BURNS. Tell me, you mentioned in this situation where maybe some of the rules—this rule change that's been proposed and—do you folks who work in the—in your department that deals with EAS, do you also work with the offices that review and set the regs?

Mr. DEVANY. No, Senator. We're not in FAA. Senator Burns: I know; but do they ever call upon you and say how would this affect you if we—

Mr. DEVANY. I heard about it from Doug.

Senator BURNS. That's what I thought.

Mr. DEVANY. I don't know if I should have said that. I knew nothing about it. Maybe people above me did; I don't know.

Senator BURNS. That's what I'm wondering, if sometimes—we don't communicate in Washington very good.

Mr. DEVANY. I don't disagree with that.

Senator BURNS. We just don't do it. We just haul off—we think we're an entity ourselves, and we change the rule. I don't think the Ag Department ever talks to the Interior Department. I just don't think they do. They say they do. Within the Interior or the FAA or DOT. Now, you're all under DOT.

Mr. DEVANY. Yes we are.

Senator BURNS. —and all effect each other. In your estimation, do you think that a review of those regulations are in store to see how they affect the subsidization of the EAS? Do you think those rules and regulations should be reviewed?

Mr. DEVANY. Senator, I can't answer it. I'm not qualified.

Senator BURNS. Is that a pay rate above you?

Mr. DEVANY. I know things happen that have sometimes the intended effect and sometimes unintended. I don't know. I'm just not qualified to know whether this is a good idea or bad idea.

Senator BURNS. OK; I just got a couple of questions here. Chime in if you've got an opinion on this thing, because that's the way I run hearings. If you can comment on that question, I want you to do so.

Mr. DEVANY. I just want to finish by thanking you for giving me the opportunity to come here. I have a 10-year-old and twelve-year-old, and they know more about computers and everything else than I do, so I'm not used to being asked my opinion about things, but I hope I have contributed to the discussion.

[The prepared statement of Mr. DeVany follows:]

PREPARED STATEMENT OF DENNIS J. DEVANY, CHIEF, ESSENTIAL AIR SERVICE AND DOMESTIC ANALYSIS DIVISION, U.S. DEPARTMENT OF TRANSPORTATION

THE STATE OF SCHEDULED AIR SERVICE AT SMALL COMMUNITIES

Good morning. I'm very pleased to be here today. My name is Dennis DeVany, and I work in the Essential Air Service Program, or EAS as many of you know it.

I was originally hired by Pat Murphy, whom many of you know and who just retired last week, back in 1978 and I've been working in EAS since then, and for the last several years as head of the program.

I'd like to use this hearing as an opportunity to share with you a few observations and some of the major issues facing the EAS program based on my perspective of 20+ years in the EAS program. But first a little background. Under the program, the Department guarantees that eligible small communities receive a least a minimum level of air service, typically two or three round trips a day to a major airport. Where service is otherwise uneconomic, we pay subsidy to carriers that are willing to provide that service. At one time, in the early 1980's, we spent over \$100 million subsidizing scheduled service program-wide for over 300 eligible communities. Today, with a \$50 million annual budget, we subsidize service at 27 communities in Alaska and 76 in the rest of the U.S. For example, in Montana the Department supports subsidized service by Big Sky Airlines at seven communities in the eastern part of the state: Havre, Lewistown, Glasgow, Wolf Point, Sidney, Glendive and Miles City. Service is generally two round trips a day to Billings. The total subsidy amount we pay to Big Sky is about \$4.8 million. Approximately 21,000 passengers per year use this service to gain much needed access to the national air transportation system.

Now a few observations. First, carriers' operating costs have been rising rapidly for a number of reasons, and that translates directly into increased subsidy costs as our subsidy makes up the difference between expenses and revenues, plus a small profit margin. To begin with, many commuter carriers have been replacing their 19-seat aircraft with 30-seaters. This trend began about a decade ago, but has really begun to snowball within the last couple of years. There are now fewer and fewer 19-seaters in operation as many commuters upgrade to 30-seaters, and even regional jets in some cases. The carriers' choice of aircraft is, of course, a matter beyond our control.

Another development affecting the EAS program has been the upgrading of commuter services from FAA Part 135 to Part 121 standards within the last couple of years. As with the introduction of larger aircraft, the higher costs that commuter carriers encounter in meeting Part 121 standards are passed on to the program.

