# SEPTEMBER 11, 2001 PLUS 30: ARE AMERICA'S SMALL BUSINESSES STILL GROUNDED?

## HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATORY REFORM AND PAPERWORK REDUCTION

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

WASHINGTON, DC, OCTOBER 11, 2001

**Serial No. 107–31**

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

77–046 WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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# SEPTEMBER 11, 2001 PLUS 30: ARE AMERICA'S SMALL BUSINESSES STILL GROUNDED

**THURSDAY, OCTOBER 11, 2001**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT,
*Washington, DC.*

The committee met, pursuant to call, at 1:05 p.m. in room 2360, Rayburn House Office Building, Hon. Mike Pence (chairman of the committee) presiding.

Mr. PENCE. This hearing of the Subcommittee on Regulatory Reform and Oversight of the Committee on Small Business will come to order.

I want to begin today by thanking all of those who will be testifying on our two panels for your time on what turns out to be a rather auspicious day, and to say that we do anticipate other members joining us as we go forward in what will probably be two or three hours of testimony and questions. Several members of our subcommittee indicated that they would be attending the Pentagon ceremonies this morning, which we certainly respect and appreciate, but wanted very much to go forward with this hearing given the sacrifices that the various witnesses have made in being here and for which we are very grateful.

Let me begin with some opening remarks. Then I will introduce each of the first panel in succession. You will be recognized for five minutes of remarks, and those of you that are more veteran here on the Hill will appreciate the lights will signal you. Green will represent the obvious, yellow will mean not step on the accelerator but begin to slow down, and red, you will not be gaveled unless you seriously violate the red light, but we will just ask you to wrap up your comments as best you can. We also would indicate that those of you that have submitted written remarks, those will obviously be made a part of the record of this hearing.

And we will hold questions, I have questions for all of the witnesses, as I am sure other members who will be joining us as we go, questions we will hold until all of the various panelists have made their opening statements, and then we will go into the question and answer session.

My parents' generation remembers where they were when Franklin Delano Roosevelt died. Even elementary school children of my generation remember where they were when they heard that President Kennedy had been assassinated, as do I. Indelibly etched in our collective memories will be the pictures on television and the occurrences that occurred one month ago today, September 11,

2001. The events of 11 September have reverberated throughout this nation and the world, as I saw in evidence at a recent terrorism conference that I attended in Berlin.

Though at a glance, they may seem pedestrian, today's hearing examines what are in fact significantly important economic consequences of the events of September 11. Immediately after the events, the Federal Aviation Administration, quite correctly, shut down all air traffic throughout the United States. During the shutdown, the commercial airlines estimated that they lost more than a billion dollars. Congress responded appropriately, in my judgment, with an economic package to stabilize commercial airlines.

However, the events of September did not just affect the commercial aviation industry. Shaken by concerns over the economy and the safety of air travel, Americans and foreigners have, as many of those who will give testimony today will attest, cancelled plane flights, businesses have substituted video and telephone conference calls for face-to-face meetings that required travel, and people have simply cancelled vacation plans in their entirety.

The economic consequences of the events of September 11 have not just been felt in New York City and in Washington, D.C., but throughout the country, and certainly in my home state and home district, in central Indiana. And the impact has been most dramatic on thousands of small businesses that rely and depend on aviation for their livelihood.

It is easy to understand the effect that the shutting down of commercial aviation had on airlines. But the reverberations of 11 September permeate the American economy much more deeply. Congress so far has only dealt with the problems of some very large businesses. I expect testimony today will prove invaluable, as I am sure my colleagues will agree, as the Small Business Committee deliberates on the actions it can take to assist the small business community whose plight has been largely ignored by government to date.

Obviously, the businesses that serve aviation have been affected most dramatically. Smaller airports, like many of those in my district, whether they serve commercial airlines or general aviation, have suffered substantially through reduced flight operations. Not only does this reduce the revenue streams of the airports, but it also adversely affects the businesses that provide support, such as catering services, fuel suppliers, aircraft maintenance and the like. And we cannot forget that access to air service plays a vital role in economic development—an issue that is of crucial importance to many members of the committee and of this subcommittee.

Travel and tourism are an important sector of the American economy in the four corners of this country. The travel industry depends on air transportation to get many of their customers to destinations. In the wake of the events of 11 September, airlines have seen air traffic reduced by 40 percent. And on the domestic and international flights that this chairman has personally taken, 40 percent would be a very generous estimation of participation in the flight. When people do not fly, hundreds of thousands particular of small businesses suffer, and we are here to talk about that today.

It is easy to picture the problems faced by concessionaires at Reagan National Airport who have had no business for nearly a

month. But what about a restaurant or a newsstand that has lost significant amounts of foot traffic because it is now located beyond the security checkpoint? One can also imagine the problems facing the rental car industry where 90 percent of business is done at airports that are now suffering from substantially reduced traffic. Travel agents have lost revenue from cancellation of airline flight, hotel and car rental reservations, and cruises. Fine dining restaurants now serve fewer tourists and business customers.

Hotels, large and small, cannot fill their rooms, and not just in New York City or Washington, D.C. Hoteliers in Los Angeles County have already laid off 40 percent of their workers, as an example, and closed entire floors in efforts simply to stay afloat.

Taxicabs and limousines that take passengers to and from the airports have also seen severe reductions in operations and revenue. Given the concern about air travel, one might imagine that bus operators are thriving; they are not. They join the rest as they continue to struggle in this economy.

These grim data show that the small business economy is without a doubt struggling. Businesses across the country are feeling the adverse effects of the events of 11 September. We will hear from a wide variety today of small business owners of aviation-related and aviation-dependent businesses on their economic outlook.

I also look forward to their recommendations on legislative and regulatory changes that can be made to help them through this crisis time. Those suggestions are particularly timely as the committee is examining changes to the Small Business Act that will provide greater assistance to small businesses that have been adversely affected by the economy as a whole, and not just those in declared disaster areas.

I look forward to the testimony today. I want to thank all the witnesses for taking the time to travel to Washington, D.C. and be willing to be with us. And given the importance of this hearing, I would also like to offer each member of the subcommittee present an opportunity to make an opening statement.

And with that, I would like to turn to the gentlelady from the Virgins Island, Ms. Christian-Christensen for her opening remarks, and welcome.

[Mr. Pence's statement may be found in appendix.]

Ms. CHRISTENSEN. Thank you. Thank you, Mr. Chairman, and thank you for holding this hearing.

The events of September 11th clearly had a devastating effect on several vital sectors of our economy. Most notably has been the impact on the airline industry where estimates of losses are in the range of two to three billion dollars, and industry-wide layoffs expect to exceed $100 billion.

To shore up this industry, Congress acted quickly and passed the Air Transportation Safety and System Stabilization Act. The legislation provides $15 billion through grants and loans to assist the airline industry. This legislation was an important first step, but it is only the beginning, not the end. Still unresolved is the struggle facing thousands of workers in the airline industry who have lost or stand to lose their jobs. US Airways has announced they will eliminate 11,000 jobs, a 23 percent cut as a result of the attack.

Congress must act with the same speed they did to come to the aid of the airlines, ensure that workers not only have access to unemployment insurance because it is estimated that almost half of all laid off airline workers do not currently qualify for unemployment, but also to extend health coverage through COBRA and provide training assistance.

While the challenges facing both the airlines and their workers have been well documented, what has been lost for the most part is the effect that these events have had on the thousands of small businesses in air travel and tourism industries. Travel agents have seen their numbers plummet with the possibility of losing a full one-third of the industry if action is not taken soon. For the motor coach industry, the picture is not much brighter. Tour operators report cancellations of between 30 and 80 percent, amount to 500,000 lost trips per day, and job cuts of up to 20 percent.

What is clear is that actions must be taken to help build a bridge across this difficult period. Democratic members of the committee have introduced H.R. 3011 that allows industries specifically affected by the events of September 11 to qualify for low-cost and no-cost loans through the Disaster Loan Program. This will provide some assistance while these vital parts of our economy get back on their feet. The committee should act on this common sense solution, and I would encourage my friends on the other side of the aisle who care about the plight of these small businesses to join us in passing this important legislation.

These industries play an important role in the air industry. When we took up the airline bailout bill, many said if we just made the airline industry whole, everyone would benefit. We did that, but what is clear is that the whole airline industry depends on these small businesses just as much as they do the airlines because if there is no one to fuel, repair, supply or clean an aircraft, no travel agents to sell tickets, no buses to get travelers to their destinations, no hotel to stay at, restaurants to dine in, the bottom line is that people will not travel and the bailout for airlines will be in vain.

I represent the U.S. Virgin Islands, and for us tourism is 70 percent of our economy, and we are very dependent on airlines, so this is particularly important to us. This scenario is exactly why we must act to assist small businesses and help them through the rough times ahead as Americans gradually regain a sense of security and translate that confidence into new travel plans.

I am also particularly pleased that this hearing is scheduled to look at the smaller aviation industry as well. In the past two days, I have received several pieces of correspondence from small general aviation airlines in the Virgin Islands requesting my help in getting an FAA ban lifted on Part 91 flights from many foreign jurisdictions which has caused a virtual shutdown on these small Virgin Island airline operators. As an example, we have the British Virgin Islands 40 miles away. For them to come in from there, they would have to go to the Bahamas, about 1,600 miles away, and then come back to the Virgin Islands. That is just one example of some of the issues raised in those letters.

I look forward to hearing the testimony of our panelists this morning. And once again, thank you. This is a very important hearing.

Mr. PENCE. Thank you, Dr. Christian-Christensen, and thank you for being here on what we all know is a very busy day on the Hill and off the Hill.

With that, as I mentioned before, for the benefit of my colleague, that we will hear from each of our witnesses on this first panel, and then we will each of us in turn ask questions of the witnesses that are of interest based on your testimony.

Our first witness today, we are very pleased to have Congressman James Coyne, who is president of the National Air Transportation Association. Congressman Coyne served in the United States Congress where he had a distinguished career. He then served as a member of the White House senior staff and became National Air Transportation Association president, representing nearly 2,000 large and small aviation businesses in April of 1994.

Since leaving the White House in 1985, he has also been an author, a consultant, and a popular speaker around the country, had been president of the American Consulting Engineers Council, founder and president of the American Tort Reform Association, and also worked in the term limits movement around the country.

His love for and commitment to aviation though is very likely what brings him to this panel today. It has been an important facet of his personal and professional life. Two business airplanes helped him to expand his business significantly in the 1970s. He also regularly flew from Washington to Pennsylvania throughout his terms in Congress, and as NATA president, he has visited over 300 FBOs and aviation service businesses across the country.

He calls McLean, Virginia home, and is also married to an instrument-rated pilot as am I.

So Congressman Coyne, welcome, and you are recognized for five minutes.

## STATEMENT OF JAMES K. COYNE, PRESIDENT, NATIONAL AIR TRANSPORTATION ASSOCIATION

Mr. COYNE. Thank you very much, Mr. Chairman. Congresswoman Christensen, it is also a pleasure to have you here.

I should say it is a very small group of people of members of Congress, former members of Congress or current members of Congress who are fortunate enough to have a wife as a pilot. It keeps us on the straight and narrow, I know, and I am very happy to be here.

I am also very happy that Mrs. Christensen is here because we have had a lot of concern about the Virgin Islands. In fact, one of those 300 airports that I have been to has been down to St. Croix, and also to other locations, in St. Thomas, and I am very, very happy to discuss with you the problems that they face.

But, first, I would like to describe, if I may very briefly, the impact that our industry is enduring in response and as an effect, a direct effect not only of the catastrophe that occurred of one month ago today, but also in response to the actions of our federal government in effectively responding to that crisis, but also imposing very severe restrictions on aviation in America.

To put it quite simply, we face a catastrophe, a catastrophe unlike any catastrophe has ever faced the businesses that make up aviation in America today. Never before since the invention of the airplane have so many small businesses in America in aviation faced literal disaster, face bankruptcy, face the economic catastrophe that they face today.

Why is this? Well, simply put, as you know, any business has to deal with the challenge of making a profit day in and day out. And these businesses have suffered in two ways.

First, their sales have been devastated because activity has been prohibited at most of these airports. Currently, today, there are 280 airports in America that are effectively shut down to all VFR traffic, which in most of these airports represents between 75 and 85 percent of their activity. Today, 280 of these airports are effectively shut down. Many airports are shutdown, as you will hear from other witnesses, entirely still today airports here in the Washington area and the New York area and other places.

And, in addition, there are airports in the far-flung corners of America, from Maine to Alaska to the Virgin Islands, Puerto Rico, to North Dakota to the borders along our southern boundaries where because of restrictions on international travel these airports are effectively curtailed.

And I would especially like to bring to your attention the hardships that these businesses are facing, which is principally because of the actions of the federal government, which have restricted the use of our airspace for the last 31 days in many different ways.

But not only have sales fallen for these companies in many cases to zero percent, but in addition, their expenses are going up at the worst possible time. Most of our member companies are facing increases in insurance, and I do not want to criticize the insurance industry, but clearly in this time of unusual threat and concern there are many people in the insurance industry that have rushed to cancel policies or to make it impossible to have affordable premiums. Several of our member companies have been told that they have been literally shut out of insurance, forced to go to what they call naked in the insurance business. Others have seen insurance premiums increased by 20- or 30-fold, not just 20- or 30-percent, but 20- or 30-fold in many areas.

In addition, new security costs are being imposed on many of these businesses. Local airports are demanding new procedures, new staff to be hired, new equipment to be bought.

So at a time when their sales in many cases is only a tiny fraction of what it should be at this time, they are facing increased costs. The result is that many of these businesses have laid off virtually all of their employees.

I know businesses that have had—that are owned, let's say, by a husband and wife. They might have 20 employees. All 20 employees are laid off, and the husband and wife are coming into the office trying to barely stay alive, to keep afloat in these very hard times.

I would like to especially mention one of our members who was invited by the committee to be here. It is a typical small business in North Dakota, a place that people might say is far removed from the disasters that struck in New York and Pennsylvania and at the

Pentagon. But even in North Dakota, just as you know, Congresswoman, in the Virgin Islands, this far-flung disaster has created economic disaster.

The gentleman from North Dakota who was expected to be here and who had been invited is the owner of a small operation in North Dakota. The name of the company is North Country Aviation, and you had invited him to be here, I think, a Neil Mathison, but unfortunately he called us a couple of days ago and said there was just no way he could afford to leave his business at this time, to afford to buy the plane ticket to come here from North Dakota, and he asked me to speak on his behalf.

Even in far-flung North Dakota, they have lost about 70 percent of their business, over $100,000 just in the last 30 days, and that far exceeds their normal profit in a full year. Much of their business in North Dakota depends upon the ability to fly Americans up to Canada, and to go on fishing and hunting trips. And they find themselves, because of new government regulations, unable to do that.

Same thing is true in Virgin Islands as you know, where the principal operator there, Bulky Aviation, I am sure you are familiar with, has seen its sales fall by nearly 80 percent over this past month, and they do not see any light at the end of the tunnel.

So what has effectively happened, if I may say so, Mr. Chairman, it is as though a tornado hit these airports; not one tornado, hundreds and hundreds of tornados. The small business community has frequently faced these kinds of disasters and looked to the government for relief against natural disasters. Now we hope that they can give financial assistance, loans and other things, in the same way, but not just to one airport with one tornado, but all of these airports with a disaster that has affected them all.

I thank you very much for the opportunity. And if I may, I would like my full comments to be included in the record, and I look forward to answering your question.

[Mr. Coyne's statement may be found in appendix.]

Mr. PENCE. Without objections, and Congressman Coyne, thank you for your thoughtful remarks.

With that we will recognize Maureen——

Ms. TARASCIO. Tarascio.

Mr. PENCE [continuing]. Tarascio.

Ms. TARASCIO. Tarascio, right.

Mr. PENCE. Thank you very much.

And is your husband, Mike, here as well today? He is. Good. Good to have you here.

Maureen Tarascio and her husband began Air East Airways in 1982. Air East is a flight training school located at Republic Airport in Farmingdale, New York. Maureen is the operations manager of the flight school.

In 1994, the aircraft charter company began. Maureen also took on the position of overseeing charter sales. The diversity of running both companies is a challenge which she describedly enjoys. Dispatching the company's Lear Jets to different destinations makes her job exciting and ever-changing on the flight school level whose membership exceeds 300 students and pilots. Maureen guides

members to realize their dreams in becoming either commercial or private pilots.

And Maureen Tarascio, you are recognized for five minutes testimony before the subcommittee.

**STATEMENT OF MAUREEN TARASCIO, PRESIDENT AND OWNER, AIR EAST MANAGEMENT, FARMINGDALE, NY, ON BEHALF OF THE NATIONAL AIR TRANSPORTATION ASS'N**

Ms. TARASCIO. Thank you.

Chairman Pence, Ranking Minority Member Brady, Congresswoman Christensen, and member of the Regulatory Reform Committee and Oversight Committee, my name is Maureen Tarascio. I am the owner and operations manager of Air East Airways, a company located at Republic Airport in Farmingdale, New York.

I am also the secretary of LIBAA. LIBAA is Long Island Business Aviation Association. It is a recently formed organization that represents the business aviation industries—represents the business aviation interest on Long Island.

Being from the Long Island area, as you well can understand, we are deeply affected by the September 11th disaster. We are continually saddened by the death and destruction we have experienced.

My company is here today testifying on behalf of National Air Transportation Association, an organization that represents nearly 2,000 aviation businesses.

I would like to tell you a little bit about my company and how we are affected by the closure at Republic Airport. My husband, my four children and I have worked 20 years to make the company what it is today. We began with one aircraft in 1982, and have built up the business to include our charter and maintenance department. We also recently completed our facility, a project which took us 10 years to complete, so it was through a lot of hard work.

