Regional Airline Association Statement for the Record Submitted to the U.S. House of Representatives Committee on Transportation and Infrastructure, Subcommittee on Aviation

"COVID-19's Effects on U.S. Aviation and the Flight Path to Recovery"

March 2, 2021

The Regional Airline Association (RAA) thanks the U.S. House of Representatives Committee on Transportation and Infrastructure, Subcommittee on Aviation for holding the hearing titled, "COVID-19's Effects on U.S. Aviation and the Flight Path to Recovery." RAA submits this statement for the record to inform the Committee on the status of the regional airline industry, share with it the actions the industry is taking to safeguard our crewmembers, passengers, and support partners in response to the COVID-19 pandemic and highlight some of the actions we believe will be critical to preserving air service to our nation's smaller communities.

At the beginning of 2020, US regional airlines employed nearly 70,000 workers and operated about 40 percent of our nation's departures. Most importantly, regional airlines provided the only source of scheduled, commercial airline service to more than two-thirds of our nation's airports. Without regional airlines, these airports would lose their connection to the global air transportation network. Before the onset of the global pandemic, regional airlines had moved from a period of industry contraction into a period of growth, and by the end of 2019 were operating more departures and carrying more passengers than ever before. Alongside this regional airline industry growth, smaller communities were gaining or restoring air service. This is not surprising, as the health of regional airlines and that of the small communities they serve is closely interconnected. Unfortunately, regional airlines are among the many businesses the pandemic has hit especially hard, and as a result, small community air service is at risk.

On behalf of our membership, I want to thank this Committee, along with the Senate Commerce, Science, and Transportation Committee and House and Senate party leaders for their leadership in providing over $75 billion in relief for air carriers in the Coronavirus Aid, Relief, And Economic Security (CARES) Act and the Consolidated Appropriations Act, 2021. Additionally, we are grateful that H.R. 1319, American Rescue Plan Act of 2021, contains $15 billion for air carrier and contractor worker support. To date, such funds have played a key role in helping to preserve jobs and support air service.

We particularly appreciate this Committee's support during the initial design of the CARES Act, in ensuring regional airlines could access payroll support grant programs. This crucial support has been a lifeline for tens of thousands of regional airline workers. The program, which came in the form of payroll assistance, has helped regional airlines meet the critical priorities of protecting their workers and maintaining safe connectivity for smaller communities. However, some carriers, including several regional airlines, saw a substantial portion of those grants turn into surprise loans, which they must repay. This means carriers surviving the pandemic will emerge weaker on the other side, with strained resources. Additionally, most regional airlines still have no access to programs outside of PSP to support their operating costs. Although the CARES Act created another program to meet this need – the Air Carrier Loan Program – most regional airlines were unable to use that program. Regional airlines' unique business models, which involve long-term, fixed contracts with major air carriers, limit the ability to generate excess cash flow to extinguish debt. Additionally, many regional airlines lease or sublease equipment and do not have substantial unencumbered assets with which to collateralize loans. Despite this Committee's clear directive to protect small community air service, the Department of Treasury (USDT) declined to utilize its authority under the CARES Act to make unsecured loans so that smaller carriers could participate. For these reasons, most regional airlines were unable to access the Air Carrier Loan Program to help save their businesses. Unfortunately, five regional airlines ceased operating last year under the pandemic's influence and without the ability to access the more diverse range of support accessible to larger air carriers. This inequity, which threatens small community air service and has decreased competition, has yet to be addressed.

At the same time, business harm continues under the pandemic. Last month, Airlines for America, the trade association for the major airlines, announced that for the week starting January 31st, revenue from airline bookings was down 82 percent compared to the same week in 2019. Where major airlines lose revenue through decreased passenger bookings; regional airlines lose revenue through reduced block hours. Block hours is industry parlance for how much an operator's aircraft are being utilized on behalf of their partner. When block hours are down, revenues are way down. In 2020, regional airline block hours plunged to a nadir, with some carriers down 90 percent. Although block hours were ticking back up more recently, carriers saw additional sharp decreases as the virus surged in December and beyond. In addition to reduced block hours, the same routes are now less efficient and more costly to operate. With fewer passengers traveling, regionals are being called upon to take extraordinary measures to tailor supply to demand more precisely than ever. The dynamic schedule swings that characterize the current market come with a heavy labor and cash toll; airlines are paying higher crew costs while seeing reduced aircraft utilization. Aircraft are not making money when they are on the

ground waiting for the next tranche of passengers, or when they are being repositioned from one airport to another, which is costly.