In addition, the high costs of operating at Denver International Airport, which opened in 1995, are well known. As it happens, a large number of the communities that we subsidize are located in a region that makes the Denver hub their most logical link to the national air transportation network. In fact, 20 of the 76 subsidized communities, not counting Alaska, receive subsidized service to DIA. The relatively higher costs that commuter carriers face in operating subsidized routes into DIA are, again, passed on to the EAS program. On the other side of the ledger, there is some good news to report. DIA is operationally better than Stapleton and this has resulted in more reliable and a higher quality of service.

Beyond increasing costs, the program suffered a major setback in 1995, when Congress prohibited us from meeting a major budget reduction by eliminating some communities while maintaining viable service levels at the rest. Instead, we had no choice but to reduce subsidy at *all* communities—reductions from 18 to 10 round trips a week were typical. Needless to say, the service reductions had a severely deleterious effect on traffic levels.

In fiscal year 1998, the program's sunset date was removed and a \$50 million annual budget was authorized. We used that increased funding level generally to restore service to the pre-1995 reduction levels. Of course in the case of Montana we took that opportunity to work with Big Sky Airlines not only to restore previous service levels, but also to enable the carrier to upgrade its fleet from the older, 15-seat Metro II aircraft to the more modern, 19-seat Metro III's. For those service and aircraft upgrades, we increased the amount of Big Sky's subsidy rate from \$3.1 to \$4.8 million a year. I am convinced that nothing is more important to a responsibly and efficiently run program than *stability* in order to attract and maintain carrier interest in the program. The current pilot-shortage problem that commuters are struggling with, which affects the carriers' ability to provide reliable service, is obviously another cause of instability.

Another development that has been hampering the program is the dwindling number of interested carriers. As major carriers have come to dominate various hubs, their commuter affiliates have come to dominate regions surrounding those hubs. Unfortunately, the majors are, at best, reluctant to have their commuter code-share partners involved in the program, and it is very difficult for prospective new entrants, without code-share affiliations, to gain a toehold in the market. Because a vital element of the program has been the competitive bidding process, the dearth of participating carriers has undoubtedly resulted in our paying higher subsidies

than might otherwise be necessary. Today only three carriers account for service at 58 of the 76 subsidized EAS communities in the 48 states and Hawaii.

I appreciate this opportunity to bring you up-to-date on the challenges we're facing, and look forward to working with you to meet those challenges. I'll now be happy to answer any questions you might have.

Senator BURNS. I thought opinions were kind of like navels; everybody's got one.

OK. I want to throw that question out for the panel. If and when these rules and regulations are enforced, do you think it's time that we review the regs and under a different forum than they've been reviewed thus far?

Mr. VOSS. Well, there's no question there's a lot of disconnect. We just, a week ago, saw an interesting situation occur where the FAA contacted our flight standards office in Des Moines. They had noticed, having read in the Aviation Daily, one of the scandal sheets of the industry, commentary that had been placed in our financial statements. They were concerned over the financial status of the company. Well, DOT has a staff of people that follow—do the fitness determinations for economic eligibility certification. Instead of FAA calling over to the fitness department to ask the status of the fitness reviews, they called Des Moines and asked for a lengthy report regarding financial aspects of the company that the Des Moines office never has and it's not under their responsibility to review. But when you see things like that going on, it's a great example of how they're not on the same page.

In many cases, I think there's been transition within the management ranks of the FAA, and I think to a little lesser extent, even DOT where you see turnover of people and they don't even now how the departments interface with each other. The structure is really lacking on communications connect. I mean, we could cite several examples. But that one in particular was pretty surprising, that they didn't realize that we submit financial statements almost constantly into the fitness group. Every time we add an airplane we submit a form that tells DOT that we've just made another investment in equipment. It's an interesting disconnect.

Senator BURNS. I want to ask Mr. Stimpson a question along those lines. You mentioned there has been some work on R & D and how we teach people to fly airplanes. Do you think that the improved technology has turned out better pilots from the get-go to where they learn faster and can begin flying?

Mr. STIMPSON. No question, Senator. I think what we've seen in technology, in simulation and other developments, whether it's a 777 simulator or whether it's even down to the line where a pilot is working at home on his home computer on a simulator. I think what technology has done has made a better pilot, it's improved safety, it's helped improved the time it takes to learn to fly. I think, again, you know, more is coming. This isn't to say that we haven't trained pilots well in the past. But we even are doing work with NASA now at Embry Riddle and new training standards and how we might get more instrument training for more pilots in a more efficient manner. So technology has played a very important role.