We are just like many companies in this industry. We work long hours to provide our customers with a place to train for their pilots license, and working with many people who are looking to advance to that as a career. It is the love for aviation that drives us forward.

Due to the closure of our airport, we are in jeopardy of losing everything we worked so hard to create. The ramifications of Republic Airport being closed to most operations for nearly one month is immense. It has affected so many people: the worker who fuels the aircraft, the caterers, the limo companies, even the deli or restaurant outside the airport who had our customers frequent their establishments.

And I want to mention that Republic Airport happened to be one of the busiest airports in the region. When we were closed down, we normally had 580 aviation operations a day, we were down to 26.

General aviation is not just about the person who flies the airplane, it's about the economic boost that is given to many industries related and unrelated.

Between September 11th and October 6th, Republic was closed to all operations except Part 135 charter, which meant a 96 percent reduction in total flight activities. This resulted in a loss of $4,000

per day to my company and $200,000 per day to all the companies at Republic Airport.

At present, Republic is only partially open, the area is still only 50 percent operational. We need to have the restrictions lifted so we can regain the other 50 percent revenue needed. We are concerned that we have lost a percentage of our business that will never be regained. There are some businesses at Republic which may never reopen. We have lost business because local airports such as Islip were open within a week after the disaster, so we have customers that have gone to those airports to do their training.

One other great concern to us is the aviation insurance problem. We have already experienced problems within the first week after the WTC tragedy with the cancellation and resale to us of war risk coverage. We also expect to have major increases in our premiums when we go into renewal on our aviation insurance policy. There are some companies at Republic that did recently go into renewal, and they told us they had a 200 percent increase in their premium. We had already experienced a 35 percent increase last year, last January, so we can expect this to be phenomenal.

The problem with the insurance is that, of course, to make up for that our rates are going to have to go up, which would make it difficult for the consumer to be able to afford it, be it flight training or aircraft charter. Survival of our industry will directly affect the national economy. We need funding to somehow make up for the losses we have incurred. We are hoping to obtain that funding in the form of federal grants, and we need this process expedited. Our future and the future of general aviation greatly depends on the federal aid our industry receives.

To sum up my testimony, first, I encourage members of the subcommittee to ask the Bush Administration to lift the remaining enhanced Class B airspace restrictions throughout the country; and second, I request that General Aviation Small Business Relief Act of 2001 be approved and provide us with relief.

Thank you for giving me the opportunity to speak today.

[Ms. Tarascio's statement may be found in appendix.]

Mr. PENCE. Thank you, Ms. Tarascio. I want to thank you and Mike for making the trip here and giving us some harsh facts but very important facts for this hearing.

Ms. TARASCIO. Thank you.

Mr. PENCE. I am going to yield to the gentleman from Pennsylvania, Congressman Pat Toomey who has a witness at the panel that he will introduce.

Mr. TOOMEY. Thank you, Mr. Chairman, and thanks for your indulgence. I am—right now another committee that I serve on is marking up an important bill and I will have to excuse myself, unfortunately, because we do expect votes for that markup. But I wanted to be here to introduce a constituent of mine, whom I am very grateful for his appearance today, and I look forward to his testimony.

George Doughty is the executive director of the Lehigh-Northhampton Airport Authority in the Lehigh Valley of Pennsylvania, and specifically Lehigh Valley International Airport, and this is a post he assumed in 1992, prior to which Mr. Doughty was

responsible for the management of Stapleton International Airport in Denver, prior to which that he has experience as director of airports in Cleveland, he has experience in the Baltimore-Washington International, Airport and a number of other major regional airports as well as many different capacities in the aviation industry. He has been active in many aviation associations.

He is a licensed private pilot, and I know there can't be more than a handful of people in the entire country with more firsthand knowledge and firsthand experience in managing airports across the country, in particular, airports like the Lehigh Valley International Airport, which plays such a critical role in the economy of our entire region.

George, I appreciate all of your input and your willingness to be here today to share with us your perspective on how the attack and subsequent federal action has had an impact on airports, particularly ours, but others like it, and I thank you for being with us.

Mr. PENCE. Mr. Doughty is recognized for five minutes of testimony.

**STATEMENT OF GEORGE DOUGHTY, EXECUTIVE DIRECTOR, LEHIGH VALLEY INTERNATIONAL AIRPORT, ALLENTOWN, PA, ON BEHALF OF THE AIRPORTS COUNCIL INTERNATIONAL—NORTH AMERICA**

Mr. DOUGHTY. Thank you very much, Mr. Chairman, distinguished members of the committee. It is my pleasure to be here this morning to represent Lehigh-North Hampton Airport Authority as well as the Airports Council International-North America.

There has been, as we all know, significant impact from the events of September 11th. Both our airport and other airports have seen tremendous drops in business and traffic as a result of that and also as a result of the restrictions that have been placed on airports.

Lehigh Valley International is located in the Lehigh Valley between the cities of Allentown and Bethlehem which is about 50 miles north of Philadelphia and 80 miles east of Newark. Our primary market area is about 2.5 million people and we have very important businesses such as Air Products and Chemicals, Bethlehem Steel, Mack Truck, Merck & Company, and many others large and small in the region that depend on our airport to provide service for them.

Last year, Lehigh Valley handled about a little over one million passengers. It was a record for us last year. And our business continued to grow well into this year despite the fact that the economy was weakening. We have about 120 airport employees that work for the airport authority, and about 700 employees generally working at the airport in airport-related and airline jobs there.

The Airports Council International-North America, it is an organization representing local, regional and state governing bodies that own and operate commercial airports in the United States and Canada, of which the Lehigh-North Hampton Airport Authority is an active member, and I am an active participant having served as chairman of the association in 1993.

There are three, really three basic ways that we have been affected as airports since September 11th. We have had immediate

increases in operating costs as a result of the additional security requirements that have been placed and law enforcement requirements that have been placed on us by the federal government. There have been service reductions by the major airlines at nearly all the airports. It's been particular critical for small airports.

That results in fewer travel options for people in our community and reduces the revenues that airports receive from airlines. Fewer passengers mean less revenue from parking concessions and other airport businesses, and to the community facilities that support airport operation. For Lehigh Valley International Airport, we estimate that over the next year we will see at least a $600,000 increase in costs—in airport operating costs, primarily security requirements. The Airports Council International estimates that nationally since—just in the period September 2001—before the period September 2001 to 2002, additional security expenses will be $355 million. That is operations only.

Our revenue losses, Lehigh Valley as an example, we believe will be about $1.2 million for the next year, and ACI member airports have lost $185 million for the period just between September 11th and September 22nd, and they estimate that airports combined will lose $4.9 billion in the next year, including capital investment losses. At airports, as you know, there are a number of businesses that support our operations, including concessions and other airline and airport supporting organizations. ACI–NA estimates a $2.3 billion loss from September 2001 to 2002 as a result of this reduction in business.

There are several things that the federal government can do to aid airports, and I would just like to list a few. ACI has submitted proposals to Congress for assistance to airports. They include: broadening the rules relating to the AIP program, the Airport Improvement Program, and broadening the use of passenger facility charge revenues to cover some of the extraordinary costs that we will be experiencing. ACI has also recommended that we seek congressional approval for the increased cost, direct appropriations for the increased cost in security requirements at airports that were mandated by the FAA.

I would point out that the $5 billion that was given directly to the airlines may not flow down through rates and charges to the airports. The airlines probably will not be excited by sharing that money with us because they have their own problems. They would like to see from airports, and we will begin reducing costs and have begun reducing our costs, they would like to see lower fees. The reality is we will probably have to charge higher fees, and there will be significant resistance from the carriers to make those payments. Therefore, we would appreciate, obviously, some action on the part of the federal government to reimburse airports for the direct cost of these security requirements.

Finally, there are a number of things that have occurred in the last several months, additional requirements and various proposals for improvements to security. One of those was the deployment of the national guard troops. Airports would very much like to see a much broader role for the national guard, more flexibility in their use, which would aid us in taking care of certain security issues

at airports that are currently being borne solely by airport police, and they are overworked and very much strained at the moment.

Finally, in reference to the number of additional security proposals that are on the table, we would hope that Congress would take the time to make certain that these are rational and effective proposals, and are not just proposals that are designed to make people feel good. People will feel good and they will return to aviation if they are really secure, and we would hope that a great deal of thought is put in place to achieve those kinds of security improvements.

Thank you very much, Mr. Chairman, for the opportunity to be here today.

[Mr. Doughty's statement may be found in appendix.]

Mr. PENCE. Thank you, Mr. Doughty. We will look forward to questions from the Chair and other members present, and thank Congressman Toomey again for joining us for however long his schedule with markup permits.

Our next witness to be recognized for five minutes is David Wartofsky.

Mr. WARTOFSKY. Well pronounced.

Mr. PENCE. And David is partner and co-founder of Potomac Aviation Technology Corporation, a research and development marketing firm created to develop technology, federal approvals, manufacture and marketing of proprietary airport communications, weather and surveillance technologies nationwide. Essentially he works in the area of developing technology that brings artificial professional intelligence and communications into the aviation's communications environment, which is probably the sum total of my understanding of that topic.

He has actually literally worked in the area of artificial intelligence since he was 12 years of age, and it is—he is also a private pilot of both fixed-wing, multi-engine and helicopter.

And so Mr. Wartofsky, it is a pleasure to have you and your perspective here, and we recognize you for five minutes.

**STATEMENT OF DAVID WARTOFSKY, PARTNER, POTOMAC AIRFIELD, FORT WASHINGTON, MD, ON BEHALF OF THE NATIONAL AIR TRANSPORTATION ASS'N**

Mr. WARTOFSKY. Okay, thank you very much. Even my in-laws do not quite understand what I do yet, and we have been married for 14 years.

I wish to thank the NATA for asking me to speak and provide the venue for this discussion.

A little background: I am David Wartofsky, owner and operater of perhaps one of the most controversial airports in the United States called the Potomac Airfield. It is the closest airport next to Washington, D.C. It is quite literally located between Washington National and Andrews Air Force Base.

To give you a little snapshot of the setting, Potomac offers a sort of bucolic setting, minutes from D.C. for all the numerous small business and services that make up general aviation, of which there are many on the field. It's a smaller general aviation airport, 120-based aircraft, singles, light twins, propeller-driven aircraft. It

is also an R&D lab for some remarkable airport technology that is affecting airports across the country.

This is a wonderful location, usually. Since September 11th and to this day, Potomac Airfield remains under 100 percent airspace lock down. While the airport is technically open, any aircraft that are actually airborne will be shot down. This is akin to having a restaurant, that while technically open and serving a delightful brunch, has armed soldiers at the door with orders to shoot anyone trying to enter or exit. This has not been great for business.

There are thousands of small businesses at airports like Potomac either still located within areas of airspace lock down or subject to some of the other bizarre constraints that have come since the events of the 11th. All of these businesses are withering on the vine and they are all actually withering rather rapidly.

As I am sure the NATA and other organizations have given you lots of information and details on financial disaster, and what have you, what I am going to do is not take a few moments to read you more data, but rather I would like to give you a little background of my position and overview on the situation we are in.

First off, obviously, we should thank the White House, NSC, FAA and DOD and whoever else was involved with efficiently locking down the airspace on the 11th. That was not an easy thing to do. It was the right move. And if you stop to think about it for a few minutes, it was a very tough move to make, my hat is off to all the people involved in that action.

Metaphorically, since September 11th, the White House, NSC and government have been facing, in effect, a roomful of a thousand shouting people, all seeking urgently to have their own hardships addressed. Within the aviation industry, many organizations and individuals have been barking at the FAA, ultimately for the NSC to do something. Only recently have these organizations started to say what that something is.

It is my own belief that some of the early, somewhat bizarre regulatory actions, and some still existing today, are in some manner an indication of the government's perhaps—overeager willingness to try to do something in response to all of the barking; but without adequate time to understand or implement perhaps the most rational, well thought-out solutions. Somewhat expected and perhaps even embarrassing actions have been taken.

There are basically two views:

From industry, as these light aircraft cannot do much more damage than throwing a marshmallow at a window, basically let us get back to business as usual. There is no real security concern.

From the defense standpoint, any act of terrorism can be destabilizing, including the throwing of marshmallows if thrown at the right window, in the right manner and at the right time. My apologies to the marshmallow industry.

To implement rational, workable solutions is going to take a little time. Even these past recent few weeks the clamor has noticeably changed from a "we want" to "here is how to fix it" series of recommendations coming from industry. To this, I say hurrah; at long last the suggestions are beginning to replace complaints.

The proposed legislation on your table today would offer some chance of survival for a portion of the businesses, families and de-

pendents who are failing financially, and who are standing by as strong and as long as they can under the remaining airspace and operating constraints. They need to stand by while these operating constraints are being evaluated, primarily from a security standpoint, and you are providing a means for these small businesses to hold out.

For the time it takes our government to basically fix the airspace it had to break up on September 11th, you can help both national security and public security, in effect, by encouraging and assisting those thousand shouting people. You can help them calm down and get into an orderly line. I believe this will allow the NSC, the FAA and others time to understand and to attempt to resolve the needs of these shouting people in an orderly and rational fashion. Their security will obviously be the first consideration, and their commercial viability the second.

In the list of moral and ethical priorities for government, after national defense and the preservation of our freedoms by your own possible actions today, to help create order and maintain public security, you have an outstanding opportunity to serve your people and their government. This, I believe, is one of the highest callings of an elected body, and I encourage you to do your part.

Thank you.

[Mr. Wartofsky's statement may be found in appendix.]

Mr. PENCE. Thank you, Mr. Wartofsky. We look forward to hearing more about those marshmallows during the question and answer session.

Our last witness on this panel is Mr. Quintin DeGroot. Did I pronounce that correctly?

Mr. DEGROOT. DeGroot, we go by.

Mr. PENCE. Thanks. Mr. DeGroot, I appreciate the correction. He is the owner and the operator of Spencer Avionics in Spencer, Iowa.

Mr. DEGROOT. That is correct.

Mr. PENCE. Has traveled a long distance to be with us today. A native of northwest Iowa, Mr. DeGroot worked most of his adolescence helping his father with his insulation business. He currently lives in Sanborn, Iowa with his wife and his four children.

He flew his first airplane at age nine, and in 1982 joined the U.S. Army as a helicopter mechanic; graduate of Spartan School of Aeronautics in Tulsa in '87, and purchased Spencer Avionics from the previous owners in 1998, and recognized for his valuable practical perspective as we have heard from others for five minutes.

## STATEMENT OF QUINTIN DEGROOT, PRESIDENT AND OWNER, SPENCER AVIONICS, SPENCER, IA FOR THE AIRCRAFT ELECTRONICS ASSOCIATION

Mr. DEGROOT. Thank you, Chairman Pence and members of the Subcommittee on Regulatory Reform and Oversight. I would like to thank you for this opportunity to testify before this committee on behalf of Spencer Avionics and the Aircraft Electronics Association.

As New York and Washington continue to recover from the events on September 11th, I wish to express my deepest sympathy for the families and friends that have lost loved ones in this tragic event.

As a result of the terrorist attacks, many aviation businesses nationwide have suffered unprecedented financial hardships, hardships that are a direct result of the security measures put into place by the federal government.

The Aircraft Electronics Association represents over 1,100 aviation businesses that, like mine, specialize in avionics maintenance, installations and electronic systems for general aviation aircraft. AEA members have been engaged in every level of general aviation, although only nearly 75 percent of our memberships are small businesses having less than 10 people.

Spencer Avionics is one of those businesses. While general aviation includes many large turbine-powered aircraft, we tend to specialize in smaller single-engine and light twin aircraft often flown under visual flight rules.

I am a veteran and father of four children, and until three years ago I worked for someone else. I now own a small, four-man shop that my wife and I operate. As a direct result of the grounding of all the general aviation aircraft, my shop suffered an immediate nine-day loss, exceeding $15,000, and continues to lose money because many of my customers do not have access to my shop due to the temporary restriction regarding the Class B airspace. As a small shop owner, I have had to cut my own personal pay by one-third in order to keep my technicians working and the cash flow flowing.

We are far from New York City and the government security measures put in place following the terrorist attacks have had a direct effect on mine and other avionic shops' ability to operate. Like many AEA members, my shop draws customers from a relatively small radius of 250 miles. In my case, this radius includes the Minneapolis Class B airspace, which is closed to VFR flights at this time.

While the government made significant progress in the first two weeks returning commercial aviation to normal operations, there has been little or no progress in the past two weeks getting general aviation and the small business that supports them back into operation.

The current flight limitation exclude VFR into major metropolitan areas and U.S. travel of foreign aircraft. Airspace within the United States is divided into six separate categories. Class B is the highest classification of airspace, below 18,000 foot, with the highest degree of positive control of all airborne traffic. There are 28 designated Class B airspaces, typically located around the major airports in large cities. These Class B airspaces have been closed to VFR flights since September 11th. The businesses located within these airspaces have been unable to conduct VFR customers' operations.

The AEA members rely on both domestic and international aviation customers. Domestically, the inability to receive aircraft from the customer and the inability to return the completed aircraft to the customer severely crippled the ability of small business to meet the demands of their customers at normal operating levels. Internationally, the United States maintenance facilities are recognized worldwide for their quality work they perform. For many international operators, these maintenance facilities are the facilities of

their choice. The current ban prohibits international customers from delivering these aircraft to U.S. facilities for their scheduled and unscheduled maintenance.

Like many AEA members, my insurance provider has notified me that my aviation insurance will increase dramatically as a direct result of the terrorist attack. My options are very limited in the aviation insurance market. There are only three companies that provide insurance for my shop. In the past two years my insurance has already increased 56 percent, though I have not had a claim against any insurance company.