The regional airline industry has been one of the hardest hit segments of air carriers during the pandemic. RAA members specialize in serving smaller communities that lack the passenger volume to support sustainable air service by larger airlines. Regional airlines serve these communities by partnering with larger carriers to help them reach passengers they could not otherwise serve, using smaller aircraft that are rightsized for markets with fewer passengers. These smaller markets happen to have some of the thinnest margins. There are far fewer passengers over which to amortize demand fluctuations or cost increases. This is why small community air service can be fragile and these markets are often hardest hit when network carriers are forced to retract service. Unlike large carriers, the vast majority of regional airlines are not publicly traded, and their business practices have more in common with a small business than a large multinational company. Most regional airlines do not have access to expansive outside lending while they wait for additional aid. Furthermore, small carriers who do not file reports with the Department of Transportation pursuant to Part 241 received underfunded payroll support awards under the CARES Act relative to larger air carriers due to inequitable criteria applied to their award calculation. As a result, small carriers have had to make do with less aid for longer than their much larger counterparts.

We are grateful that other inequities in assistance have since been partially addressed; however, more action is needed. We are particularly grateful to this Committee's support, though the Consolidated Appropriations Act, 2021, in directing a technical correction to the Payroll Support Program (PSP), to address the inadvertent underfunding of certain small carriers, which occurred when a more limited calculation formula was applied to smaller carriers than to larger carriers. Under the CARES Act, small air carriers who did not file with DOT pursuant to Part 241 were directed to exclude certain salaries and crew benefit information that were included in the standardized calculation of PSP awards of larger air carriers who filed with DOT pursuant to Part 241. As a result of this calculation discrepancy, smaller air carriers were underfunded in initial PSP awards, relative to larger carriers. The Consolidated Appropriations Act, 2021 contained a technical correction to align air carrier compensation award calculations with the exact standards and criteria applied to air carriers who report to DOT pursuant to Part 241 and provided a true-up provision for carriers who were undercompensated under the previous calculation discrepancy. Unfortunately, the shortfall still remains because the prorate that was subsequently applied by the Department of Treasury to the PSP2 awards was applied to this correction. Under the American Rescue Plan Act, this shortfall will finally be fully addressed. Your staff worked tirelessly and

closely with RAA to advance this solution, and we are deeply appreciative of your efforts to ensure regional airlines can more fully support their workforce.

Given the risk to small community air service, we are very grateful for the Committee's continued support of small community air service during the pandemic through supplemental investments in the Essential Air Service (EAS) and Small Community Air Service Development Programs. Additionally, the inclusion of minimum air service requirements in the second COVID relief package helped to ensure that small communities were not completely disconnected from the country's air transportation system. We likewise appreciate the Department of Transportation's thoughtful implementation of these minimum air service guarantees, balancing community needs and carrier health. Lastly, we appreciate your including eligibility requirement waivers for FY2020 and FY2021, to ensure that EAS communities experiencing passenger decline under the pandemic need not fear being removed from the program due to circumstances outside their control.

Department of Treasury's Administration of the Payroll Support Program

Recognizing that harm has touched families, businesses and communities throughout the pandemic, RAA strongly supports the proposal for additional payroll aid through the American Rescue Plan that the Congress is currently considering. Simultaneously, we have substantive concerns with the Department of Treasury's current administration of PSP that is today jeopardizing the full recovery of a number of regional airlines. One enormous problem ongoing to this day is USDT's lack of communication and persistent delay in providing PSP2 payroll awards to small regional carriers – some of whom have had no communication from Treasury in over eight weeks despite filing well in advance of the early application deadline. Under the Consolidated Appropriations Act, 2021, USDT had ten days following the December 27th enactment to make initial payments to air carriers. The deadline for early consideration applications was January 14th. Prior to the deadline, the Department was in contact with twelve large carriers to ensure that their applications were processed as quickly as possible. On January 15th, the Department approved $12 billion in assistance to employees of these twelve large passenger carriers and dispersed $6.1 billion in initial payments.

While we are appreciative and grateful for the Department's quick processing of these applications to support the workforce of these carriers, RAA is deeply concerned that as of the writing of this statement, over 150 carriers and operators have not received their awards. Four of RAA's members have had either very minimal or no contact with the Department about their application and do not know when or if they will receive their awards. Because of this, these carriers have been unable to sufficiently plan their business operations. As this

hearing takes place, some airlines have hundreds of employees still waiting to be recalled. Others, who have managed to avoid furloughing employees to date, have no choice but to contemplate furloughs because of this delay in relief. It is deeply inappropriate that the assistance made available to other carriers has not yet been made available to them. Many of the carriers facing these circumstances are the same carriers who were initially undercompensated under the first round of relief. These same carriers are now experiencing untenable delays to their second round of funding, rather than the correction Congress intended. Overall, the rollout of PSP2 awards marks a notable departure from the Department's approach under the CARES Act, where it prioritized awards to small air carriers because they viewed them as the most vulnerable to the financial impacts and disruptions caused by the pandemic.