You always have the human factor, that's the No. 1. But we can use technology to help produce better pilots in the future and improve training times.

Senator BURNS. Tell me your thoughts on what's going on down at (NASA's) Langley Space Center. We have some new technology we're using down there for zero zero landings and takeoffs and this type thing. Have you visited Langley lately?

Mr. STIMPSON. Not in the last year. But I have seen some new technology, and it's pretty exciting what's going on and trying to—again, some of the things they're doing with their total air traffic management program. How do we do a lot of things to improve the efficiency of the air space system, whether separation standards or night landing or zero zero you're talking about.

I hope that, again, gets back to where some of these programs will continue to be funded in a lot of the budgetary stuff that's going on now. Some of these aren't a great deal of money, but they're very important. I'm glad you asked about that, because some of those programs are very—have a lot of potential for the future.

Senator BURNS. You mentioned some figures and I missed a figure, that now we have 616,000 pilots in the United States compared to—what year was that when we had over what 9,000?

Mr. STIMPSON. Well, in 1980 we had 827,000 pilots. This is commercial pilots, ATC, private pilots, student pilots. This number in 1997 dropped down to 616,000 total pilots. We're up slightly from last year to 618,000. It's up 2,000. But, again, we were up in student pilots last year, we were up in private pilots.

Again, that's the point I was also going to make is the importance of the student pilot here. You have to have somebody coming in. You have everybody going out, whether it's age sixty rules or getting too old to fly their own airplane or whatever it may be, or tired of flying, we need to keep generating the seed core down here, keep the people coming up. I think the most dangerous number I told you was the 1996 number. That's fewer people learned to fly in this country than anytime since the Korean War.

Senator BURNS. Mr. Voss, you mentioned the fact, and I was going right back to this now, this last rule change with regard to rest and on duty times. Did you say that these rules were just put in the Federal Register without comment or—

Mr. VOSS. It was not a rules change. It's an interpretations change.

Senator BURNS. Oh, I see.

Mr. VOSS. It's a ruling on how FAA viewed internally how they perceive what the intent of their written rule is. The thing—it does a number of things. But, for example, if you're an on-reserve pilot that's carrying a pager or beeper or cell phone and you're out in the backyard mowing your lawn, the time where you historically had not been accrued as company time, that type of time now is going to be charged against your availability on a going-forward basis. It affects the accessibility of the pilot in the—within the system.

It's something that there was clearly a lot of outside pressure. Unions, in particular, were pushing for this. FAA came out with a written ruling that said, Hey, we're going to change this procedure, and we'll follow the thought process that says that if this guy is on call or considered ready reserve or hot reserve, that he is accru-

ing duty time during that period, even though he's not doing any productive flying or any actual onsite in an airplane flying.

Mr. PALMERSHEIM. There was no public comment available on that particular interpretation either.

Senator BURNS. Is there usually?

Mr. PALMERSHEIM. Yeah, I think so.

Mr. VOSS. A procedure change or an interpretation change of this significance would have normally been discussed at length in a more open forum. This particular situation was really fostered by events from three or 4 years ago where FAA went back to the air carriers and said, we are having an issue brought to us by the unions. Will you, the air carriers, address this situation or are you going to force us to deal with it at a later date? And in this particular case, the formal exchange that was occurring between the carriers and the FAA was very limited. And for whatever reason, the timing—I can't speak to what warnings or what notice that might have been conveyed. I know in our particular case, we were not contacted regarding the impact on our operations of the rule change. Due to the way we schedule pilots, there's a very limited impact on how we utilize our crews. But certain major carriers, U.S. Air in particular, we're aware, is going to have to do a significant staffing increase just because this interpretations change took place.

Senator BURNS. That just about wraps up the questions I have. Robert, tell me again, and make me clear on this thing. If this rule—if this interpretation, let's put it that way—if this interpretation will be allowed to stand, what do you mean by, "We got to get out of the business to stay in the business."

Mr. PALMERSHEIM. We got to stay out of the business?

Senator BURNS. "We got to get out of the business to stay in the business."

Mr. PALMERSHEIM. Well, we've got to get out of the way we've been historically doing business. Under the flight and duty time requirements in the past, there's always been a distinction between on-demand 135 carriers as compared to the scheduled carriers. Most of the physical principal operation inspectors have agreed that the 135 on-demand operators were in compliance with the duty and rest requirement. But with this new interpretation, it's thrown a whole different ballgame at us.