Since the events of September 11th, AEA members have seen on average a 45 percent decrease in their business with specific members suffering much more. I have described the losses that I have experienced in Iowa. Other AEA members have had similar and in some case worse losses than mine.

We as a small business owners are not looking for some kind of a government subsidy. My dad always said if you are not part of the solution, you are part of the problem. It is not the government's job to run any business or bail it out of its own mismanagement. However, the government can help us survive the disaster on September 11th and the federal government's security measures implemented as a result of the disaster by tax relief or by making low interest loans available.

To help the small aviation small business return to work, the association requests from this committee:

One, encourage the FAA to develop a plan that would allow for delivery of U.S. registered aircraft to repair stations located in the 28 metropolitan areas, and hence Class B airspace;

Two, to encourage the FAA to develop a plan to allow delivery of foreign registered aircraft to repair stations;

Three, to expand the boundaries of the disaster area to include aviation businesses that incurred financial hardships as a direct result of the federal security measures put in place following the terrorist attacks in New York and Washington; and

Four, to investigate, and if possible, stabilize insurance premiums charged to general aviation companies by the insurance industry.

I appreciate the opportunity to testify before this subcommittee. On behalf of Spencer Avionics, my employees and the members of the Aircraft Electronics Association, thank you very much.

[Mr. DeGroot's statement may be found in appendix.]

Mr. PENCE. Thank you, Mr. DeGroot.

And we will commence with questions of the panel. The Chair will have a question for each of the witnesses, and then we will yield to the gentlelady from the Virgin Islands for any questions, and then we will do another round if we are up for it and they are up for it.

Let me thank all of you for outstanding presentations, very informative and very helpful to my understanding in this area.

Beginning with Congressman Coyne, you raised an issue that our last witness, Mr. DeGroot, also raised, having to do with expenses going up and specifically, and I do not remember from your testimony, it appears in my notes, if you specifically referenced insurance costs.

If you can elaborate just briefly from your perspective how serious is the type of increase in aviation insurance. We are talking about or heard 200 percent suggested or hypothesized. Will it be that more or less otherwise? And what is driving that?

Mr. COYNE. Thank you very much.

First of all, I should explain that in aviation insurance there are different products that different aviation companies buy. These range from what is typically called the general liability, hangar keepers liability, hull insurance on aircraft, operational insurance, renter insurance, and war risk or terrorism insurance, just to name a few.

Each of these products, each and everyone of them are expecting dramatic or have already experienced dramatic increases just in the past 30 days. The most extreme effect, as you might expect, has been on what is typically called war risk insurance.

Of course, it is a little hard for me to understand what additional risk with regard to war or terrorism a facility in Iowa or Duluth, Minnesota, or St. Croix, Virgin Islands really faces.

But really, I think, it is largely an issue of the insurance industry trying to spread the terrible loss that they have endured over the last 30 days among anybody that they can find—anywhere they can find a wallet, a live wallet. And so we are expecting to see in the war risk insurance area increases of up to perhaps as much as a thousand percent.

One specific example I can give you, one of our members had a premium of $2,300 for war risk insurance. The first week after the disaster they received a letter—as virtually everybody in aviation has done, I think, without exception—from their insurance policy saying that their previous war risk insurance is now void. And if you want to get new war risk insurance, give us a call, and we will give you a quote if we can get you the insurance at all. The one that I was telling you about that was a $2,300 premium last year was able to get a quote of $57,000. So that is an incredible increase.

Similarly, we typically are seeing increases in general liability of around 50 percent over the last 12 months versus this year. Hull insurance in some cases, not only is the premium being tripled or doubled, but the coverage is being cut in half. We might have been able to get a $10 million policy last year. We are lucky to get in some cases a $5 million policy. Some companies are only quoting a million dollars coverage. And the most extreme example that I have seen is one company that had a $50 million war risk insurance policy was reduced to $1 million, and the premium for it was $200,000.

So we have very, very irrational market responses right now in insurance, and in many cases it is leading people to make the terrible decision to not carry insurance, which obviously does not help anybody, or in other cases making the decision to just go out of business.

Mr. PENCE. Thank you.

Maureen Tarascio, your presentation about your experience at Republic Airport, I think I heard you right to say that there were 500 operations a day prior to——

Ms. TARASCIO. Almost 600 actually.

Mr. PENCE. Almost 600 a day down to 26.

Ms. TARASCIO. They were down to 26 until we opened on October 6th. We do have 40 percent operational status back at this moment from Saturday, but we are still 60 percent down. As I said, we still have restrictions. The VFR rental pilots, VFR–91 cannot go in or out yet.

Mr. PENCE. Great, that is helpful.

Let me ask you two very quick questions, if I can. Number one would be, how would you have characterizes the state of your business prior to September 11th? Was it a good year, mediocre? I grew up in a small business family, it's always a bad year. But I mean, now——

Ms. TARASCIO. For the flight school, we were very busy this summer.

Mr. PENCE. Okay.

Ms. TARASCIO. This was our busiest year. This was our first year that we completed a full year in our new facility, so we were very, very busy with the flight school. So of course, we went from being very busy in the flight training.

The charter was on the slow side. That picked up a little bit since because people could not get around with the airlines.

But as far as the flight school goes, of course, that went from being very busy to no activity.

Mr. PENCE. Would you characterize, based on conversations with colleagues and friends, would you characterize the health of general aviation around the country to be relatively the same as yours?

Ms. TARASCIO. Well, as far as I know, talking to other entities, everybody pretty much—well, I think everybody was closed down for at least a week around the country, and there were, I believe, 100 airports affected like myself that are still affected at this time around the country.

But in talking to people, everyone took a very big hit. It is going to be slow coming back. We are still, like I said, not fully operational, and it is a real concern. There are many, many people that are at the point of thinking about closing their doors.

Mr. PENCE. Last question from the Chair, what do you think is the most effective thing that we can do?

There has been some talk about legislation that has been proposed and is in some part the topic of this hearing.

One of the things that we did in the—what gets called the airline bailout bill for the major commercial airlines was we addressed the issue of insurance, in part. Should the federal government become involved in providing or facilitating the provision of insurance? Or would it be more significant to see deferments of principal and interest payments on certain loans?

Ms. TARASCIO. Well, I think, first of all, if we could regulate. Unfortunately, I think that the insurance company is taking such a loss, they are going to pass this on to us. If we could regulate what the insurance company, cap it, maybe what they could charge us because it just seems that in times like this they are going to, of course increase their rates to the point where it won't be affordable for us to operate. That is one thing that we would like to see.

The second thing is we are in contact with FEMA at Republic Airport. We have been considered—they brought Suffolk County into the FEMA package, but they are only talking loans. We really—we have kept our employees. I did not lay people off, but of course, it was very difficult. There were a lot of people laid off at Republic Airport. But we are looking for funding in form of grants. We would prefer to have the—of course, we want the grants because we had to keep the insurance payments going, the loan payments going, and all the other expenses to keep us operational, and of course, be ready to operate any moment when the airport was open.

And I have to be honest with you. We were not told when the airport was going to open, so we were waiting for any day type of thing. And we just did not want to—did not want to lay our staff off so that were not ready to return to business.

Mr. PENCE. Okay. Mr. Doughty, during your testimony, I was trying to keep up with some of your recommendations from Airports Council International and others. You said that essentially from your perspective there were three ways that general aviation or smaller airports like Muncie, Indiana's airport that I represent have been affected. And additional operating costs, I caught, reduction of revenue was the other, but I missed—what is the third big pillar in that——

Mr. DOUGHTY. Well, in the case of, and I guess I just divided the loss of revenue into two categories.

Mr. PENCE. Okay.

Mr. DOUGHTY. Basically, it was in our case airline revenue loss. We are a small air carrier airport. We lose revenues from airline and loss of flight opportunities, loss of schedule. And in our case we may have lost 10–15 percent of our flights.

Very small airports with only one airline could have lost all their service. The domino effect of that, obviously, is all the other ways you get revenue from those people, like the parking lot land the rental cars and all that.

Mr. PENCE. Okay.

Mr. DOUGHTY. That revenue is a secondary impact.

Mr. PENCE. And your thought about recommendations, which this committee is certainly very interested in, greater flexibility in the Airport Improvement Program to allow—could those resources be used to address some of the new security strictures being imposed on airports.

Mr. DOUGHTY. It could be, I think.

Mr. PENCE. You used the number of $600,000.

Mr. DOUGHTY. Mr. Chairman, I think it could be in a limited way by broadening those rules to allow airports to include additional security items that are not necessarily on the list of eligible items. And ACI has made a specific proposal on that.

Also, the PFC revenue which we receive, which is the $4.50 or $3, depending on what airport, from passengers, from each passenger, if that could be broadened. And there probably is more flexibility with that money to even include operating expenses being funded by PFCs as well.

That would be helpful. It would not be a panacea by any means, but it would be helpful.

Mr. PENCE. Mr. Wartofsky, with others indicating in their testimony that they are maybe back to 40 percent, my heart really goes out to Potomac Airfield and to what you are dealing with, and obviously, a high national security area. I want to be very, very clear on your testimony because we did just reopen Reagan National Airport to some extent.

Mr. WARTOFSKY. Right.

Mr. PENCE. Is it your view that a certain type of general aviation does not represent a significant security risk the way a large commercial airline does?

And I want to be very cautious about not seeming flippant——

Mr. WARTOFSKY. Sure.

Mr. PENCE [continuing]. Or suggesting that you were being flippant, but you have such a background in this area, I want to make sure I understand.

Mr. WARTOFSKY. Absolutely. There are a couple of dimensions to it. Obviously, the day after this event I naturally asked a close friend who is in defense intelligence whether I should move my wife and kids to the Outer Banks, a logical question. One starts thinking about these things. We were talking about the practical threat that a light aircraft represents.

The practical threat the light aircraft represents is in fact so limited by its payload, you might as well say the obvious, gas, biological or explosive, that these aircraft cannot carry enough to actually accomplish anything tactically significant.

Another friend in the security industry, I guess you would call it that, made the counterpoint in another discussion, that any act, however trivial, can be highly destabilizing if it makes people scared.

I believe that part of what the national defense and the National Security Agency are wrestling with is that 98 percent of the public has a perception of light aircraft, regardless of weight or size, perceive light aircraft as being something hazardous. There needs to be some kind of procedures that convey a sense of positive control within what are considered these high-risk areas, and there are a number of things being discussed now.

One of the other issues is that historically the FAA, while it has had jurisdiction, has not actively managed the whole Part 91 question. The FAA's primary mission has obviously been airlines. And so, for example, one of the issues is a Cessna 172 weighing 2,300 pounds is operating out of the same category as a corporate Gulfstream 3. And if you release one, you release both.

One of the problems that is being discussed at National is how do you preclude a bin Laden airlines Gulfstream 3, owned by nominees, from instead of landing at runway one at National, instead it ends up doing a touch and go and a barrel roll into the White House. And so how do you draw a distinction between these things?

I do not believe that there is any easy answer. While a number of the government agencies are trying to come up with solutions that, I believe the phrase is "vetted by all the related trade groups," I do not think a solution can come that is going to make them all happy. You will never get them all approved. The FAA wants to be cautious to try and get everyone happy before they submit something, but I just do not think it is going to get there.

The fastest way to implement things are actually procedural. There are procedural things discussed that would convey, in effect, an absolute positive control over aircraft before they depart. There are methods for doing that, that in effect can set an iron curtain around the 25 miles for anyone that is not already known, has not already been identified.

Whether that solves the question of the Gulfstream 3 going into National Airport, I just do not know. It depends on, in effect, where you draw the lines. That is part of the problem; it is sort of all or nothing in the whole Part 91 world right now.

There have been a number of things that have come out, these sort of weird 25 mile, then 18 miles, then 6,000 pounds, then 4,000 pound restrictions, and in a sense what people are doing is they are arguing about what weight of what bicycle should be permitted how close to the White House; it is really sort of irrelevant. And ultimately it is going to require some positive control procedures, which there are some actually rational and relatively easy to do, but there are some staffing questions really at the FAA flight service station level, and there are going to be some pissed off people, to put it bluntly.

But I think the National Security Council has probably had good intentions here, but I think their mission is national security, not economic recovery. The only thing that is going to crack this open is a rational series of steps coming from the Defense Intelligence Agency that are acceptable both in terms of a security standpoint, and also in terms of reassurance to the general public.

Mr. PENCE. Thank you. That is helpful.

I am going to come back to Mr. DeGroot, but I want to yield to Dr. Christian-Christensen, Congresswoman from the Virgin Islands, for any questions she may have.

Ms. CHRISTENSEN. Thank you, Mr. Chairman. And it is clear that the issue of the Class B airspace restrictions is one of the major ones that is of concern to everyone, and I would be happy to join with you in writing to or meeting with Secretary Minetta and the FAA administrator to explore that issue more.

We did pass what some refer to as a bailout and others refer to as a financial stabilization package for airlines, and what it does is it provides funding to make up for the losses since September 11th, and also it would provide for any increases—to pay costs of increases in insurance to airlines.

For those of you who deal specifically with aircraft, does it get to smaller airlines and people who do airline rentals at all?

Mr. COYNE. The short answer to your question, Congresswoman, is no. It is possible theoretically for an airline not to pass any of the funds through, but to conceivably pass through some indemnification on war risk insurance through to a contractor, unfortunately, the airlines to this date really have not done that except in a very, very few limited occasions, and mostly only to their very largest contractors.

But to the thousands and thousands of businesses across the country who fueled, let us say, an American Airlines flight that lands at St. Croix, that contractor is not getting any relief, not getting any funds, essentially has gotten nothing, zero, out of that $15 billion that was passed in that legislation.

And of course, at the time we and everybody else in the industry came to Congress and said cannot we include in this legislation a paragraph, a sentence, a chapter that would provide some relief to employees, to contractors, to others. And as you know at the time there was a great rush to do something immediately, and there was a lot of pressure to just sort of not open the bill for any amendments or anything.

Ms. CHRISTENSEN. Right.

Mr. COYNE. And at the time most people that I talked to here in Congress said, well, there will be an opportunity next month for the Small Business Committee to deal with the concerns of small business, for the aviation subcommittee to maybe deal with other issues, tourism and so forth. And we here are really looking to you to provide that legislative product and output. And without it, I do not think we expect any relief from that earlier legislation at all.

Ms. CHRISTENSEN. Does anyone else want to respond? Okay.

That opens up two other questions, referring one to the transportation committee and they are looking into the use of airport trust fund monies to provide some assistance to airport-related businesses.

Mr. Coyne, or anyone else, what would be most helpful for the transportation committed to provide for you?

Mr. COYNE. Well, certainly with regard to the expenditures that are going to be expected in the area of security the costs that these many businesses, whether it is a new badging or identification system, or a new electronic background checks, or new fences, or new screeners or whatever, it absolutely makes sense that the aviation trust fund should be used to finance these security expenditures, just as I am sure the airlines are expecting the aviation trust fund to pay for new security expenditures that they may face in terms of baggage screening or what have you.

However, for the core issue, which is the losses that were endured, the airlines, of course, got $15 billion in grants and loans to cover what essentially was three days of being out of business because of federal action.

Our industry, many of them are still out of business entirely, as David's case, and many others, because of—solely because of the actions of the federal government. And if there is an argument that the airlines should get $15 billion for three days of being out of business, what is the argument that is fair for people like these businesses who are still out of business and in many cases, I am sure in David's case there is not a single person anywhere in government that will tell him if he will be able to come back in business tomorrow, a month from now, a year from now, or ever.

And so if they will not give us that answer, and they are the ones that have caused us to go out of business, and they gave all that money to the airlines, how can they not, and how can government not respond to these same businesses who are hurt much, much more severely?

The airlines can go borrow money. They can go do all sorts of things. There is nothing, nothing, zero, that these businesses can do except reach into their own pockets and take money off the table that was going to their children or whatever to keep their busi-

nesses afloat. They are looking to government as the only hope for relief.

Ms. CHRISTENSEN. We had a hearing yesterday at the full committee with the Small Business Administrator, and one of the solutions that we are looking at is making affected businesses eligible for low-cost or no-cost economic injury disaster loans.

How far would that go to help? Maybe somebody else.

Mr. COYNE. Somebody else, yes.

Mr. WARTOFSKY. Okay, I can give you a little reaction. We actually own the underlying airport, and then there are numerous service businesses on the field. How you connect those revenues to the service businesses on the field, I do not know, frankly. It is easy to identify. The general aviation industry, however, is split into far more layers than just the handful of airlines.

Ms. CHRISTENSEN. Right.

Mr. WARTOFSKY. And how you actually try to cover all of those, how you would identify them. I think as a practical matter by the time you have figured it out a lot of their phones will be disconnected.

Mr. DEGROOT. I would just like to say that low-interest loans would help us get through this short time. I think general aviation will make a comeback eventually, but we need a bridge to gap—for this gap from the shutdown to where we can get our businesses back on their feet again. It does not necessarily have to be a no—I mean, a no-interest loan would be great, but I do not think the government can afford it.

Ms. CHRISTENSEN. If we were to reduce the interest rate, what might be a workable?

Mr. DEGROOT. One percent would be great. [Laughter.]

No, but I think most businesses would be happy with maybe three to four percent. That would make it a manageable number for us to deal with on a monthly basis.

Ms. CHRISTENSEN. Okay. And the disaster loan is at about three or four—about four percent, if we were able to extend that.

Mr. DEGROOT. That would be great for my business personally. I do not know about David's business.

Mr. WARTOFSKY. Yes.

Mr. DEGROOT. He needs to get flying again is what he needs.

Ms. CHRISTENSEN. Right.

Mr. WARTOFSKY. The airspace is the critical thing. Right now the suspension of all airspace is sending a very strange message to people. It is perfectly reasonable to get back to your lives, but oh, no, oh, God, not around Washington, we will shoot you down.