RAA believes that the Department has a very small window of time to speed up its awards processing or they risk doing further harm to small carriers. As you know, the American Rescue Plan Act contains a third PSP extension, and the Congress appears to be on a path to pass this third COVID relief package by mid-March. Under the legislation, the Department will have effectively until the end of March to process all PSP3 payments, which are entirely based on the PSP2 amount awarded to air carriers. However, if the Department has not finished awarding all PSP2 payments, PSP3 awards will be delayed for some, which could further imperil these small carriers' financial health. Given the dramatic decline in passenger air travel over the last year, small carriers do not have the cash reserves to support their full payroll for a prolonged period without assistance. RAA asks the Committee to communicate to the Department of Treasury the urgency of processing any remaining PSP2 awards immediately and, upon passage of the American Rescue Act Plan by Congress, processing all PSP3 awards before the end of March.

Lastly, utilizing discretionary authority granted to it under the CARES Act, the Department of Treasury imposed an additional condition on the payroll support awards for large carriers, which required carriers to provide financial instruments for compensation in the form of an unsecured loan for a portion of the PSP1 and PSP2 awards above $100 million. In short, carriers must pay back a portion of their award even though the carrier acts as distributor of the aid to its eligible employees, excluding corporate officers. While we greatly appreciate the appropriate exclusion of small regional airlines from these requirements, the categorization erroneously captured a few regional airlines because of the size of their payroll and subjected them to disadvantageous conditions of aid. However, unlike other large carriers, these regional airlines do not issue tickets or derive revenue directly from passengers. RAA's position is that the warrant requirement is completely counterproductive to the recovery of the industry and its workforce; carriers have taken on large amounts of

debt in response to the pandemic and the industry has not yet achieved a breakeven cash flow. The Department's decision to add to this debt burden will only serve to further delay the industry's economic recovery and the return of air service and employment levels to those reached prior to the pandemic. Accordingly, RAA is very disappointed that the House Financial Service Committee turned this discretionary condition into a mandatory requirement as part of the American Rescue Plan Act. We hope that we can work with the Congress in the future to ensure that the warrant requirement does not impede the industry's recovery and the growth of our workforce after the pandemic abates.

Small Community Air Service

RAA deeply appreciates the Committee's support of small community air service throughout the pandemic. While regional airlines provide valuable service to communities of all sizes, 409 U.S. 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 and are only served by regional airlines. While larger cities, with historically high yield, higher density traffic may be confident that air service will return with widespread vaccinations, those US airports served exclusively or primarily by regional airlines are vastly more vulnerable. 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, according to Delta Airport Consultants.

The resource strain detailed above imperils air service to smaller communities moving forward. Historically, some markets may not have survived on their own but as part of the whole they brought value. In strong years, these marginal routes could survive if they supported the network overall. Under today's unparalleled resource strain, decisions are likely to turn on highest, best use. This means marginal markets are exposed to higher risk with faster consequences than before. A review of historical trends ratifies this concern. According to the DOT Working Group on Small Community Air Service, between 2007 and 2016, as the industry grappled first with the Great Recession and next with workforce shortages, the impact on air service was sharply uneven between small and large communities. The Working Group found that non-hub and small-hub airports saw departures reduced by a factor *five times worse* than reductions at large hub airports. During the same period, smaller communities lost more than 31 percent of their scheduled departures and more than 50 airports lost scheduled air service altogether.

Thus, the Committee's inclusion of Section 4005, Continuation of Certain Air Service Language in the CARES Act and Sec. 407, Minimum Air Service Guarantees in the Consolidated Appropriations Act, 2021 prevented many small communities from completely losing air service during the pandemic. Air service data drawn from the period between the expiration of the Continuation of Air Certain Service Agreements associated with the CARES Act and the start of the Minimum Air Service Agreements associated with the Consolidated Appropriations Act, 2021 offer a glimpse of what might have taken place if the Committee hadn't insisted on the protection of small community air service. Four communities in Destin, FL; Morrisville, VT; Worcester, MA; and Meyers Chuck, AK completely lost air service during this short period. We further believe that the full impact of these air service drawdowns was substantially muted by the ongoing extension negotiations at that time, which influenced ticketing carrier decisions.

RAA understands that language related to Minimum Air Service Guarantees is not included in the American Rescue Plan as part of the PSP extension because of the legislative drafting limitation imposed by budget reconciliation and are aware that the Transportation and Infrastructure Committee and the Senate Commerce, Science, and Transportation Committee believe the Department of Transportation can utilize its existing authority under the Consolidated Appropriations Act, 2021 to extend the air service commitments until the end of September 2021 to align with the third PSP extension under the American Rescue Plan Act. Absent an extension of the service guarantees, many communities not presently EAS-eligible are at risk for total air service loss without intervention. While RAA does not advocate for hold-in policies, we firmly believe no community should face the economic peril of losing all scheduled air service due to the pandemic. As you know, The Federal Aviation Administration Modernization and Reform Act of 2012 (P.L. 112-95) provided that for locations outside of Alaska and Hawaii to remain EAS-eligible, they must have participated in the EAS program at some time between September 30, 2010, and September 30, 2011. This decision to restrict the EAS program could not have contemplated the air service risk communities would face in recovering from a global pandemic. RAA therefore urges the Committee to support expanding EAS eligibility to at-risk communities that would otherwise meet EAS program criteria but are restricted from the program by virtue of non-participation during the aforementioned dates. We envision this expansion as a temporary measure until market conditions stabilize.