Senator BURNS. OK. Well, along with your testimony this morning, I think you've pretty well laid it out on what you think we should do to change some of this.

I would say that all your comments will be made part of the record.

Anybody else want to add anything to this, other than what they've heard from other witnesses this morning?

Mr. DENNEY. Yes, sir. I failed to mention a couple facts. First, for Big Sky Airlines, in the last 90 days of our approximately 80 pilots that we have, we've lost about 20. So that's about 25 percent. We figure at least \$6,000 per pilot for training costs.

Mr. PALMERSHEIM. They took 20 of them from Lynch and they didn't keep them very long.

Mr. DENNEY. So of that 20 that we just recently had to hire replacements for, you figure the average training cost of about

\$6,000. So 120,000. Of that 120,000, when you look at what our profit margin is of being an EAS operator in the bulk of our cities consumes a great deal of our profit margin.

So at a time when the FAA is mandating more pilots because of their crew duty time/rest, we have no other way of increasing our subsidy amount, short of giving termination notice to Dennis and his staff. We don't want to do that.

So that's another aspect of this whole picture. It is—there's very few EAS operators like Great Lakes and Big Sky, and we want to stay in that business. But when you're mandated on one side to increase staffing, and there's no method or formula to increase your cost during the duration of your 2-year contract, and you have to absorb those additional training costs, it cuts down on your profit, it might even eliminate the profit, for the remaining term of your contract. So perhaps that should be something to be looked at. That's all I have; thank you.

Mr. STIMPSON. Just one other comment, Mr. Chairman, on the future of pilot population. A lot of the research shows that people who become pilots get an urge at very young ages often. As they grow older they become interested in scientific and technical matters and outdoor activities. They're sort of take-charge, competent-type people. At some point in time, you know, some will go on to be an airline pilot. Some maybe just want to fly for fun, some may be a corporate pilot. So as you build this base up, the person today who starts his flying lessons may not have the particular ambition to be an airline pilot or commuter pilot or regional pilot, but they may go for that career. Other young people, boy, from day one they want to be an airline pilot.

So as you build this base—and this is why we call this program Be A Pilot. Be a pilot for whatever reason. There are so many different directions you can take as you go up through the career pattern or your own lifestyle pattern. So that's what we're all trying to do, is get this basic standard so it will help the airlines, help corporate aviation, business aviation and whatever. And flight instructors. If you take the No. 1 area where there's probably really a shortage that we touched on today, the flight instructor area, because they're going up so fast right now.

Senator BURNS. Are we short of instructors in Montana, Mike?

Mr. FERGUSON. I'd say we are, yes, sir.

Mr. PALMERSHEIM. I think Mike's comments on that age sixty rule with the airlines really needs to be addressed. Nowadays, with some testimony in Washington, D.C. before Congress with the medical experts, you know, sixty years old—I never thought I'd get that old, but that's not—

Senator BURNS. I didn't either.

Mr. PALMERSHEIM. That's not very old, compared to the equipment that they're flying. They're on auto pilot half the time anyway. And if they're physically fit and they've got, you know, the 20,000 hours of experience and they pass all of the medical tests, there shouldn't be any reason why they shouldn't be able to maintain their employment with the airline.

Mr. FERGUSON. That's why I mentioned the foreign countries allow them to do that, and they come into our country with sixty-

five-year-old pilots. Let's build a fence. Keep them out, too, if it's really unsafe.

Mr. PALMERSHEIM. Well, it would stop the vacuum a little bit, if they were still there.

Senator BURNS. This age thing, I will pass along a little story as we close here today.

The other day we had a birthday party, the eightieth birthday party for a man that works in the Senate library. He's worked there his entire working career. Now he just volunteers because of his institutional knowledge of the organization. Strom Thurmond came down to his birthday party and said, "Oh, to be eighty again," which I thought was a great statement.

Mr. Stimpson, I appreciate your comments this morning. I understand you've been nominated to be a representative to the International Civil Aviation Organization. And your expertise—and just to let everybody know that we have a person here that has many, many years in aviation and is well respected, and we appreciate you being a part of this panel this morning.

Mr. STIMPSON. Thank you.