We saw about 20 aircraft depart the first night. The clearances were quite literally, and I was dealing with Washington departure, "The aircraft must be off the ground 22 minutes after the hour, and are voided 25 minutes after the hour. If it takes off 26 minutes after the hour, it will be shot down."

These procedures are terrifying people. I was at an FAA headquarters meeting, they are trying to figure out what can be done, and one of the things I mentioned is that if they just issue a press release that at least they are trying to address this, and try and reduce the level of terror which quite literally inadvertently has

been caused by government action within the industry these kinds of things can go a long way.

There are a lot of things the FAA and the DOT just do not have jurisdiction over now.

Ms. Congresswoman, if I may, I would like to really stress these airspace issues one more time. We really have not talked about it much, and I know it is not normally the purview of this committee. But each and every individual in Congress can help solve this problem working with the White House, the FAA, DOT, as you mentioned.

The situation that involves the Virgin Island is on the face of it absurd. It is merely absurd. It seems to me—I hate to say this but it seems to me that the FAA when they rushed to enact the airspace rules regarding foreign aircraft coming into the United States, they acted as though Puerto Rico and the Virgin Island were foreign countries. And they make it easier to get to the United States from the Bahamas——

Ms. CHRISTENSEN. Yes.

Mr. COYNE [continuing]. Than they make it to get from the British Virgin Islands to St. Thomas which is what, 15–25 miles, or just to get from Puerto Rico to St. Croix, both of which are part of the United States.

Ms. CHRISTENSEN. Exactly.

Mr. COYNE. Somebody has got to go to the FAA and say that this is fundamentally wrong, stupid, and easily fixed tomorrow. They could issue a NOTAM tomorrow to deal with these international issues all around the United States that would solve this problem because it does not do anything to improve security at all.

Mr. WARTOFSKY. If I may, I think actually the FAA understands that. The problem is that no one is paying any attention to the FAA either.

Ms. CHRISTENSEN. Okay.

Ms. TARASCIO. Can I say one thing about the——

Ms. CHRISTENSEN. Sure.

Ms. TARASCIO [continuing]. You were asking about the low-interest loans.

Like I said, we have been offered something by FEMA at Republic, and we had a meeting the other day, and the people that came were very disheartened. They were very upset. We have helicopter businesses that are not able to operate at all. We have, like I said, flight schools that we are still not fully operational right now. We are still not allowed a VFR–91. And everyone estimates that it is going to be about six months until we get back to normal status, normal operations.

And for us to have to take a loan and repay money that we have lost in that time period, which is going to be great, I mean, like I said, we are losing $200,000 per day amongst all of us, it is just phenomenal for us to do that. We need to get funding to put is back where we need to be, and we need to get the airspace reopened so that we can start getting back the business that we have lost, otherwise it is a band-aid fix.

Ms. CHRISTENSEN. Right. And I hear urgency.

Ms. TARASCIO. Yes.

Mr. WARTOFSKY. Yes.

Mr. PENCE. Before everything is lost.

But one of the things that we are also proposing, I was just reminded, is that delaying the payments of those loans under—that would be 3011, under H.R. 3011, for at least a year.

Do I still have a little bit of time?

Mr. PENCE. Most certainly.

Mr. WARTOFSKY. Oh, I was just going to say, you know, the terms of the loans, the terms of the capital, or whatever, is almost secondary. One of the questions is simply administrating it.

I might suggest that there, I believe, 14,000 airports in the United States, of which only 3,500 are eligible for AIP. In the meeting yesterday, I was informed that the FAA feels it is an administrative matter for them to decide that the other airports can be made eligible for AIP. Right now they are cutoff.

I would also make the suggestion that the state aviation administrations, are in fact the closest agency to the airports and the operations within a state, and that rather than have the FAA manage this, which is used to dealing with airlines and commercial airports, that you actually get the state aviation administrations involved with this because they know what is going on at the grass roots level. The FAA is actually very far removed.

Mr. COYNE. If I could make one final point very briefly.

It has sounded, listening to us talk today, as though we are only trying to help these businesses for their own perhaps selfish need or self-centered need, but it is not that at all. I mean, if these businesses are allowed to go out of business, the whole community suffers.

I mean, if Bulky Aviation is not there at—what is it, Alexander Hamilton Airport?

Ms. CHRISTENSEN. It is now Henry Rohlsen Airport.

Mr. COYNE. Okay. If that is not allowed to exist there, then the ability of that community to have the benefits of our air transportation system are forever gone; same thing for all of these airports. So we are not just doing this for the benefit of the businesses that have faced bankruptcy, but for the broader disaster impact on the citizenry as a whole.

Ms. CHRISTENSEN. Thank you.

I just wanted to—I did not have a question for Mr. Doughty, but I just wanted to say that I have been put under some pressure to appeal to my port authority executive director to lower fees, and you have helped me to understand why he is putting up the resistance. I thank you for helping me to understand the other side of the issue.

Mr. DOUGHTY. Airlines have actually asked us to put our bond ratings at risk, put our own business at risk to help them and lower fees to them. And that pressure is going to be severe, particularly on very small airports that may only have one airline, because that airline can simply say to the board we are pulling out if you do not give us 20 percent off the landing fee. And it is a difficult political situation for many small airports.

Ms. CHRISTENSEN. Yes.

Mr. Chairman, I do not have any other questions. I just wanted to enter—from my small district, I have five letters dealing with small airlines and airline issues and Part 91 and Part——

Mr. DOUGHTY. That is alright, even the FAA finds those confusing.

Ms. CHRISTENSEN. Yes, and the B airspace. So I would like to enter them for the record.

Mr. PENCE. Without objection.

Ms. CHRISTENSEN. Thank you.

[The information may be found in appendix.]

Mr. PENCE. Thank the gentlelady from the Virgin Island, and we will enter those into the record of this hearing.

One final question for this panel before we take a five-minute recess and reconvene with our second panel, to Mr. DeGroot who clearly, I think, traveled the farthest today and for which this Chair is very grateful.

You are also a veteran?

Mr. DEGROOT. That is correct.

Mr. PENCE. And there has been a lot of talk about regulatory reform at the FAA to address the economic struggles that we have heard in evidence today. But any specific regulatory changes this subcommittee should look to encourage that would not compromise for your perspective as a veteran national security concerns?

Mr. DEGROOT. Well, when I was in Korea—I was talking to the other people here before this meeting—we had corridors that went over Seoul, and they worked for us in the military, and we also had private aircraft that had to fly down the same corridors.

If we could get some kind of a wide corridor to at least get these guys out to a training area to do some flight or get out to get their VFRs completed. I mean, Minneapolis, there is nothing after Minneapolis besides my shop. [Laughter.]

But if they get a corridor to come out of that Minneapolis or come into Minneapolis, I think that is something that the FAA or the ATC could control fairly easily and get these small aircraft flying.

But if they have this fear that they are going to be shot down out of the sky if they go out of this corridor, I myself probably would not fly either. I am a pilot. So I think they have to make these corridors wide enough to where we can get the airplanes in and out, and not have the fear of doing something wrong at the same time.

Mr. PENCE. Okay, very good.

Let me thank all of the panelists. I know I speak on behalf of Congresswoman Christian-Christensen when I say this has been very illuminating, and obviously each of you acquitted yourselves extremely well, and certainly motivated these members in this subcommittee to become very active in this debate.

I will publicly say that I will take my colleague up on her offer to address an urgent letter regarding Class B airlines to the FAA and to the administration, and we will look forward to collecting more colleagues' signatures on that issue.

With that, we will take a five-minute recess, and be back; ask our second panel to go ahead and head to the table, and we will be in recess for five minutes.

[Whereupon, a recess was taken.]

Mr. PENCE. The hearing of the Subcommittee on Regulatory Reform and Oversight entitled September 11, 2001: Are American

Small Businesses Still Grounded, we will reconvene after a brief recess.

I thank the second panel for joining us, and I am anxious to hear your remarks. I trust most of you were in the room as we explained the ground rules of five minutes of remarks with an eye on the little light box in front of you. And both I and my colleague and any other colleagues who join us will reserve our questions until after each of the panelists have testified.

I will make mention of the fact that we are anticipating votes after 12:15, in which event we may need to either recess or even possibly adjourn to accommodate what should be a busy day of votes on the major legislation at the Capitol.

Bonnie Adams is our first witness in this panel, of Lewiston Travel Bureau. She is an active member of the American Society of Travel Agents; has owned and operated her own travel agency for the past 26 years. In addition to her work as president of the Lewiston Travel Bureau and member of the ASTA Subcommittee on Government Representation, Ms. Adams is a member of the Small Business Administration Maine Advisory Board. She has served as a White House delegate on small business, president of the Maine Chapter of ASTA, and chairman of the ASTA's National Legislation Committee.

She brings enormous credentials and daily practical experience to the struggles that small businesses are facing in the wake of these events, and is recognized for five minutes of important testimony.

**STATEMENT OF BONNIE ADAMS, PRESIDENT AND OWNER, LEWISTON TRAVEL BUREAU, LEWISTON, MAINE, ON BEHALF OF THE AMERICAN SOCIETY OF TRAVEL AGENTS**

Ms. ADAMS. Thank you very much. Thank you, Mr. Chairman and Ms. Christensen, for the opportunity to speak to you on behalf of the American Society of Travel Agents and the nation's travel agents.

I am a travel agent. I have owned and operated my own travel agency for the past 26 years. My agency is a prototype of the average American travel agency with about 3 million gross sales per year.

Prior to September 11, I employed six full-time people, all actively engaged in the promotion and sale of travel services. Since September 11th, the agency has had a negative cash flow of $32,000. I continue to lose $4,000 a week.

My story is typical of what is happening to travel agencies across the United States and in the territories. I have laid off three of my employees, and have not drawn a paycheck for myself since September 11th. I have plunged every penny I have into my agency just to keep my doors open.

I am still in business in large part because I have been able to obtain the forbearance of others. My landlord has agreed to defer rent payments for three months. He gave me free lights and heat. My bank has deferred loan payments for two months. My local credit union agreed to defer my car payments.

Mr. Chairman, unfortunately, all that generosity and cooperation is not enough. I have at best three weeks left to keep open, after

which time I will lose my career of 33 years, my business, the roof over my head, the cars I drive, and every penny I had in savings.

This is my story, but it could be anybody's story who owns a travel agency in the United States today. Indeed, many travel agencies across the country have been less fortunate than mine, and are already out of business.

On September 11th, the travel agent industry was, just like the airlines, already struggling with a severe economic problem when the terrorist attacks brought a halt to the sale of travel in all forms. New business stopped and has not yet begun a significant recovery.

The details of the financial losses are set out in the written testimony and the exhibits. For the period through the end of 2002, ASTA estimates the total loss for all product lines will exceed $4 billion.

It took 18 months for travel to return to normal levels at the time of the Gulf War. This time, it can be expected that any modest rebounds in business will be dampened and that we will again approach that of the ground stop days as we enter new phases of our national response.

The average number of agency employees in a location was six, just like my agency. In normal times, these small businesses handle an enormous volume of air travel. Through August of this year travel agencies sold more than 48 billion in airline tickets, accounting for 127 million airline sales transactions. This business has shrunk to almost nothing since September 11th.

This is normally the peak season for holiday bookings. That business is at a standstill. Large group bookings made for future travel have cancelled. The details of a small sample of these stories are set out in Exhibit 1 to our written testimony.

We continue to receive similar stories from around the country. Travel agents and at-home retailers of travel services number about 300,000. ASTA estimates job losses in the hundred thousand range if immediate action is not taken to help them.

Travel agencies do not have cash reserves or other assets to use as collateral for regular bank loans. The federal government is where we have to turn. We have no place else. If we do not get an immediate cash infusion in the form of no-interest or low-interest uncollateralized disaster loans that are below the current SBA Economic Injury Disaster loan level, we will all disappear and lose our assets and be forced into business and personal bankruptcy.

We ask that such loans are industry-based versus regional or size. The loans should be based on ability to replay and have loan forgiveness for agencies on the verge of bankruptcy. We seek loan abatement on both interest and principal to help travel agents get back on their feet. I am pleased to say that these elements are contained in Representative Velázquez's bill H.R. 3011.

As tragic as that is for us as individual Americans, failure to pass immediately such legislation predicts an even larger tragedy.

If we have learned nothing else in the past few weeks, the country has, we think, come to understand the way in which the entire economy depends upon air transportation and upon the travel and tourism sector generally. The impairment of the air transportation

sector threatens to move swiftly from a ripple effect to a tidal wave of economic destruction sweeping across this entire country.

If the public loses the ability to use the travel agency distribution system to access the air transportation system and the rest of the travel and tourism enterprise, the consequences will be certain and unavoidable. National economic recovery will be impaired for years to come by our failure to restore the confidence of the public in not only the security of travel, but also their confidence in the experience of obtaining and using travel services.

Travel agencies, most all of whom are very small business, arrange 75 percent of air travel bought by Americans today. The public uses travel agencies because they provide what the public needs in the way of information, counseling and services. There is no practical or economic way the airlines or other travel sectors can duplicate this service.

During the heartbreaking days immediately following September 11th attacks, American travel agencies were there for their clients as they were there for others as well. Across the country travel agents were in their offices trying to help many thousands of people stranded by the nationwide airport closure. Many of them provided free assistance to people who had bought their tickets on the internet had no one else to contact and no place to go for help. Travel agents performed these services; they were the only people who could, and at the same time they watched their businesses collapse. Many agencies report gross earnings for the week, including September 11th, of less than $50.

It is a fact that in this unprecedented situation there was no substitute for the travel agent for tens of thousands of people who needed our help. The services of professional travel agents with expertise in travel options are going to be crucial to bring the public back to the airways. Consumers are going to want and need to talk to real people, preferably someone they know and trust with current knowledge of the system, the new rules and the requirements for achieving safe and fast travel.

National economic recovery can be delayed for a very long time if travel agencies are not there to connect and serve the customer and the airline.

Given the magnitude of the short-term losses and uncertainty of near-term recovery, we seek $4 billion in no interest or low interest, noncollateralized loans to be made available to travel agencies immediately. These funds will help assure that irreplaceable travel agency services will not be cut off to the public when they need them the most.

Finally, ASTA thanks the members of Congress who have listened to the travel agency community in their time of need. Your immediate actions will help us get back on our feet, and we will help you get America moving again. ASTA appreciates the opportunity to present its views and remains at the committee's disposal to assist you in any way.

[Ms. Adams' statement may be found in appendix.]

Mr. PENCE. The Chair thanks Ms. Adams for a very moving presentation, and appreciates the difficulty personally in traveling here from Maine in a time of real duress in your professional life. Very valuable. We appreciate it very much.

We will move to our next witness and encourage some attention to the five-minute rule. I was not going to gavel Ms. Adams but I will gavel any one of you fellows. [Laughter.]

And in the interest of fitting everyone in before we might have to go to vote. Bill Swift is the president of Business Traveler Services headquartered in Atlanta, Georgia. His company provides products and services at Hartsfield Atlanta International Airport, LaGuardia International and JFK.

Mr. Swift has a 20-year track record in airport concessions, which is obviously an area of the small business sector profoundly impacted during these days. Prior to establishing his own business, he served in several senior positions with Dobbs Pascal Midfield Corporation with management responsibility for 105 concessions in Atlanta.

He is testifying today on behalf of Airport Minority Advisory Council, the only trade association in the country that focuses specially on airport small business matters, and he is vice chairman of that organization currently.

And William Swift is recognized for five minutes.

**STATEMENT OF WILLIAM H. SWIFT, PRESIDENT, BUSINESS TRAVELER SERVICES, INC., ATLANTA, GA, ON BEHALF OF THE AIRPORT MINORITY ADVISORY COUNCIL**

Mr. SWIFT. Thank you. Good morning, Chairman Pence, Congresswoman Christensen, and Linda Moore, Chair of AMAC.

I am a business owner and CEO and president of Business Traveler Services. I have been involved with the airport industry for nearly 25 years, first as the director of purchasing for the City of Atlanta under Mayor Maynard Jackson; now as a concessionaire with operations at Hartsfield Atlanta International Airport, LaGuardia International Airport, JFK International Airport, Raleigh-Durham, Cleveland Hopkins, the two Houston airports, and Jacksonville, along with Augusta.

I am also testifying today as the first vice chair of the Airport Minority Council know as AMAC. AMAC is the only organization in the country that has dedicated its sole mission for the last 13 years to ensuring that minority, women-owned and disadvantaged business enterprises participate in the economic opportunities at our nation's airports. Our members operate food, beverage, services, retail concessions, provide professional services and perform infrastructure development contracts at U.S. airports nationwide. I hope that I can impress upon you the urgency of the need for congressional action to help these businesses sustain during this period of crisis.

For the record, Mr. Chairman, AMAC is supportive of H.R. 3011, the bill introduced last week by your colleague Congresswoman Nydia Velázquez, the ranking member of the full Small Business Committee. We are very supportive of its purpose to help stabilize affected firms and appreciate the considering introducing legislation to address this issue.

We are also aware that similar legislation has been introduced in the Senate separately by Senators Kerry and Bond, the chairman and ranking member, respectively, of the Senate Small Business Committee. We are most grateful for the recognition of the cri-

sis affecting small firms; however, I stress that this is an emergency situation which requires prompt congressional action.

Today, hundreds of small disadvantaged, women and minority-owned businesses are in jeopardy of closing their doors as a consequence of sharply reduced sales. This is particularly the case for airport DBEs and other airport commercial tenants. The economic peril is a direct product of the federal shutdown of airports for a time, as well as the impact of new increased security measures, other procedures, not to mention the overhead costs associated with existing leases and contract arrangements and debt service.

