Regional Airline Association

Statement for the Record Submitted to the U.S. Senate Committee on Commerce, Science, & Transportation

"The State of the Aviation Industry: Examining the Impact of the COVID-19 Pandemic"
May 6, 2020

The Regional Airline Association (RAA) thanks the U.S. Senate Committee on Commerce, Science, & Transportation for holding the hearing titled, "The State of the Aviation Industry: Examining the Impact of the COVID-19 Pandemic." RAA submits this statement for the record to inform the Committee on the current status of the regional airline industry and share with it the actions the industry is taking to safeguard our crewmembers, passengers, and support partners in response to the COVID-19 pandemic.

On behalf of our entire membership, I want to thank this Committee, along with the House Transportation & Infrastructure Committee and House and Senate party leaders for their leadership in securing almost $60 billion dollars in relief for passenger and air cargo air carriers in the Coronavirus Aid, Relief, And Economic Security (CARES) Act. These funds—specifically, the funding for air carrier worker support—acted as a lifeline for the approximately 70,000 women and men working for the regional airline industry. You and your staff worked tirelessly to develop and enact meaningful legislation with speed and care and kept the needs of small community air service in mind by ensuring regional airlines were able to directly participate. Your leadership in this area has been a crucial, first step in helping regional airlines retain a "ready status" workforce that will be able to immediately stand air service back up when the pandemic abates. While significant needs remain, your actions increased the chance of survival for many smaller airlines who may not have shouldered the unprecedented economic blow without you. We are grateful for your support and determined to do our part to uphold air service to communities who rely on us.

CARES ACT

We know that Congress is contemplating deep needs that extend far beyond the aviation sector, as harm has touched nearly every American and businesses of all sizes are facing significant challenges. Understanding this, we humbly ask that this Committee keep in mind the continuing vulnerability of regional airlines and the small communities they serve in the coming months as this pandemic continues. Specifically, we hope that Congress will differentiate between types of air carriers, because we have vastly different compositions and differing resources with which to deal with the economic impact associated with the Coronavirus; however, we are all critical pieces of the nation's air transportation system.

As you know, the CARES Act payroll assistance program was so direly needed, that air carrier claims far exceeded the available funds and air carriers expect to receive approximately 76% of 2019 payroll costs to help cover their full payroll costs today. Like most air carriers, regional airlines planned to accommodate the exponential growth seen across all aviation sectors and were typically staffed at 20% higher than those 2019 levels. When a combination of government-mandated travel restrictions and the abrupt spread of COVID-19 contagion decimated the aviation industry, regional airlines felt the downturn, and subsequent financial effects, almost immediately. Impacts on passenger loads have been nothing short of stunning and major airlines have dramatically reduced the schedules of their regional airline partners in response. Today, most of the regional airline fleet is parked, and capacity cuts are likely to persist and may worsen for months to come.

Regional airlines' partner-centered business model is one reason the COVID-19 crisis has hit our sector particularly hard. Nearly all regional/mainline partnerships operate under Capacity Purchase Agreements (CPA's) where the larger airline sells the ticket and the regional airline does the flying at the direction of the partner. Under these arrangements, regional airlines typically dedicate 100% of their capacity to flying on behalf of one or more mainline partners and are compensated by the mainline—and not the passenger directly—for this work. In this way, regional airlines help major airlines reach smaller communities and passengers that major airlines could not otherwise serve. Typically, the CPAs governing these arrangements are fixed-term and, given the (heretofore) underlying stability and low-risk nature of the relationships, reflect low profit margins. Additionally, these agreements do not afford regional airlines control of ticket prices or allow real-time rate adjustments. In fact, increasing revenues would require regional airlines to seek contract changes, an unlikely outcome given the margins underlying these contracts are fragile during the best of times.