Senator BURNS. Most appreciative, in fact, and your words. I would say if you could help me carry the message back to the rest of the Commerce Committee, I think this needs a full hearing in Washington, D.C. before the full Commerce Committee, not just the Aviation Subcommittee. I want to see if I can't talk to the Chairman, the distinguished Chairman of this subcommittee in working with Senator McCain. I think this has to be addressed at a little higher level than—but you've got to get it started somewhere. I think we've gotten that done here today in the purpose of this hearing.

So with that, I would say that other members of the Aviation Committee, should they direct questions to you, if you could respond to them and to the Committee, we would appreciate that.

The record will remain open for the next 2 weeks, and I'll be working with each and every one of you with a hearing in Washington, D.C. where I think this particular subject needs to—needs further airing, to be right honest with you.

So with that, I appreciate you coming this morning, and this ends this hearing. Thank you for coming.

[Hearing concluded at 10:50 a.m.]

APPENDIX

ELECTRONIC CORRESPONDENCE OF GIB BISSELL TO HON. CONRAD BURNS

September 13, 1999

Senator Burns,

Thank you for having this Transportation/Pilot Shortage hearing in Kalispell, it was really interesting to listen to your panel. I had a few thoughts during the testimony that I wanted to pass on from a pilot's perspective (I flew 9 years as an Air Force Pilot, 2 years as a civilian instructor and air freight pilot and 10 years as a 737 Captain with Continental Airlines).

First, age 60 rule. Mr. Ferguson is absolutely correct in his testimony. Commercial pilots take a thorough physical every 3-6 months. Most pilots (with a few exceptions) pride themselves in their good physical shape and work hard to maintain their good health. After all, their livelihood depends on it. There are some 40 year old pilots that probably shouldn't be flying and some 70 year olds that are perfectly fit to fly. The value of experience as it relates to safety can not be overstated. Whether you are talking about pilots, mechanics, air traffic controllers or flight attendants, we absolutely must do whatever it takes to keep experienced people on the job.

Slot controls in busy airports—I flew daily into Newark, Chicago, Denver etc... On most days these airports flowed beautifully. Occasionally however due to weather, radar or computer problems or God knows what, things come grinding to a halt and thousands of travelers become upset. This is unavoidable and will continue to happen as long as Murphy's Law is in existence. Slot allocations by the FAA I feel are a means to lighten their workload not assure safety or prevent ATC delays. Most facilities can handle the volume.

Pilot shortages, I know of several private pilots that would love to fly commercially but can't afford the advanced licenses. I feel that the government should provide low interest student loans for pilot training. Also I think that the commuter airlines should provide training for low time pilots with the understanding that that pilot has incurred a 5-7 year commitment. Perhaps the government could then provide tax incentives to offset the cost to airlines for this training.

Military pilot retention let pilots fly! Most pilots leave the military because they aren't flying enough and are being asked to do non flying duties to advance their career would rather fly an F-15 for \$60,000/year than a B-737 for \$130,000 per year but usually at the 9 year point the military expects pilots to "career broaden". A military pilot should be able to progress through the ranks solely based on his flying skills and professionalism.

If I can be of any assistance, please feel free to contact me. Thanks again.

Gib Bissell

September 9, 1999

Senator Burns,
Pilot shortage conference
Kalispell, Montana

For the record I am Walter L. McNutt. I am a Montana State Senator, a member of the Governor's Essential Air Service Task Force, and reside in Sidney, Montana. Sidney along with six other communities are served by Big Sky Airlines as a part of the essential air service program.

Our service in and out of Sidney has deteriorated over the last year. Upon investigation, I found that a serious pilot shortage at Big Sky is one of the primary causes of this deterioration. The end result has been many delayed and canceled flights. This is having a dramatic impact on the traveling public. Sidney does not have any other transportation system, such as rail or bus service. We rely entirely on our air service carrier to provide the vital link with the rest of the world.

I was just informed the schedule for Sidney's flights will be changes on the 13th of September as a result of pilot shortages. This change will further impact the traveling public's ability to make connections with the major air carriers. I believe there needs to be some corrective action taken and soon.

It appears that there is fierce competition for pilots through out the industry. It also appears that the mandatory requirement, that pilots retire at age 60, may be having a dramatic impact on this problem. A part of the solution maybe to allow our best and longest trained pilots to continue to fly a few more years. This would slow the upward migration of pilots and give the industry time to catch up and get more trained pilots. I understand solutions are not simple, but doing nothing will only serve to complicate the problem.

Sincerely,

Walter L. McNutt