We do not question the necessity of the government's action. Indeed, to the contrary. AMAC members understand and strongly support the measures to enhance safety and confidence of the traveling public. However, it is very important for Congress to understand and acknowledge the effects of the federal government's action on airport small businesses. For this reason, the airport DBEs and commercial tenants merit federal assistance in the same way as airlines and airports.

The AMAC members and the airport commercial tenants generally are an integral part of aviation and the airport industry. Collectively these businesses are major economic generator for airports, the communities in which they operate or are located. They provide employment, pay taxes, perform services and contribute to the efficient operation of airports, and provide vital services to traveling public.

The AMAC is sympathetic and supportive of the airlines and airports, but not at the expense or on the backs of small businesses with locked in high rent guarantees. Thus, in AMAC's view, the survival of airport small businesses, in particular, DBE participation airport concessions contracts should be a priority concern of Congress.

As you heard, airport operators are seeking federal financial assistance to help them weather the current crisis, and to help defray additional security operating costs. AMAC asks that you and other members of House Small Business Committee insist that any legislation providing relief for airport also include specific provisions for financial assistance to airport small and disadvantaged businesses and other commercial tenants.

We believe that as a matter of sound public policy and equity that a portion of financial benefits accorded airports should be extended to airport DBEs and other airport commercial tenants—whether that assistance is provided through additional funds from the Airport & Airways Trust Fund, through increased flexibility in the use of passenger facility charge revenues, or through changes in federal tax laws.

As a consideration of receiving additional federal funding or tax benefit, an airport operator must be required to implement a plan for assisting airport DBEs and commercial tenants.

My written testimony offers several proposals and I will not state that.

Mr. Chairman, I have owned and operated and managed airport concessions, including golf shops, newsstands, sports stores, restaurants, bookstores, business services for more than 20 years. My current business, Business Traveler Services, provides internet ac-

cess, work stations, ATMs, prepaid phone cards, concierge service to airport users. I can tell you from my personal knowledge and from talking to other business owners that the types of actions and assistance noted above would be very helpful.

For example, three to six months of rent abatement would provide another infusion of capital to help these businesses cover their cost. Some of these airports have attempted to address this issue, but they have not taken a large enough step.

Finally, Mr. Chairman, the general public has not regained its confidence in air travel. As a result, our revenues are at all time low and that trend will continue now that the war on terrorism has been. Our lease agreements are fixed rents and are based upon projected revenue streams. Clearly, the current state of air travel, new security requirements, decreased passenger traffic have made it nearly impossible for small or disadvantaged businesses to meet their fixed expenses.

Therefore, AMAC is asking that Congress enact legislation that will provide immediate relief for airport DBEs and other commercial tenants. The House Small Business Committee has jurisdiction over SBA programs that can provide small and some emergency help, and we ask you to act urgently on legislation that makes airport businesses eligible for SBA economic disaster assistance.

Thank you sir.

[Mr. Swift's statement may be found in appendix.]

Mr. PENCE. Thank you, Mr. Swift, and without objection the Chair will enter your statement as you helpfully abbreviated parts into the record——

Mr. SWIFT. Thank you.

Mr. PENCE [continuing]. Of the testimony today.

Hector Torres is our next witness. He brings to this panel 32 years of experience in the hospitality industry and hotel development, and has been very busy about promoting Washington, DC tourism, which apart from my commute into work is something I certainly appreciate.

He is currently vice president of sales and marketing of Capital Hotels of Washington, DC, and I might add in addition to his business activities is also well known in this area as chairman of the board of a group known as Identity, which is an inter-city youth organization focusing on the Latino community.

And it is an honor to have you here, Mr. Torres, and you are recognized for five minutes.

## STATEMENT OF HECTOR TORRES, VICE PRESIDENT, CAPITAL HOTELS, WASHINGTON, DC, ON BEHALF OF THE HOTEL ASS'N. OF WASHINGTON

Mr. TORRES. Thank you very much, and good afternoon, Chairman Pence, distinguished members of the committee.

I am actually very honored to have the opportunity to speak on behalf of 31 small independent hotels out of 83 member hotels of the Hotel Association of Washington, DC.

My name, as earlier stated, is Hector Torres and I am vice president of Capital Hotels, Washington, DC. We own and manage two hotels, the Governor's House Hotel and the St. Gregory, both lo-

cated in downtown Washington, DC, both members, of course, of Hotel Association.

Like the rest of the nation, we have experienced in DC a major negative economic impact in the wake of the tragic events of September 11th. The impact is heightened due to the fact of the closing of the Reagan National Airport, extended closing of the airport, the front door, in fact, to our nation's capital.

Because of the worldwide media to focus on our national capital, until the hospitality and business economy of the nation's capital is revived, perception to the world will be that our nation's economy remains crippled. As the nation's capital, Washington, DC will be the symbolic leaders of the nation's return to normalcy, revitalizing Washington, DC must be the first step in our nationwide recovery.

Within the Washington metropolitan region, the hospitality industry is the largest private sector employer, comprising in excess of 3,000 businesses and 260,000 employees.

If the Washington, DC hospitality industry does not recover, your favorite local restaurant, and even purveyors of food and other essential supplies to Congress itself will be at jeopardy, negatively impacted if not completely out of business. If you stopped at the St. Gregory these past weeks, you would see very few visitors, an empty lobby, and less in the past few weeks we have had to lay off a tremendous amount of people.

This is equally true if you around the corner to the Red Sage Restaurant, for example. They have had to curtail services, their time of opening, and have also had to experience tremendous layoffs.

This is just merely a snapshot of what actually is pretty well commonplace in our nation's capitol and in the region. The trickle down effect is in fact incalculable.

Reality: As Congresswoman Eleanor Holmes Norton has repeatedly expressed in the days after the opening of Reagan National Airport, we must not look at Reagan National's opening as a victory lap. It simply is the beginning. We need to resume full service in order to rid the perception that nationwide air travel is unsafe and to return tourists to our city and nationally.

The hospitality industry normally supports 260,000 individuals and their families. It pumps nearly $10 billion annually into our economy.

The hospitality industry is losing over $10 million a day in our region. In the next 100 days we anticipate the loss of nearly $1 billion.

Small businesses actually comprise of 90 percent of the business supporting tourism and are either related to tourism or dependent on tourism, and do not have the capitalization or cash reserves to survive this downturn.

Metro DC hotels normally enjoy 80 percent occupancy this time of year. We are currently running at approximately 40 percent.

Metro restaurants have experienced massive layoffs and a dramatic downturn and revenues may see more than 50 percent revenue losses.

Small hotels' occupancy has also dropped significantly, particularly as they cannot count on a national advertising campaign to

support their losses in the form of advertising and market support. Loss in some cases amount to up to 50 percent o occupancy.

On one group alone, the World Bank, our hotel, the St. Gregory, lost $100,000 in one week's time. It is—according to World Bank IMF, there were approximately 25 hotels participating directly or indirectly in this event. So you can imagine by calculating our small hotel $100,000 loss in one week's time, actually represented one-fifth of our total income for that given month.

The human toll falls on all the individual losing jobs as well, those who earn salaries to support families and contribute to the economy of our region.

Of the 10,500, and counting, jobs lost, many of them are Hispanic, blacks and of minority descent. Because they have actually lost their sense of basically dignity because they are now going back to a welfare-type situation, and the do not have any money or sources to be able to fund even insurance payments.

DC currently has—the DC tourism corporation and Mayor Williams have committed $1 million to implement marketing and advertising, public relation, promotional activities and reestablishing Washington as a premier convention and visitor destination.

The city and the Washington tourism corporation are collaborating with 29 businesses in the area as well to bring forth a campaign to attract business into our nation.

We ask that Congress please help us in the process of helping the small businesses in support of grants and/or low-interest loans to be able to support such unemployment benefits as COBRA, as well as to urge other vehicles within the government to support our plight.

The rest of my document gives you some other strategic ideas that we could implement, and I thank you very much the Hotel Association for your kind attention.

[Mr. Torres' statement may be found in appendix.]

Mr. PENCE. The Chair thanks Mr. Torres, and without objection we will see to it that your entire presentation is entered into the record.

I am going to say David Chesebro?

Mr. CHESEBRO. Chesebro.

Mr. PENCE. Chesebro. Thank you.

Founded Daytona-Orlando Transit Service in 1982, beginning with three employees and three vehicles. Two decades later the company has grown to 42 employees and 14 vehicles that range from local shuttles to interstate motorcoaches, and has expanded and offer a wide range of service to include tour and charter development originating at least out of the Daytona Beach, Florida are, and the mainstay of DOTS has always been the Orlando International Airport shuttle. The company currently offers employees comprehensive benefits package which includes health care, dental, profit sharing.

And David Chesebro currently serves, of course, as president and owner of that company, and brings a very important small business perspective to the current downturn in our travel economy, and is recognized for five minutes for that reason.

**STATEMENT OF DAVID CHESEBRO, PRESIDENT AND OWNER, DOTS MOTORCOACHES, DAYTONA BEACH, FL, ON BEHALF OF THE AMERICAN BUS ASSOCIATION**

Mr. CHESEBRO. Good afternoon, Mr. Chairman, and members of the committee.

My name is David Chesebro, and I am president and the founder of DOTS Motorcoaches of Daytona Beach, Florida. I am pleased to be here and represent 3,400 members of the American Bus Association.

To begin, I would first like to thank you, Mr. Chairman, for your leadership in convening this hearing and appreciate the opportunity to testify on this urgent matter.

ABA members are equally diverse ranging from Greyhound Bus Lines, which provides service to 2,500 destinations, to my company which provides service to and from the Orlando International Airport. However, most of the ABA member companies are small businessmen and women alike.

To give you an appreciation of what we do, I would like to take a minute to describe my company and the service we provide. From there, I will try to give the committee an appreciation of what the September 11th attacks on New York City and Pentagon and the consequent lack of travelers has done to my business as well as the motorcoach businesses all over the country.

I founded DOTS in 1982, beginning with three employees and three vehicles. Nearly 20 years later the company has grown to 42 employees, including 14 vehicles. Our services range from local shuttles to interstate trips on motorcoaches. Like all the private commercial bus industry, I receive no federal funding to support my company's operational structure.

In addition to my shuttle service to and from the Orlando International Airport, I provide shuttle and tour service throughout the United States, including trips to Biloxi, Mississippi and Branson, Missouri.

While these services have also suffered during the past month, it is the effect of the September 11th attacks on my airport shuttle service that forms the core of my testimony today.

The mainstay of DOTS has always been the airport shuttle. It is approximately 75 to 80 percent of my business. DOTS grew steadily from three round-trips a day to its current operating 15 hourly round trips daily to and from the Volusia County area to the Orlando Airport.

To acquaint the committee with my post-September 11 troubles, I would like to walk you through my operations. Normally at this time of the year I can count on shuttle gross receipts of approximately $78,000 per month, equal to $2,600 per day based on a $25 one-way ticket to or from the airport.

Since the attacks, DOTS' revenue has been down some $21,000. Against this I have to maintain the vehicles and make monthly payments on most of them. Since this is a great deal of revenue for a business which grosses $1.7 million a year, this figure includes shuttle, charter and tour business.

Recently, I sent a memorandum to my employees, ask that they voluntarily take time off each week so that I could keep all part-time drivers on the payroll, and a copy of that is attached.

The effect of the attack on DOTS is even worse than it sounds. Business is down—was down from December to July. Then in August, I had seen an increase in business I thought would be an indicator of a good autumn and holiday season. Of course, the events of September 11 eliminated that possibility.

ABA members from California, Montana, Missouri, Florida, North Carolina, Louisiana told ABA of a one-week losses ranging from $20,000 into millions of dollars, and also cancellation rates of 30 to 80 percent. The cancellation includes trips planned for spring of 2002.

Vectour, of Pennsylvania—the largest privately owned ground transportation company in North America—has a business that is more than 50 percent airport-related. It experienced an immediate drop of business of about 40 percent. This loss will cost the company almost 7 million in cash between now and the end of the winter.

This series of cancellation points out an even greater problem. As I indicated, this time of the year is high season for many ABA operators engaged in charter and tour services, as well as those of us that serve airports close to major cities and United States tourist attractions. Any loss of cash flow, especially during peak times, affects the day-to-day operations as well as the operations into the future.

Without these revenues, many motorcoach operators face a bleak winter and maybe the prospect of shutting their doors for good.

The question for the committee and Congress is to decide how to ease the effects of the attacks on this segment of the transportation industry.

In sum, the motorcoach industry seeks financial assistance of any sort until the spring and more normal transportation and travel patterns reassert themselves. One recovery suggestion within the purview of this committee is the expansion of access to small business economic injury disaster loans and loan guarantees.

Under SBA regulations, businesses located within a declared disaster are eligible for financial assistance from this program. The nature of the motorcoach business is that our business is located wherever our customers travel. The industry must have access to these loans to foster recovery and loan guarantees to provide motivation for equipment lenders to work with bus owners to meet scheduled payments.

No one doubts the American people will return to the skies and travel again. It is just a matter of time. However, until that day businesses affected by the attacks on us will have to have financial help in order to be in service when that day comes.

We are looking to members of Congress to aid the bus industry, and indeed all of us in attaining this goal.

Once again, thank you for the opportunity to be with you today, and I would be pleased to answer any questions you may have.

[Mr. Chesebro's statement may be found in appendix.]

Mr. PENCE. Thank you, Mr. Chesebro.

And we will break a bit with convention, and the gentlelady from the Virgin Islands and I will actually alternate questions to individual panelists as we believe we will be imminently called for a

vote here after a quarter after, and I want to make sure that my colleague and I both have opportunities to answer questions.

So with that, the Chair would direct the first question to Ms. Adams.

You are on the front line of the travel industry as a travel agent. My question to you would be to rate in some way the severity of the current downturn. For instance, did your customers cancel short-term plans to travel, or have they cancelled their Thanksgiving and their Christmas travel plans? Can you give this committee some sense of the duration of the impact on our travel industry from your perspective?

Ms. ADAMS. I would be glad to, and I would dare say I am a prototype for all travel agencies across the nation.

After September 11th, it was immediate cancellations; immediate being defined in the next say 60 days. People just froze up, wanted refunds, cancelled package tours. After about two weeks, we started receiving cancellations on some of our groups for March and April into the Caribbean. We are in the northeast, they want to go there.

Interestingly enough, we held our breath with the advancement of our nation's response on Sunday, and we indeed received the second wave of cancellations well into the future Tuesday and Wednesday of this week.

So the answer to your question, Mr. Pence, would be yes on all the above. It is just whatever groups or individual leisure travel we had has disappeared. Corporate seems to also be at a standstill.

Mr. PENCE. Going forward, can you give the Chair an estimate of the number of months that you have seen plans cancelled?

Ms. ADAMS. We cannot see that far, that's how far. December, it starts in December, and I will tell you that our season goes well after Easter, June, July. We have a group in July that was cruising that had to make some long-term commitments. That was under deposit with over 53 passengers, fairly reasonably large sale for us, and——

Mr. PENCE. Cancelled.

Ms. ADAMS [continuing]. It fell apart immediately with 50 percent. It came to a point of having so few we had to pull the plug on the whole thing.

Mr. PENCE. Well, the gentlelady from the Virgin Islands is recognized.

Ms. CHRISTENSEN. Thank you, Mr. Chairman.

Before I ask a question, I just wanted to say how great it is to have such a diverse panel in front of us, and have the District of Columbia represented as well. It is not often that that happens at our committee hearings.

Let's see, where would I start? I am going to ask Ms. Adams a question as well, although I wanted to say to Mr. Swift that this afternoon the Minority Business Task Force of the CBC will be meeting to take up specifically some of the issues that you raised, and we raised them with the SBA Administrator yesterday as well. We will continue to follow up with those issues. We had not focused in on airport businesses, but on minority and disadvantaged and women-owned businesses.

Ms. Adams, would you explain to the committee why having access to a loan program that is based on ability to pay rather than collateral is so important?

Ms. ADAMS. Currently, as most small businesses are service oriented, we have no hard assets in order to even obtain letters of credit. We need to collateralize our own personal property. We have nothing left to collateralize. And quite candidly, all of those loans for operational expenses right now are maxed out.

So the ability to repay would be vital to the formula for us. There is nothing left we can give you. We do not have a thing.

Mr. PENCE. The next question would be for Mr. Swift. During your testimony that I thought was very good and very informative, by the way, you made reference to the fact that lease agreements for most of the people that you are here representing are established on the basis of fixed rents.

Can you give the subcommittee a number of the concessionaires may be in jeopardy of default on their agreements due to reduced sales? Give me a percentage of the industry based—because I find that—I had a different expectation about how those agreements might have been drafted based on overall sales and percentages. But if is a fixed rent agreement, it sounds to me like we could be in very serious trouble for these small business concessionaires?

Mr. SWIFT. Absolutely. Let me address it a couple of ways.

Number one, probably 90 percent of all contracts are with a fixed rent, but not only a fixed rent, but a guaranteed rent against a percentage, whichever is higher.

Mr. PENCE. Okay.

Mr. SWIFT. So they are locked in, and these contracts are often five years or longer. So as in the case of my company, we just renewed our contract at Hartsfield for another five years with a CPI increase based on the average annual growth of the traffic at about five or six percent. Taking a hit of anywhere from 30 to 40 percent in traffic makes it quite difficult, excluding the fact that the meet or greeters are not going to the airport. They are now part of the mix of sales.

So in that regard most operators are on the fixed rents. What used to be an average of 15 to 20 percent of your gross revenue was towards your rent, now for some of us it represents anywhere from 40 to 70 percent of your gross revenue because of the locked-in relationship to a fixed rent.

Mr. PENCE. The gentlelady from the Virgin Islands. Forgive me, but I was just very—I am stunned by that. Maybe one quick follow up if I could.

Ms. CHRISTENSEN. Sure.