Today, these mainline partners are themselves deeply impacted by COVID-19 challenges and are making unprecedented capacity cuts. The aforementioned lack of direct, real-time revenue control limits regional airlines' ability to bolster future revenue streams to raise enough free cash flow to extinguish any debt or equity taken on to sustain a workforce that is not flying as a result. This is one reason that regional airlines are depleting liquidity at alarming rates during this crisis, as payroll expenses in excess of CARES Act grant receipts continue to deplete resources. While regional airlines are making every effort to reduce non-payroll expenses, these efforts will not reduce in tandem with revenue losses. Such ownership costs include IT systems, aircraft maintenance, crew and employee training, simulator upkeep, rent and leasing costs and more. Additionally, regional airlines are vulnerable as suppliers to major airlines facing their own unprecedented liquidity crises.

Another important distinction sets regional airline recovery apart from that of larger airlines. Where larger carriers can turn to the Treasury's Air Carrier Loan program for additional assistance; many regional airlines cannot. Despite the lower lending rates and stated purpose of serving as a lender of last resort, regional airlines are again constrained by the CPA structure that limits regional airlines' ability to extinguish debt. Additionally, the requirements for securitized loans and government equity stakes in concert with these loans present additional hurdles; regional airlines generally do not have significant unencumbered assets; as they lease or sublease their aircraft and few regional airlines have slots, gates, frequent flier programs, routes or other assets that could be leveraged for financing. Regional airlines nonetheless support this program because it helps their valued mainline partners. However, the inability to participate directly in this assistance further limits resources available to help weather the economic repercussions of the pandemic.

Beyond the circumstances already described, a few regional airlines face additional challenges because they were erroneously categorized by the U.S. Treasury Department as major airlines because of the size of their payroll. Although these regional airlines collectively employ nearly 10,000 FTEs and provide air service to dozens of communities not served by mainline air carriers, they do not issue tickets or derive revenue directly from passengers. They are nonetheless required to provide an equity stake to the federal government and to pay back 30% of their Payroll Assistance grants. In addition to dramatically slowing the delivery of this assistance in support of these carriers' workforce, it subjected some, but not all, regional airlines to additional, disadvantaging conditions for aid. Treasury officials have been responsive and communicative with RAA and our members and for that we are grateful. However, we continue to firmly believe that warrant and repayment terms intended for larger airlines should not apply to any regional airline.

Although regional airlines are doing all they can to survive despite these challenges, without additional resources, many remain extremely vulnerable. Already, three regional airlines have ceased operating due to the impacts of COVID-19. Trans States Airlines in Missouri and Compass Airlines in Minnesota ended their operations at the beginning of April. Between them, they supported 2,710 direct employees. Subsequently, Ravn Air Group, then Alaska's largest regional carrier, first filed a chapter 11 liquidation plan, then ceased all operations. Ravn employed 1,300 direct employees and served 115 communities in Alaska – most of these remote and significantly isolated. Ravn Air Group noted in its liquidation communication that it could not secure enough assistance under implementation of CARES Act worker support or loan programs to improve its chances for recovery.

SMALL COMMUNITY AIR SERVICE

As you know, the U.S. aviation system previously drove $1.6 trillion in annual economic activity and supported 10.6 million jobs, with $446.8 billion in earnings. Regional airlines contributed to this economic footprint by operating 41 percent of U.S. commercial airline departures and serving approximately 153 million passengers last year. Importantly, 409 airports (about two-thirds of our nation's commercial airports receiving scheduled air service) are too small to support air service from larger airlines with larger aircraft, yet still need reliable air service to receive perishable goods, connect with loved ones and business contacts, travel to destinations around the globe and participate fully in the economy. Regional airlines provide the only source of scheduled, commercial air service for these airports, connecting them with the nation's air transportation system and the economic and quality of life options that air service brings.

As you know, air service does not happen to communities in the aggregate. While larger cities with higher density traffic may be confident that air service will return when the crisis passes, those US airports served exclusively or primarily by regional airlines are vastly more vulnerable. With regional airlines facing an existential threat, communities served exclusively by regional airlines face an enormous downstream threat. This risk to small and medium sized community air service could have an outsized impact on state and local economies, where businesses need reliable air service to remain viable. The economic consequences of leaving these communities behind are not insignificant. In 2018, regional airline service to the nation's smallest airports alone (non-hub and small hub) drove a conservatively estimated $134 billion in annual economic activity and supported more than 1 million jobs, with $36.4 billion in earnings at the state and local level.