Furthermore, as part of the FY2022 appropriations process, we hope that Members of the Transportation & Infrastructure Committee will continue to demonstrate strong support for the EAS and SCASDP programs by urging the House Appropriations Committee to include full funding in the FY2022 Transportation, Housing, and

Urban Development Appropriations Bill. These programs are vital to protecting small community air service, which is severely threatened by the sustained drop in passenger air travel demand caused by the pandemic. Lastly, Congress should continue to urge DOT to work with carriers who participate in the EAS program to ensure flexibility and responsiveness in light of cost increases and plummeting revenues that impact underlying, fixed contracts.

Commitment to Health and Safety

Regional airlines have continuously taken 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 issued 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 coverings to uphold the overall safety and protection of the travelling public and crew members, which regional airlines initiated as airline policy and continue to support as a federal mandate.

RAA continues to facilitate member airline discussions, through our Councils and Committees, and sharing of information and best practices related to upholding the health and safety of employees and passengers. Further, RAA believes the utilization of crucial safety programs and systems in place today, namely through Safety Management Systems (SMS), allow airlines to quickly assess emerging and changing safety and health risks and

implement mitigations using a data-driven approach. Airlines utilized existing safety programs such as the Aviation Safety Action Program (ASAP) to collect safety information directly from their employees and added COVID risk categories to their complex safety risk matrix to analyze and reduce those risks. RAA and our member airlines are key stakeholders in the national safety programs such as the Commercial Aviation Safety Team (CAST) and the Aviation Safety Information Analysis and Sharing (ASIAS) program. Recognized globally, CAST is particularly well-suited for advancing solutions given the broad participation and collaboration in the program by air carriers, manufacturers and employee groups who empower the industry to meet the urgency of emerging safety issues.

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. Further, 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 ask the Committee to view RAA as a resource as you consider proposals. Our team stands ready to assist and share our ideas, expertise and insights.

Mitigating Pandemic Harm to Supply of Commercial Airline Service

While it may seem surprising to discuss a potential shortage of airline pilots at a time when the industry is still contemplating tens of thousands of furloughs, we do expect the pilot shortage to return as a limiting factor during recovery. In fact, today's furloughs stand to worsen matters. If the Committee will recall, following the September 11th attacks on the United States, industry furloughs at that time correlated to reduced interest in the professional pilot career path. The resulting sharp decrease in new student pilots entering the pipeline meant far fewer eligible pilots were entering the career path than were needed, especially as a large complement of baby boomer pilots began to reach mandatory retirement age. While the pandemic has driven a temporary reprieve in the pilot shortage, a national crisis impacting the perceived attractiveness of airline career paths could deter another generation from the pilot profession, making the shortage worse when it returns.

The actions taken by this committee to protect aviation workers, and in support of healthy airlines, will help ensure the industry remains attractive to future generations. Additionally, today's lull in hiring presents an opportunity to open up education opportunities for pilots, including many who have been dramatically underrepresented in the flight deck and today cannot afford or finance training. RAA is backing legislation to make the pilot profession more accessible through the provision of additional federal financial aid to students seeking pilot training. Today, the cost of pilot education and training is higher than the available federal student

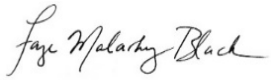
aid dollars, which effectively reserves the career path for those with access to private wealth or capital. RAA has been working with lawmakers on the relevant House and Senate Education committees and anticipates legislation will be introduced this Congress. Given this Committee's jurisdiction over aviation and interest in the matter, we ask for your support. By shoring up outreach efforts and ensuring the pilots we reach can access the education and training for the profession, we can welcome new and more diverse aviators into the profession for generations to come.

Conclusion

Thank you for your leadership in securing the vital assistance needed by carriers in response to the COVID-19 pandemic over the past year. Your actions have stabilized the financial health of our country's aviation system and have ensured the preservation of our workforce so that we are in a position to support our country's economic recovery. As vaccination levels increase and passengers return to air travel over the course of the year, regional airlines will continue to treat the safety and health of our customers and crewmembers as our top priorities. We look forward to working with you to make sure we can continue to keep small community air service healthy and supported.

Thank you for this opportunity to provide comments.

Sincerely,



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