Mr. PENCE. Is there any sense in your industry, your business or elsewhere around the country, that companies that own airports and operate facilities are working with vendors with these fixed—these fixed rent arrangements already? Has it been happening in the last 31 days or is the expectation there that they will just simply grind down?

Mr. SWIFT. I can tell you this. Unfortunately, most of the relationships are with local government entities, and the speed at which they are able to move is 90 to 180 days.

Mr. PENCE. Okay.

Mr. SWIFT. We need a fix right now.

Mr. PENCE. Okay.

Mr. SWIFT. I will also say that out of 400 plus airports we know of two airports, DFW and the Reagan National, where they have taken immediate steps to say we are going to adjust the rent now rather than waiting six months.

Mr. PENCE. Two airports?

Mr. SWIFT. Correct.

Mr. PENCE. Okay. Thank you.

Ms. CHRISTENSEN. Mr. Torres, I'm also a member of the Travel and Tourism Caucus Steering Committee, and we had some meetings with different groups, including the Travel Industry of America, who propose a tax credit for travel within the United States, and the 100 percent meal deduction. We had—let me see if I pronounce it—I'Ricci here——

Mr. TORRES. Right.

Ms. CHRISTENSEN [continuing]. Testifying as to the—I'Ricci, from that restaurant, and some other proposals.

Would those help the Washington, DC economy?

Mr. TORRES. Absolutely, but everything helps to be honest with you. Anything that is proactive that will support our case.

However, one of the key things is for Congress to help us in the process of restoring full use of Reagan National Airport. As long as that airport is operating on a limited basis, the city will appear to the world as a crippled city. That is a message that we cannot afford to continue sending out. It is dangerous. There is no way that anyone will feel comfortable if the nation's capitol itself is inaccessible.

Ms. CHRISTENSEN. I got that message very clear.

Mr. PENCE. My next question would also be for Mr. Torres. Could you explain for the benefit of the subcommittee the General Service Administration's premier lodging program, and how specifically that would help small hotels like the one you operate in this time?

Mr. TORRES. Yes. Well, the premier lodging program, as you know, is a GSA program that actually evaluates and supports the marketing efforts hotels that are offering lodging to the government traveler. And in fact, the response to the program has been pretty well due to Washington hotels in over six months, and it was supposed to have been given to us as a decision this October. Unfortunately, that is delayed, and it is delayed almost to the point that we do not know exactly when.

In fact, the way that it would help is it will support in a great way the marketing efforts of Washington, DC. In addition to that, it will give us, hopefully, an increase in rate. Washington, DC has experienced rate increases as far as the federal per diem. Last year it was one percent, and I have to say a poultry one percent as against the rest of the nation receiving increases of 25 percent such as cities like Boston that received up to a 50 percent increase in the rate.

It helps our smaller hotels because generally the small hotels are the ones that open-arm—would welcome with open arms the government traveler. It helps the city entirely because it makes the government traveler more viable as a real source of business, and certainly we are competing, everybody competes effectively on that

business because small hotels cannot handle the large conventions, and consequently work with the government very much in accommodating their traveling guests.

Mr. PENCE. Ms. Christian-Christensen.

Ms. CHRISTENSEN. Thank you.

The concessionaire businesses, 8(a) businesses and so forth is one that is of great concern to the subcommittee and, of course, the Congressional Black Caucus.

The businesses that you are describing, are they certified disadvantaged businesses?

Mr. SWIFT. Yes.

Ms. CHRISTENSEN. Are any of them 8(a)?

Mr. SWIFT. On the construction side, some of them are probably 8(a). But on the concession side of the coin, that is generally not required of them to be 8(a), but they are all certified as to be——

Ms. CHRISTENSEN. Just on a general level, have you been experiencing some of the difficulties that have always been coming to the committee with getting contracts, getting concessions and so forth?

And we are looking at the Ataran being argued again at the end of this month. Do you want to make some comments just generally on the state of disadvantaged and minority businesses?

Mr. SWIFT. Certainly. Considering the fact that the focus of AMAC is in support of that level of participation for women and disadvantaged businesses, we see no immediate future for AMAC to go away. In fact, we think our job and our responsibility has been strengthened because the need is greater.

Unfortunately, far too many airports have taken the opportunity not to make this part of the fabric of their institutions, so there is some battles that we have to deal with it. If it was comfortable and everyone went with the idea that it is good business to do business with everyone in your community, there would be no need for a firm or a company or an organization such as AMAC.

Ms. CHRISTENSEN. Let us hope that as we have to work towards rebuilding the entire economy in light of what happened we can do it in such a way that strengthens it across the board for all Americans. I think that is a real challenge for us, but I think it is something that we really need to pay attention to in this particular time when there may be a window, some opportunity to strengthen all businesses.

Mr. SWIFT. If I may add, that is one of the elements of this crisis period. It has underscored the fact that we are all Americans. No one was left out of the crisis.

Ms. CHRISTENSEN. That is right. Thank you.

I do not have any further questions, Mr. Chairman, at this time.

Mr. PENCE. Thank you.

I had one quick question, and then I will recognize the gentlelady for any closing remarks she might have, and we will wrap up this panel and this hearing.

Mr. Chesebro, I had a question there. From the standpoint of common sense, there was talk immediately after September 11th about an increase—increase usership of buses, that traffic had possibly increased for Greyhound services, not necessarily for airport shuttles and the like, which would be impacted.

Some of your testimony seems to fly in the face of that. As you are here not only on your own behalf but on behalf of the industry as a whole, what has been, taking into account impact on shuttle services like yours and others, the overall impact on the events of September 11th on the busing industry, in your judgment? Positive, negative or breakeven?

Mr. CHESEBRO. Well, like I say, I have a hard time answering for Greyhound. The ABA would be more representative of that than I would.

Mr. PENCE. Right.

Mr. CHESEBRO. As a whole, some support companies, as I noticed when I flew into Dulles yesterday, the Super Shuttle is reaping the profits, and a lot of the cab companies coming this way with Reagan being closed.

Myself, it has impacted me and the companies in the Orlando, general central Florida area. I can speak on behalf of them. And in that retrospect because with the travel agent industry considered also, that revenue is down on everybody's behalf in that area.

Now, some areas of the country, like I say, some busing into—some sections of the busing industry probably are profiting from it.

Mr. PENCE. Very good. Any closing remarks from my colleague?

Ms. CHRISTENSEN. You know, I did have one other question, Mr. Chairman, to Ms. Adams.

After the airline bailout bill, did the airlines offer to return to the old ticket reimbursement system for travel agents?

I know you are very much aware with the Virgin Islands problem with that and as it affects all travel agencies, but particularly ours.

Ms. ADAMS. Unfortunately, they did not offer us anything if that is what you are asking. We were already hurting from an August 20th wound when they cut our commissions by 60 percent. So going into September 11th, we were in bad shape by 60 percent.

If you can imagine being a small business owner and getting a fax at four in the afternoon on a Thursday to say tomorrow your income for the airline tickets is cut by 60 percent, and then that was August 20th.

We were limping, we were hurting, but we have tenacity with small business people, we were scraping by, and then we got clobbered on September 11th.

And no, we have had no communication of such from the airlines.

Ms. CHRISTENSEN. Well, just in closing, as I was saying during the break, the ripple effects from September 11 continue to get wider and wider, and it is clear from yesterday's testimony and today's that, you know, we need to approach this with some sense of urgency, especially with small businesses because they do not have the ability to hold on and hang on much longer.

So, you know, we appreciate you coming. We appreciate your testimony. And we remain committed to addressing the issues and making sure that our small businesses—small businesses of all Americans in this country get through this period and prosper in the future.

Mr. PENCE. I too want to thank the panel, both panels for really outstanding presentation, and also want to express appreciation to my colleague and good friend, the gentlelady from the Virgin Islands, for her ongoing commitment to the tourism industry as evi-

denced by a colossal commitment of her time today in this subcommittee.

I also appreciate very much my colleague's observation of the diversity represented on this panel. I thought Mr. Swift's comments were very eloquent and very moving. One of the flower growing out of the ashes of September 11th is the realization that we as Americans are all in this together and the unity that we have experienced on Capitol Hill, I think, is simply an extension of the unity that we sensed around the country.

I want to hope—as many of you and people you represent and some of those who testified here today are going through difficult times, I hope that you will leave Washington encouraged by the interest that you have seen evidenced here and that I am sure you will hear as you meet with representatives throughout the day or however long you are in the nation's capitol.

And I also want to leave you with the knowledge that I hope this has been as encouraging to you as it has been informative to this subcommittee. You have by your testimony today enabled us all on this subcommittee to be much more aggressive, much more informed in our advocacy of the interests of the small business community in the wake of September 11th, and for that I am personally grateful and am grateful on behalf of the subcommittee.

With that, we are in a very timely way adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

Statement of Mike Pence
Chairman
Subcommittee on Regulatory Reform and Oversight
Committee on Small Business
United States House of Representatives
Washington, DC
October 11, 2001

My parent's generation remembers where they were when Franklin Delano Roosevelt died. Even elementary school children of my generation remember where they were when they heard that President Kennedy had been assassinated. Indelibly etched in our collective memories will be the pictures on television of the occurrences of September 11, 2001. The events of September 11, 2001 have reverberated throughout this nation and the world.

Though at first glance, they may seem pedestrian, today's hearing examines what are in fact significantly important economic consequences of the events of September 11, 2001. Immediately after the events, the Federal Aviation Administration, quite correctly, shut down all air traffic throughout the United States. During the shutdown, the commercial airlines estimated that they lost more than one billion dollars. And Congress responded with an economic package to stabilize the commercial airlines.

However, the events of September did not just affect the commercial aviation industry. Shaken by concerns over the economy and the safety of air travel, Americans and foreigners

cancelled plane flights, businesses substituted video and telephone conference calls for face-to-face meetings that required travel, and people cancelled vacation plans. The economic consequences of the events of September 11, 2001 have not just been felt in New York City and Washington, DC, but throughout the country. And the impact has been most dramatic on thousands of small businesses that rely and depend on aviation for their livelihood.

It is easy to understand the effect that the shutting down commercial aviation had on the airlines. But the reverberations of September 11, 2001 permeate the American economy much more deeply. Congress so far has only dealt with the problems of some very large businesses. I expect the testimony today will prove invaluable as the Small Business Committee deliberates on the actions it can take to assist the small business community whose plight has been largely ignored by government.

Obviously, the businesses that serve aviation have been affected most dramatically. Smaller airports, whether they serve commercial airlines or general aviation have suffered substantially through reduced flight operations. Not only does this reduce the revenue streams of the airports, but it also adversely affects the businesses that provide support, such as catering services, fuel suppliers, and aircraft maintenance. And we cannot forget that access to air service plays a vital role in economic development – an issue that is of crucial importance to many members of the Committee and Subcommittee.

Travel and tourism are an important sector of the American economy. The travel industry depends on air transportation to get many of their customers to their destinations. In the wake of the events of September 11, 2001, airlines have seen air traffic reduced by 40 percent. When people do not fly, hundreds of thousands of small businesses suffer.

It is easy to picture the problems faced by concessionaires at Reagan National Airport who had no business for nearly a month. But what about a restaurant or newsstand that has lost a significant amount of foot traffic because it is now located beyond the security checkpoint. One can also imagine the problems facing the rental car industry where 90 percent of business is done at airports that are now suffering from substantial reductions in traffic. Travel agents have lost revenue from cancellations of airline flights, hotel and car rental reservations, and cruises. Fine dining restaurants now serve fewer tourists and business customers. Hotels, big and small, cannot fill their rooms, and not just in New York City or Washington, DC. Hoteliers in Los Angeles County have already laid off 40 percent of their workers and closed entire floors in an effort to survive. Taxicabs and limousines that take passengers to and from the airports have also seen severe reductions in operations and revenue. Given the concerns about air travel, one might imagine that bus operators are thriving; they are not.

These grim data show that the small business economy is suffering. Businesses across the country are feeling the adverse effects of the events of September 11, 2001. We will hear from a wide variety of small business owners of aviation-related and aviation-dependent

businesses on their economic outlook. I also look forward to their recommendations on legislative and regulatory changes that can be made to help them through this crisis. Those suggestions are particularly timely as the Committee is examining changes to the Small Business Act that will provide greater assistance to all small businesses that have been adversely affected by the economy -- not just those in the declared disaster areas.

I look forward to the testimony today and thank the witnesses for taking the time to travel to Washington, DC. Given the importance of this hearing and if there is no objection, I would like to offer each member of the Subcommittee an opportunity to make an opening statement. I will now turn to the ranking member of the Subcommittee, the gentleman from Pennsylvania, Mr. Brady for his opening remarks.

# Congressman Bill Shuster

PRESS RELEASE

2188 Rayburn House Office Building, Washington, DC 20515
(202) 225-2431 - (202) 225-2485 fax

**For Immediate Release:** October 11, 2001 **Contact:** Joe Terrana, 202.225.2431

## Shuster Bill To Provide Relief To Aviation Small Businesses After Attacks

**Washington D.C.** – Congressman Bill Shuster introduced legislation in the U.S. House of Representatives on October 3, 2001 that provides relief to small aviation businesses that have suffered economic losses stemming from the September 11th terrorist attacks. The legislation, H.R. 3007, authorizes the Small Business Administration to provide grants to small aviation businesses that have incurred losses directly related to the federal ground stop after the September 11th attacks.

On October 4, 2001, Congressman Shuster was joined by Aircraft Owners and Pilots Association President Phil Boyer at a noon press conference in front of the Capitol. "The losses incurred by smaller charter airlines and related industries resulting from the attacks and the ground stop have been crippling to hundreds of small-business owners and hundreds of workers. Now that we have provided relief to the national carriers, we must turn our attention to the smaller aviation businesses that face staggering losses. Many of these companies face closure because of lost revenues. This bill provides the needed economic stimulus to allow these companies to keep their doors open," said Congressman Shuster.

"These small business people are living a uniquely American dream -- earning their living through aviation," said Aircraft Owners and Pilots Assoc. Pres. Boyer, whose organization represents 375,000 members. "When the federal government closed the nation's airspace, it took away the most important tool of their business. For them, it was a disaster. Surely Congress can grant these hard-working people the same benefits we willingly give to Americans who suffer through devastating hurricanes and floods."

The bill, which amends the Small Business Act, also provides one-year interest-free loans to affected aviation businesses that have suffered or are likely to suffer as a result of Federal Aviation Administration or Department of Transportation orders. The bill also allows the Secretary of Treasury to extend to two or four months the due date for certain taxes paid by qualifying companies.

Since the attacks, small aviation businesses have seen profits collapse. Many smaller operators have experienced losses ranging from 30 to 40 percent compared to last year's revenues during the same time period -- a devastating number for an industry that characteristically experiences lower profit margins.

www.house.gov./shuster

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# Congressman Bill Shuster

PRESS RELEASE

2188 Rayburn House Office Building, Washington, DC 20515
(202) 225-2431 - (202) 225-2485 fax

**For Immediate Release:** October 4, 2001 **Contact:** Joe Terrana, 202.225.2431

## Shuster Remarks From Press Conference On General Aviation Small Business Relief Act

**Washington D.C.** – Congressman Bill Shuster (R-Penn.) held a press conference on October 4, 2001 in support of his bill to provide relief to small aviation businesses that have suffered economic losses stemming from the September 11th terrorist attacks. The legislation, entitled the "General Aviation Small Business Relief Act of 2001," authorizes the Small Business Administration to provide grants to small aviation businesses that have incurred losses directly related to the federal ground stop after the September 11th attacks. The bill has wide bipartisan support and now has over 15 cosponsors.

Congressman Shuster's bill, which amends the Small Business Act, also provides a little breathing room for companies by allowing the SBA to issue loans with no payments or interest accruing for one year. After the one-year time frame has completed these loans would then return to normal interest and payment rates. The bill, H.R. 3007, also enables the Secretary of Treasury to extend for two to four months the due date for certain excise taxes paid by qualifying companies.

"This bill is a bipartisan, common-sense response to the needs of the small businesses that have suffered significant losses as a direct result of the FAA ground stop. The losses incurred by the smaller general aviation industry have been crippling to hundreds of small-business owners and hundreds of workers," said Shuster. "Now that we have provided relief to the national carriers, we must turn our attention to the smaller aviation businesses that face staggering losses. Many of these companies face closure because of lost revenues. This bill provides the needed economic stimulus to allow these companies to keep their doors open."

The bill is supported by the National Air Transportation Association, the Aircraft Owners and Pilots Association, the Helicopter Association and the General Aviation Manufacturers Association. The bill also enjoys broad bipartisan support and is cosponsored by 25 House members including: Reps. Neil Abercrombie (D-HI), Leonard Boswell (D-IA), Rick Boucher (D-VA), John Duncan (R-TN), Vernon Ehlers (R-MI), Bob Filner (D-CA), Sam Graves (R-MO), Robin Hayes (R-NC), Mike Honda (D-CA), Stephen Horn (R-CA), Steny Hoyer (D-MD), Tim Johnson (R-IL), Sue Kelly (R-NY), Mark Kennedy (R-MN), Nick Lampson (D-TX), Rick Larsen (D-WA), Steve LaTourette (R-OH), James McGovern (D-MA), Jerry Moran (R-KS), C.L. (Butch) Otter (R-ID), Collin Peterson (D-MN), John Thune (R-SD), Todd Tiahrt (R-KS), Jennifer Dunn (R-WA) and Jay Inslee (D-WA).