We do not need to look far back in aviation history to see that small communities are the first to lose air service when air service is retracted for any reason. Considering this, RAA greatly appreciates the role this Committee and other Congressional leaders played in support of small communities, by requiring continuation of certain air service for ticketing air carriers that accept government assistance. Additionally, we are thankful for the Department of Transportation (DOT)'s implementation of that requirement, which RAA believes to be measured, fair and thoughtful. Moving forward, meeting small community air service longer term relies upon the survival of regional airlines. If regional airlines disappear, air service to small communities will likewise collapse. Mainline airlines simply cannot serve smaller communities on their own. Their aircraft are too large and the unit costs and fuel inefficiencies of sending oversized aircraft with 150 seats or more into communities where forty passengers travel at a time on three or four flights a day is untenable. Many communities lack the passenger load to fill mainline aircraft. Elsewhere, substitution of mainline aircraft would require dramatic reductions in frequency and destinations that would damage the connectivity value of the service to an economically unviable degree.

For these reasons, RAA asks that Congress consider implementing a modest program designed to pick up where the CARES Act left off, in order to support the health of the carriers serving the nation's smaller markets. For example, an unsecured, DOT-administered, forgivable loan program could help regional airlines cover remaining payroll and some modest, operating costs associated with small community air service. Such a program would help, although not fully offset, the extremely adverse cash flows that have weakened the regional airline industry. Because the industry is small and does not have a vast infrastructure, the cash requirements for such assistance would be relatively modest and would be fully offset by the economic benefit of preserving air service to smaller communities. Additionally, we ask that Congress craft a mechanism to forgive the implementation requirement for some regional airlines to repay a portion of the workforce relief payroll grants, an act that would extend protection to all regional airline workers and reduce the liquidity strain on those carriers.

We also ask the Committee to help preserve meaningful air service to smaller communities in the future. We fully support flexibility today, where minimal service levels are required for each point. This appropriately reflects the enormity of the crisis and its impact on demand. In the future, additional support from DOT and Congress may be necessary to ensure small and medium-sized communities see service levels return, especially given that COVID-19 is expected to cause a prolonged economic downturn within the air carrier industry. Major airlines are anticipating a multi-year economic recovery period with their operations reduced to account for the drop in passenger demand and the potential for continuing travel restrictions. During this period of recovery, strong support and ample funding for the Essential Air Service Program will be vital to protect air service to participating communities. Additionally, Congress may need to consider creative solutions, such as an EAS-like program covering additional small airports, which will become newly vulnerable to air service loss or degradation due to COVID-19.

FUTURE WORKFORCE PROTECTION

Today, many industry experts predict that extensive furloughs will follow this pandemic if it persists longer term. As this Committee knows, only a few months ago the entire aviation industry was facing workforce shortages across several work groups, most notably pilots. Veteran industry observers will recall that a pilot shortage was similarly developing in the late 1990s—averted only when the devastating terrorist acts of 9/11 spurred industry downsizing. While those 9/11 furloughs temporarily reversed the course of the pilot shortage, they also served to deter future pilots from the profession. By 2010, the shortage had returned and regional airlines, who are the entry point for the professional pilot career, were the first and hardest hit.

Regional airlines have accordingly spent the last decade building and strengthening their workforce. This is another reason we are taking every step to sustain today's workforce. Looking further into the uncertain future, a return of the pilot shortage seems unlikely for many years. Nonetheless, RAA continues to believe that closing the funding gap between pilot training costs and student loan availability is important, because it helps support the future of our industry and because it ensures more pilots follow the structured training paths that produce higher levels of proficiency.

RAA is pursuing language in an expected Higher Education Reauthorization package, aimed to expand the dollars available through the federal student loan program (Title IV funds) for students who attend accredited flight education and training programs. Critically, given the uncertainty today's pilots face, we applaud Congress for supporting a suspension of federal student loan payments until September 30th under the CARES Act and for the tax relief offered to companies who help students with student loan payments. We ask Congress to consider extending and expanding these provisions, as the need for such support of students who aspire to take flight will not expire on that date. Additionally, when legislation is introduced to help trainee pilots access sufficient higher education funding, we hope Committee members will support and help to advance it. Additionally, we encourage the Committee to continue to work with stakeholders who have led on technician workforce programs, to determine the best avenues for future support.

RETURN TO SERVICE AND COMMITMENT TO HEALTH AND SAFETY

Regional airlines have been taking substantial steps to protect the health, safety and wellness of their passengers and employees since the World Health Organization (WHO) declared the novel 2019 coronavirus outbreak and COVID-19 infection a public health emergency of international concern. On January 31, 2020, the President issued Proclamation 9984 directing the Department of Homeland Security and other executive departments to take certain actions in response to the coronavirus threat and to protect the interests of the

United States. Since then, RAA has been at the forefront of daily interactions and discussions with multiple government agencies, including the Federal Aviation Administration (FAA), the Centers for Disease Control and Prevention (CDC), the Transportation Security Administration (TSA), and the Cybersecurity and Infrastructure Security Agency (CISA) to ensure all our member carriers have the latest information necessary to follow the public health guidance.

Following safety guidelines issues by the FAA in collaboration with the CDC, all RAA member airlines are proactively mitigating safety risks posed by the COVID-19 outbreak, both independently and by working closely with their mainline partners. These safety measures are either in compliance with or exceed CDC's recommended protocols. Such examples include, but are not limited to, crew members wearing face coverings and other PPE as appropriate, providing PPE kits and enhanced Universal Protection Kits (UPKs) on board aircraft; conducting aircraft cleaning with approved cleaning agents during operations and electrostatic cleaning or fogging during overnight maintenance. In addition, passengers are required to wear face covering to uphold the overall safety and protection of the travelling public and crew members.

RAA continues to facilitate member airline discussions, through our Councils and Committees, and sharing of best practices related to upholding the safety of employees and passengers. Further, RAA believes the utilization of crucial safety programs and systems in place today, such as the Commercial Aviation Safety Team (CAST), the Aviation Safety Information Analysis and Sharing (ASIAS) and the Aviation Safety Action Program (ASAP) allow airlines to quickly communicate emerging safety and health risks and act to mitigate those risks using a data-driven approach. Recognized globally, CAST is particularly well-suited for advancing solutions given its successful government/industry working group with the broad participation in the program by air carriers, manufacturers and employee groups empowers the industry to meet the urgency of emerging issues by collaboration on solutions.

As our country continues to battle this ongoing public health crisis, regional airlines will remain vigilant, placing the health and safety of their crew and passengers first. RAA will continue to work with this Committee, government agencies and our member airlines and their employee partners to help our members proactively meet and respond to evolving concerns with appropriate safeguards. We additionally hope the Committee will view RAA as a resource as you consider proposals. Our team stands ready to assist and share our ideas, expertise and insights.

Conclusion

Thank you for your leadership securing vital assistance to passenger and cargo air carriers in response to the COVID-19 pandemic. Your actions stabilized the financial health of our country's aviation system. The Regional Airline Association stands ready to partner with the Committee in its continued work to prevent and mitigate the spread of COVID-19 in air transportation and ensure the continuation of air service to all communities across the country. As we work together to combat this pandemic, please know that the safety and health of our crewmembers, passengers, and support partners are our foremost priority, as we continue to uphold the highest level of safety. We look forward to the day when we can safely bring air service back to communities of all sizes.

Thank you for this opportunity to provide comments.

Sincerely,

Faye Malarkey Black

Faye Malarkey Black,
President and CEO