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***Text of remarks by Congressman Shuster at today's press conference in front of the Capitol.***

"The attacks of September 11 will be seared in our memories forever. The human toll that this has taken on victims and their families is immeasurable. It has also taken an economic toll on our airlines and our general aviation industry. There can be no arguing that a healthy airline industry is a large part of our national security and our economic viability. The United States Congress has acted swiftly to stabilize the commercial airline industry. Now it is time to help our smaller general aviation businesses. Here is why:

* General Aviation operates at more the 5,300 public airports.
* More than 92 percent (repeat: More than 92%) of the roughly 225,000 civil aircraft registered in the United States are general aviation aircraft.
* More than 500,000 of the nation's 635,000 pilots fly general aviation aircraft.
* General Aviation is compromised of private business owners, large and small that rely on our national airspace for their livelihood.

We all know that politicians routinely point to numbers like these. But what we forget are the people and families behind these numbers. Frank Grazier, from Bedford Pennsylvania, runs a Flight Service Center at the Bedford County Airport. In the three weeks since the attack he has lost $50,000. This may seem like small potatoes when compared to the commercial airlines, but for Frank Grazier this is probably equal to his profits for one year. Frank is not alone. His problem is widespread among the small general aviation industry. This bill will help Frank and the thousands others like him get through the near term -- so he can make adjustments for the long term to keep the business going.

Both commercial and smaller aviation businesses suffered economic losses after the FAA ground stop. But what hasn't been reported is the fact that the smaller aviation industry was grounded significantly longer and was saddled with greater flight restrictions than the larger air carriers. However, the losses suffered by smaller general aviation businesses are not covered by the bill Congress just passed and do not appear to qualify under any established federal disaster relief law or program.

For all these reasons it is time to act and provide the much-needed relief to these businesses who face crippling losses and possible closure. Our legislation proposes to take 3 common-sense steps to help these small businesses get back on their feet.

1. It will allow the Small Business Administration to provide grants to these companies equaling the loses they have incurred as a result of FAA or DOT orders.
2. This bill also provides a little breathing room for companies by allowing the SBA to issue loans with no payments or interest accruing for one year. After the one-year time frame has completed these loans would then return to normal interest and payment rates.
3. To allow the Secretary of Treasury to extend for 2 or 4 months the due date for certain excise taxes paid by qualifying companies.

This bill is a bipartisan, common-sense response to the needs of the small businesses that have suffered significant losses as a direct result of the FAA ground stop. The losses incurred by the smaller general aviation industry have been crippling to hundreds of small-business owners and hundreds of workers. Now that we have provided relief to the national carriers, we must turn our attention to the smaller aviation businesses that face staggering losses. Many of these companies face closure because of lost revenues. This bill provides the needed economic stimulus to allow these companies to keep their doors open."

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NATIONAL AIR
TRANSPORTATION
ASSOCIATION

4226 King Street
Alexandria, Virginia 22302
(703) 845-9000 FAX (703) 845-8176

**Statement of**

**James K. Coyne, President**

**National Air Transportation Association**
**4226 King Street**
**Alexandria, Virginia 22302**
**(703) 845-9000**

# Economic Impact on Aviation-Related and Aviation-Dependent Small Businesses as a Result of the Events of September 11, 2001

**Before the U.S. House of Representatives**

**Committee on Small Business**

**Subcommittee on Regulatory Reform & Oversight**

**OCTOBER 11, 2001**

**Washington, DC**

**INTRODUCTION**

Chairman Pence, Ranking Minority Member Brady, members of the Regulatory Reform and Oversight Subcommittee, my name is Jim Coyne and I am the president of the National Air Transportation Association (NATA). NATA represents nearly 2,000 aviation businesses owning, operating and servicing aircraft that are the backbone of the aviation industry. These companies serve the traveling public by offering services and products to aircraft operators and others such as fuel sales, aircraft maintenance, aircraft parts sales, aircraft storage, flight training, non-scheduled air charter, aircraft rental, and scheduled commuter operations in smaller aircraft. NATA members are the vital link in the aviation industry that provides services to the airlines, general aviation, and the military.

Today, I appear before the Subcommittee not only to present a national perspective on how the events of September 11th have affected the aviation business community but also on behalf of Neil Mathison, president of North Country Aviation (NCA) in Duluth, Minnesota.

First, let me say that the events of September 11th are truly ones of deep sadness, and my heart goes out to all those families and friends that have lost loved ones.

As a result of the terrorists' attacks on the World Trade Center towers and the Pentagon, like other critical segments of this nation's economy, many of the aviation businesses that play an integral part in our national air transportation system have suffered unprecedented financial hardship.

North Country Aviation is a fixed base operator (FBO) located west of the control tower of Duluth International Airport. NCA has been in business as the Duluth FBO since 1985. As a fixed based operator, NCA fuels all aircraft including Northwest Airlines, American Eagle Airlines, Mesaba, commercial and private aircraft and all ground handling. NCA's facility also has a flight school and provides training. Additionally, they maintain and rent hangar space and maintain an aircraft mechanics shop.

NCA employs at any given time thirty to thirty-five full-time employees who are paid between $9.50 per hour and $25.99 per hour. Part-time employees are compensated at a rate of $8.00 to $10.00 per hour.

Before I continue about North Country Aviation, I would like to stress the importance of general aviation to our nation's economy.

**IMPACT OF GENERAL AVIATION ON LOCAL COMMUNITIES AND THE ECONOMY**

In 1999, NATA completed a study that is attached titled "American Aviation Access Initiative – Providing All Americans With Access to Air Transportation." The study analyzes the needs of and supports the funding proposal for the Nation's small airports.

Access to the air transportation network for a community translates directly to good jobs, affordable housing, quality modern medical care, and a clean environment. The individuals who live in towns and cities where the value of the airport is recognized clearly benefit in a better quality of life. For many communities, general aviation airports

are the only readily accessible link to the national and international air transportation system, and they are a valuable economic resource.

For example, in the State of Tennessee the economic benefit to the State from general aviation is $3 billion, providing 49,000 jobs. The impact of general aviation is also local. Greater Kankakee Airport in Illinois had a total economic impact of $18.6 million, including 100 full-time and 297 part-time jobs. This airport serves the communities of Kankakee (pop. 27,575), Bradley (pop. 10,792) and Bourbannais (pop. 13,934).

The following chart details data collected from the states on the economic impact of general aviation.

**Economic Benefits and Jobs Created by General Aviation in Selected States**

| State | Economic Benefits | Jobs |
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| Arizona | $ 1.5 billion | 22,000 |
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The consequences of inadequate airport facilities or the lack of an airport are significant. According to a study by the State of Oregon, communities without an airport are less likely to bring in new jobs from outside the region. The State of New Jersey found that general aviation airports are a major factor in relocation decisions for both small and large businesses.

Former Senator Wendell Ford, a respected aviation expert, stated it best in the following quote:

> *In the early part of this century, a community was hard pressed to survive without a railroad station. Today, our airports have replaced the railroad station and the train's tracks across the countryside have been replaced by the plane's contrails across the open skies. Just as railroads played a critical role in the economy of yesterday, so too do airplanes and airports play an important role in today's economy.*

As the U.S. population and economy grow, there is a corresponding increase in the use of general aviation aircraft.

**ECONOMIC IMPACT AS A RESULT OF THE EVENTS ON SEPTEMBER 11TH**

As demonstrated by the findings from the study, general aviation and the aviation businesses that propel this industry are critical components to our nation's economy. On Monday, September 17th, NATA sent to its members an economic impact survey asking for feedback on how the tragedies from September 11th have affected and will continue to affect their business. The results from this survey are staggering. NATA estimates that its member companies have lost approximately $300-$400 million and have been forced to furlough thousands of employees since this tragedy's occurrence. The impact is shared by companies both large and small, with one NATA member company losing nearly $50 million in fuel sales and many of our smaller aviation businesses being currently operated by only their proprietor(s), if at all.

This trend has been especially true for North Country Aviation. On September 11th, all NCA operations were halted and the company was forced to lay off half its employees, due to the grounding of aircraft. NCA did not fuel or service any aircraft for three days. On an average day, NCA services commercial flights, FedEx, air freight and charter flights, as well as military and government aircraft. On privately-owned aircraft, NCA did not fuel or service flights for five days. The financial loss for the month of September was in excess of $106,000 due to revenue lost from jet fuel, 100LL, fuel maintenance, hangar rental space, catering, and etc. NCA's financial loss will continue, as Northwest Airlines recently eliminated two flights per day from Duluth. Also, customer confidence has waned due to fears of future terrorists attacks and newly imposed restrictions.

NCA's airport liability insurance cost has increased from $23,000 to $30,000, and its liability insurance cost on aircraft has increased twenty-eight percent, from September, 2001, through April, 2002.

NCA, as Duluth's only charter provider, has seen a spiraling downturn in its air charter business as well, including cancellations to popular destinations like Las Vegas, Nevada, resulting in lost revenue.

Additionally, there are no VFR Part 135 air taxi operations in and out of Canada. This policy restricts privately-owned aircraft in the Duluth region from operating, as it is only seventy-five nautical miles from the Canadian border. Neil, as a pilot and owner of a Cessna 206, frequently flies to Canada for the weekend, much like others in the region that

own private aircraft. This has been virtually impossible since September 11th. This restriction has also correlated to lack of fuel sales to NCA.

NCA was in the process of expanding its fuel farm that maintains jet fuel, 100 LL and unleaded fuel at a cost of $250,000. This project has now been placed on hold. NCA is in the process of construction of a new hangar for aircraft, at a cost of $200,000.

**RECOMMENDATIONS**

Clearly, my testimony and the testimony that you will hear from two of our members today reveal the severe financial hardships that America's aviation businesses have suffered since September 11th.

First, I encourage Members of the Subcommittee to ask the Bush Administration to lift the remaining enhanced Class B airspace restrictions throughout the country, including the one covering Potomac Airfield in the Washington, D.C. area. NATA and other general aviation groups have tried feverishly to make contact with national security officials but have been effectively stonewalled, without opportunity to address their security concerns.

Second, last week, Congressman Bill Shuster (R-PA) introduced a bill, H.R. 3007, entitled the "General Aviation Small Business Relief Act of 2001" in the House. This measure, which had broad bi-partisan support, would provide the necessary financial assistance to keep America's aviation businesses operating. The bill provides the following for aviation businesses:

- ✓ Directs the Small Business Administration (SBA) to provide grants to companies equal to the losses incurred as a result of Federal Aviation Administration (FAA) or Department of Transportation (DOT) orders
- ✓ One-year no-interest loans can be made by the SBA to qualified companies that have suffered or are likely to suffer as a result of the terrorist attacks after which normal interest and payment rates would be in effect
- ✓ The Secretary of the Treasury is allowed to extend for 2 or 4 months the due date for certain excise taxes paid by the qualifying companies

The Association strongly encourages Members of the Subcommittee to co-sponsor this legislation to relieve the extreme economic pressure that has been placed on America's aviation businesses.

NATA appreciates the opportunity to testify before the Subcommittee and would be pleased to address any questions.

NATIONAL AIR
TRANSPORTATION
ASSOCIATION

4226 King Street
Alexandria, Virginia 22302
(703) 845-9000 FAX (703) 845-8176

**Statement of**

**Maureen Tarascio, Owner**
**Air East Management**
**8100 Republic Airport**
**Farmingdale, NY 11735**
**(631) 756-5500**

# Economic Impact on Aviation-Related and Aviation-Dependent Small Businesses as a Result of the Events of September 11, 2001

**Before the U.S. House of Representatives**
**Committee on Small Business**
**Subcommittee on Regulatory Reform & Oversight**

**October 11, 2001**
**Washington, DC**

**INTRODUCTION**

Chairman Pence, Ranking Minority Member Brady, members of the Regulatory Reform and Oversight Subcommittee, my name is Maureen Tarascio. I am the owner and operations manager of Air East Management located at Republic Airport in Farmingdale, New York. I am also the secretary of the Long Island Business Aviation Association. The events of September 11th are truly ones of deep sadness, and my heart goes out to all those families and friends that have lost loved ones.

As a result of the terrorists' attacks on the World Trade Center towers and the Pentagon, like other critical segments of this nation's economy, many of the aviation businesses that play an integral part in our national air transportation system have suffered unprecedented financial hardship.

Air East is a family run business in existence since 1982 that provides flight training and aircraft rental at Republic Airport. Air East also has a maintenance shop and a charter company that provides charter flights nationwide.

Air East is here today testifying on the behalf of the National Air Transportation Association (NATA) an organization that represents nearly 2,000 aviation businesses owning, operating and servicing aircraft that are the backbone of the aviation industry. These companies serve the traveling public by offering services and products to aircraft operators and others such as fuel sales, aircraft maintenance, aircraft parts sales, aircraft storage, flight training, non-scheduled air charter, aircraft rental, and scheduled commuter operations in smaller aircraft. NATA members are the vital link in the aviation industry that provides services to the airlines, general aviation, and the military.

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For example, in the State of Tennessee the economic benefit to the State from general aviation is $3 billion, providing 49,000 jobs. The impact of general aviation is also local. Greater Kankakee Airport in Illinois had a total economic impact of $18.6 million, including 100 full-time and 297 part-time jobs. This airport serves the communities of Kankakee (pop. 27,575), Bradley (pop. 10,792) and Bourbannais (pop. 13,934).

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Former Senator Wendell Ford, a respected aviation expert, stated it best in the following quote:

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As the U.S. population and economy grow, there is a corresponding increase in the use of general aviation aircraft.

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As demonstrated by the findings from the study, general aviation and the aviation businesses that propel this industry are critical components to our nation's economy. On Monday, September 17th, NATA sent to its members an economic impact survey asking for feedback on how the tragedies from September 11th have affected and will continue to affect their business. The results from this survey are staggering. NATA estimates that its member companies have lost approximately $300-$400 million and have been forced to furlough thousands of employees since this tragedy's occurrence. The impact is shared by companies both large and small, with one NATA member company losing nearly $50 million in fuel sales and many of our smaller aviation businesses being currently operated by only their proprietor(s), if at all.

This trend has been especially true for my company. Between September 11 and October 6, Republic Airport was closed to all operations except Part 135 charter, which meant a 96% reduction in total flight activity. This resulted in a loss of $4,000 per day to my company and a total loss of $200,000 per day to all the companies at Republic Airport. My company alone has 21 workers affected by this closure. Many businesses at Republic Airport have already laid off staff. The scope of businesses affected by the closure range from catering businesses, flight schools, fixed base operations who sell fuel and have transient aircraft parking to aircraft cleaning and aircraft maintenance facilities. Corporate flight departments were also unable to use their aircraft, and many privately-owned aircraft, where owners travel for business, were also grounded. Republic Airport at this time is still only partially open. Student pilots cannot solo, which is part of their training requirements in order to obtain their license, and a VFR owner/pilot is still not able to fly in and out of our airport. We are concerned that we have lost a percentage of our business that will never be recaptured. Other airports surrounding Republic were fully operational within 1 week after September 11th.

One other concern that will have a great impact on the aviation industry is aviation insurance. We already experienced problems within the first week after the WTC tragedy, with the cancellation and resale of War Risk Coverage. We also expect to have major increases in our premiums when we go into renewal on our aviation insurance policy. This will force our industry to increase rates to where it will not be affordable for the consumer to use our services, whether it be flight training or aircraft charter. Aviation companies need help to regulate the increases in insurance. Survival of our industry will directly affect the national economy. We need funding to somehow make up for the losses we have incurred. We are hoping to obtain that funding in the form of federal grants. Our future greatly depends on the federal aid our industry receives.

**RECOMMENDATIONS**

Clearly, my testimony reveals the severe financial hardships that America's aviation businesses have suffered since September 11th.

First, I encourage Members of the Subcommittee to ask the Bush Administration to lift the remaining enhanced Class B airspace restrictions throughout the country, including the one covering New York City and the Washington, D.C. area. NATA and other general aviation groups have tried feverishly to make contact with national security officials but have been effectively stonewalled, without opportunity to address their security concerns.

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I strongly encourage Members of the Subcommittee to co-sponsor this legislation to relieve the extreme economic pressure that has been placed on America's aviation businesses.

I appreciate the opportunity to testify before the Subcommittee and would be pleased to address any questions.

**Statement of**

**George F. Doughty**

**Executive Director,**

**Lehigh-Northampton Airport Authority**

**On Behalf of**

**Airports Council International-North America**

**Before the**

**Subcommittee on Regulatory Reform and Oversight**

**Committee on Small Business**

**United States House of Representatives**

**October 11, 2001**

Chairman Pence, Ranking Member Brady, and distinguished members of the Regulatory Reform and Oversight Subcommittee, thank you for the opportunity to provide you with information on the economic impact of the September 11, 2001, attack and its aftermath on smaller regional airports.

While it is difficult today to predict exactly what the long-term implications will be, I can say that the short-term impact is dramatic and quite serious. Although all airports are not impacted uniformly, small airports generally are affected economically in three basic ways.

First, we have immediate increases in operating costs as a result of additional security and law enforcement requirements.

Second, service reductions by the major airlines are resulting in fewer options for travelers in our communities and cutting deeply into the revenues that the airports receive from the airlines.

Third, fewer passengers result in less revenue from parking, concessions and other airport businesses.

This combination of factors has created a difficult dilemma for airport management. Most small airports are either self-sufficient or operate with minimal financial support from state and local governments. State and federal grants provide funds for some capital needs, but operations and ineligible capital items must be supported by the revenues from airlines and other aviation and non-aviation businesses, such as fixed base operations, retail facilities, rental cars and parking. All of these revenue streams have been significantly reduced, except for service to corporate aviation, which, at least for now, appears to be less affected.

As you know the major airlines were experiencing difficulties before September 11, 2001. Traffic was declining due in part to a weaker economy and

resistance by business travelers to the substantial fare increases over the past several years.

Service reductions were already planned prior to September 11, 2001; the attacks merely caused a dramatic acceleration of those reductions. It is almost certain that there will be a permanent restructuring of air service to smaller airports. While equipment rescaling and other service adjustments (e.g., conversion of mainline jet service to regional jet service) by the major airlines may ultimately create opportunities for low fare and new entrant airline service to smaller communities, airports must cope with the service reductions now.

Some aspects of our operations at Lehigh Valley International Airport (LVIA) are different from other airports our size. However, many of the problems we face are similar to those experienced by smaller regional airports throughout the country.

LVIA is located in Eastern Pennsylvania near Allentown and Bethlehem. It is approximately 50 miles north of Philadelphia and 80 miles east of Newark. The world headquarters of Air Products and Chemicals, Inc., Agere Systems, Bethlehem Steel, Mack Trucks, Merck & Company, Aventis Pharmaceuticals, Rodale Press, Fuller Company, M&M Mars, Binney & Smith, Inc., plus major facilities of Ford, Lucent Technology, Dun and Bradstreet, Kraft Foods, just to

name a few, are located within the airport's primary service area of about 2.5 million people.

These and many other small and large businesses in the region depend on the Lehigh Valley International Airport for efficient travel. While these companies can use Philadelphia and Newark Airports, they prefer the convenience and functionality of LVIA when service is available to their destinations.

Many smaller airports in the Northeast have experienced declining business in recent years, unless they had been fortunate enough to receive Southwest service. LVIA was the exception to that rule. Last year the airport handled a record 1,013,710 passengers. Growth continued at LVIA through August of 2001 despite the weakening economy.

However, current estimates for LVIA indicate expected revenue losses in excess of $1.2 million in the next twelve months since September 2001. In addition, increased security expenses are estimated to be at least $600,000. The revenue loss projection does not include any bad debt expense, which may also affect the airport's economic position. In short, the economic hardship experienced by the airport will certainly have a detrimental impact on the local community and its economy.

We have long recognized that as congestion increases at the major Northeast airports, nearby regional airports like LVIA will become more important. In preparation for that increased demand, the airport acquired additional land for future facility needs. This was done at a considerable cost to the Airport Authority because federal grant priorities do not allow Airport Improvement Project (AIP) funds to be made available for such land purchases. This program is now in jeopardy if revenues to the airport decline significantly. In addition, last year, again without federal or state assistance, we were able to acquire a small privately owned general aviation airport, preserving it as an important reliever in the region. Now we may be forced to close this facility due to inadequate revenue to carry that debt, and the costs associated with increased security mandates imposed by the Federal Aviation Administration.

With respect to the specific impacts of the attacks of September 11, we, as are all airports across the nation, taking steps to handle the serious financial impacts. LVIA is reducing operational costs where possible through reductions in hours worked by both full and part-time employees. Hiring and wage freezes are in place, and layoffs are being planned and will be implemented as needed. Early retirement packages are also being developed to reduce existing staff. In addition, planned capital projects and equipment purchases were deferred.

But, because airports are independent businesses that receive little or no operating subsidies, we will have no choice but to adjust our fees and charges to recover the increased security costs. However, at some small airports, the airline lease agreements may not allow rapid changes in fees. And, political pressure applied by the airlines to prevent fee increases at airports where such adjustments are legally possible is already a reality.

Many airports already received letters from airlines suggesting that airports put their credit rating at risk in order to reduce billings to the air carriers. LVIA has no plans to do that. It is important that airlines continue to be required to pay the full cost of services provided to them by airports.

The Airports Council International-North America (ACI-NA), an organization representing local, regional and state governing bodies that own and operate commercial airports in the United States and Canada, of which LVIA is an active member, prepared a detailed analysis on the economic impact of the airline service interruption and the expected decline in aviation activity as well as the increased security expenses. This analysis is available to the Subcommittee at the convenience of its members.

I believe there are some very important actions that the federal government can take right now to assist small airports in meeting this challenge. ACI-NA

President David Plavin addressed in testimony presented before the US House of Representatives, Committee on Transportation and Infrastructure, Subcommittee on Aviation on September 25, 2001, specific recommendations that include the provision of federal financial assistance to cover the increased cost of security requirements at airports. This expense is significant and growing, and, importantly, represents a much larger percentage of operating costs at small airports than at major hub facilities. We need that help and very soon.

ACI-NA also proposed, for a finite period of time, a loosening of restrictions on the use of AIP funds and Passenger Facility Charges (PFCs) revenue. This should be done to allow for security costs and investments, and, in addition, to meet broader capital needs of smaller airports that no longer can be funded with local resources.

Even if airports were to receive flexibility on AIP/PFC usage, the need for additional manpower will not be met with dollars alone. President Bush recently requested State governors to deploy National Guard troops to assist with airport security at security checkpoints. Although these troops have been deployed, their value to airport security is limited due to their mission, which is restricted to use at security checkpoints despite the other critical areas in need of increased airport security. While having a presence of these troops at the security checkpoint might create a "feel good" response from passengers, they simply are not providing a

useful function that enhances security. Airports would very much like to use those troops for real security duties that are more in line with their military training, such as the protection of access gates and the airport perimeter. This flexibility would ease the pressure on airport law enforcement and allow them more time to concentrate on other security and policing duties. Airports need to deploy these individuals on an airport-by-airport basis.

Now that we have a much better understanding of the foes and challenges we are facing, it is critical that the solutions address real security issues instead of public perception. Activating the National Guard to perform real and necessary security functions at airports is an important step. It is insulting to the intelligence of Americans to employ security functions that only waste valuable resources, and gives the false impression that progress is being made when no progress has occurred.

Finally, in the few weeks following such a terrible and unexpected crime, uncoordinated, changing, and even contradictory information and directives imposed by the government is a concern. In the past month FAA security directives to airports and airlines have been issued, modified, rescinded and reissued. We have done our best to respond, and we will continue to meet all federal mandates. However, Congress is urged to ensure cooperation and coordination among all agencies involved.

I am fascinated with the focus of Congress and the Administration on the passenger pre-screening process. While everyone recognizes that the current system has flaws, it is not at all clear that screening errors contributed to the events of September 11, 2001. What is important in developing an effective screening program is not who actually performs the screening function, but rather, what are the training standards, screening procedures and equipment to be used, and how will these standards be imposed and enforced. Federal employees operating under the existing system are doomed to make the same errors.

We need to focus on the total issue of terrorism, not just those "problems" that appear to have easy and direct solutions. As a nation we have considerable resources that can be brought to bear, but we should apply them in the most effective manner possible, not squander them on knee-jerk responses.

Chairman Pence, Ranking Member Brady, and distinguished members of the Regulatory Reform and Oversight Subcommittee, thank you very much for the opportunity to provide these comments on this very important issue.

**Statement of**

**David Wartofsky, Partner**
**Potomac Airfield**
**10300 Glen Way**
**Fort Washington, MD 20744**
**(301) 248-5720**

# Economic Impact on Aviation-Related and Aviation-Dependent Small Businesses as a Result of the Events of September 11, 2001

**Before the U.S. House of Representatives**
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**October 11, 2001**
**Washington, DC**

**INTRODUCTION**

Chairman Pence, Ranking Minority Member Brady, members of the Regulatory Reform and Oversight Subcommittee, my name is David Wartofsky and I am a partner at Potomac Airfield in Fort Washington, Maryland. The events of September 11th are truly ones of deep sadness, and my heart goes out to all those families and friends that have lost loved ones.

As a result of the terrorists' attacks on the World Trade Center towers and the Pentagon, like other critical segments of this nation's economy, many of the aviation businesses that play an integral part in our national air transportation system have suffered unprecedented financial hardship.

Potomac Airfield is a small airport located just a few miles from downtown Washington, D.C. in Fort Washington, Maryland. The airport has several small businesses including The Plane Doctor, Aviation Adventures, Flying Lemur, ATC Flight Training and Buckley Aviation that provides services such as flight training, fueling, and maintenance.

Potomac Airfield is here today testifying on the behalf of the National Air Transportation Association (NATA), an organization that represents nearly 2,000 aviation businesses owning, operating and servicing aircraft that are the backbone of the aviation industry. These companies serve the traveling public by offering services and products to aircraft operators and others such as fuel sales, aircraft maintenance, aircraft parts sales, aircraft storage, flight training, non-scheduled air charter, aircraft rental, and scheduled commuter operations in smaller aircraft. NATA members are the vital link in the aviation industry that provides services to the airlines, general aviation, and the military.

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As the U.S. population and economy grow, there is a corresponding increase in the use of general aviation aircraft.

**ECONOMIC IMPACT AS A RESULT OF THE EVENTS ON SEPTEMBER 11TH**

As demonstrated by the findings from the study, general aviation and the aviation businesses that propel this industry are critical components to our nation's economy. On Monday, September 17th, NATA sent to its members an economic impact survey asking for feedback on how the tragedies from September 11th have affected and will continue to

affect their business. The results from this survey are staggering. NATA estimates that its member companies have lost approximately $300-$400 million and have been forced to furlough thousands of employees since this tragedy's occurrence. The impact is shared by companies both large and small, with one NATA member company losing nearly $50 million in fuel sales and many of our smaller aviation businesses being currently operated by only their proprietor(s), if at all.

This trend has been especially true for Potomac Airfield. Since September 11th, all aircraft at Potomac Airfield have been grounded due to the enhanced Class B airspace restriction surrounding Ronald Reagan National Airport (DCA). While Part 121 operations, or the airlines, are slowly increasing the number of flights in and out of DCA, all Part 91 IFR and VFR operations have been prohibited. Below are some statistics that clearly demonstrate how Potomac has and will continue to suffer severely if airspace restrictions continue:

*Historic lost revenues per month: Estimated lost business over next 6 months if Airfield is re-opened ASAP*

| | | |
|---|---|---|
| 1) Airfield rents & fuel sales - | $46k/mo | : $46k/mo x 6 = $276k |
| 2) ATC Flight Training - | $38k/mo | : $19k/mo x 6 = $152k |
| 3) Aviation Adventures - | $29k/mo | : $0 (Has moved off field) = $29k |
| 4) Flying Lemur - | $6k/mo | : $3k/mo x 6 = $24k |
| 5) Buckley Aviation - | $6k/mo | : $3k/mo x 6 = $24k |
| 6) The Plane Doctor - | $26k/mo | : $12k/mo x 6 = $98k |

**Revenue Loss - Estimated Total 30 days of shut-down + rebuild 6 months = $603k**

In addition to lost revenue, the tenants at Potomac Airfield have been forced to furlough employees. The following are businesses that serve at Potomac Airfield and the layoffs that have taken place as a result of the attacks on September 11th:

*Aviation Adventures*
3 instructors - part time, 2 mechanics - part time, 1 admin - part time (relocating temporarily?)

*ATC Flight Training*
4 instructors full time, 2 mechanics full time - 2 Admin - part time

*Flying Lemur*
1 pilot - part time, 1 admin - part time

*Buckley Aviation*
1 pilot - part time

*The Plane Doctor*
2 mechanics full time - 2 mechanics part time

*Airport*
Numerous contractors...and some tenants are no longer paying rent

**RECOMMENDATIONS**
Clearly, my testimony reveals the severe financial hardships that America's aviation businesses have suffered since September 11th.

First, I encourage Members of the Subcommittee to ask the Bush Administration to lift the remaining enhanced Class B airspace restrictions throughout the country, *subject to conscientious, appropriate and well thought out new security measures,* ***including the*** *restrictions still precluding 100% of all flight operations at* Potomac Airfield in the Washington, D.C. area. NATA and other general aviation groups have tried feverishly to make contact with national security officials but have been effectively stonewalled, without the opportunity to address their security concerns.

Second, last week, Congressman Bill Shuster (R-PA) introduced a bill, H.R. 3007, entitled the "General Aviation Small Business Relief Act of 2001" in the House. This measure, which had broad bi-partisan support, would provide the necessary financial assistance to keep America's aviation businesses operating *while security officials resolve the remaining outstanding security issues*. The bill provides the following for aviation businesses:

- ✓ Directs the Small Business Administration (SBA) to provide grants to companies equal to the losses incurred as a result of Federal Aviation Administration (FAA) or Department of Transportation (DOT) orders
- ✓ One-year no-interest loans can be made by the SBA to qualified companies that have suffered or are likely to suffer as a result of the terrorist attacks after which normal interest and payment rates would be in effect
- ✓ The Secretary of the Treasury is allowed to extend for 2 or 4 months the due date for certain excise taxes paid by the qualifying companies

I strongly encourage Members of the Subcommittee to co-sponsor this legislation to relieve the extreme economic pressure that has been placed on America's aviation businesses.

I appreciate the opportunity to testify before the Subcommittee and would be pleased to address any questions.

**Statement of**

**Quintin DeGroot,**
**President, Spencer Avionics**
**Spencer, Iowa**

**For**

**The Aircraft Electronics Association**
**4217 South Hocker**
**Independence MO 64055**
**(816) 373-6565**

# Aviation Security and the Effect on Aviation Small Businesses

**Before the U.S. House of Representatives**
**Committee on Small Business**
**Subcommittee on Regulatory Reform and Oversight**

**October 11, 2001**

**Washington, DC**

**INTRODUCTION**

Chairman Pence, Ranking Minority Member Mr. Brady, members of the Subcommittee on Regulatory Reform and Oversight, I would like to thank you for this opportunity to testify before this subcommittee on behalf of Spencer Avionics and the Aircraft Electronics Association.

As New York and Washington continue to recover from the events of September 11th I find it difficult to address this issue without considering the great loss the entire nation has felt. I have the deepest sympathy for the families and friends that have lost loved ones in these tragic events. I would also like to express my appreciation of the work that has been accomplished by the Secretary of Transportation, Mr. Mineta and of Administrator Garvey of the FAA. Their staffs have worked tirelessly to get the nation's aviation system back up and operating.

However, at the same time I believe that many of the new security measures that have been put in place, especially those that are regulating general aviation, are reactionary and are perpetuating the economic decline of aviation small businesses.

As a result of the terrorists' attacks on September 11th many of the aviation businesses that play an integral part in our national air transportation system have suffered unprecedented financial hardship. Hardships that are a direct result of the security measures put in place by the Federal Government.

The Aircraft Electronics Association (AEA) represents over 1,100 aviation businesses, like mine, that specialize in the maintenance, repair and installation of avionics and electronic systems in general aviation aircraft. General aviation aircraft range in size from light, single engine trainers to large commercial business jets. AEA members are engaged in every level of general aviation although nearly 75 percent of our membership are small businesses having fewer than 10 employees.

Spencer Avionics is one of those businesses that the AEA represents. And while general aviation includes many large turbine-powered aircraft, we tend to specialize in smaller, light single and twin engined aircraft often flown under the FAA's Visual Flight Rules.

I am Veteran and the father of 4 children. Until 3 years ago I worked for someone else; now I own a small 4-man shop that my wife and I operate.

As a direct result of the grounding of all general aviation aircraft, my shop suffered an immediate 9-day loss exceeding $15,000, and the losses continue. Many of my customers do not have access to my shop because of the temporary restrictions regarding flight within Class B airspace. As a small shop owner I have had to cut my own personal pay by 33% to keep my technicians working and cash flow flowing.

We are far from New York City but the Government's security measures put in place following the terrorist attacks have had a direct negative effect on mine and other avionics shop businesses. Like many AEA member shops, my shop draws customers from a relatively small radius of 250 miles. In my case, this radius includes the Minneapolis Class B Airspace.

**AN OVERVIEW OF SECURITY MEASURES AFFECTING GENERAL AVIATION**

| | |
|---|---|
| September 11th | All flight operations were suspended. |
| September 13th | Part 135, on-demand charter flights could resume. |
| September 18th | Part 91 IFR (instrument flight rules) flights could resume. |
| September 20th | Part 91 VFR (visual flight rules) flights could resume w/ restrictions.<br>No flight instruction.<br>No flights in Class B airspace. |
| September 22nd | VFR Flight Instruction resumes. |

While the federal government made significant progress in the first two weeks in returning the national air transportation system to normal operations, there has been little or no progress in the past two weeks in getting general aviation and the small businesses that support it back to normal operations. Current flight limitations exclude VFR flight into 28 major metropolitan areas, foreign travel of U. S. registered aircraft and U. S. travel for foreign registered aircraft.

**CLASS B AIRSPACE**

Airspace within the United States is divided into six separate categories ranging from Class A, (all airspace above 18,000 feet) to Class G airspace (airspace below 1200 feet that is away from metropolitan areas), there is no Class F airspace.

Class B is the highest classification of airspace below 18,000 feet with the highest degree of positive control of all airborne traffic. There are 28 to 30 designated Class B airspaces, typically around the major airports in large cities.

The permanent regulations that apply to aircraft flying in Class B airspace requires that the aircraft must be in positive communication with the FAA Air Traffic Control (ATC) and have the equipment operating that allows the ATC to track the flight. In addition, entrance into Class B airspace requires explicit permission of ATC.

**ECONOMIC IMPACT AS A RESULT OF THE SECURITY MEASURES IMPLEMENTED SUBSEQUENT TO SEPTEMBER 11TH**

AEA members rely on both domestic and international aviation customers. The severe restriction on domestic general aviation operations, the VFR prohibition in metropolitan

areas, and the inability for foreign customers to deliver their aircraft to U. S. repair stations has had a significant negative effect on the economies of these small businesses.

Domestically, the inability to receive aircraft from the customer and the inability to return the completed aircraft to the customer has severely crippled the ability of these small businesses to meet the demands of the customers. In addition, the decline in flight school attendance and subsequent downturn in flight instruction has led to cancellation of numerous contracts. All of this compounds a general decline in the aviation economy since the events of September 11th.

The ban on foreign aircraft travel within U. S. airspace has severely restricted maintenance, repair and alteration of foreign registered aircraft. Our maintenance facilities are recognized worldwide for the quality of the work they perform, and for many international operators, these are the maintenance facilities of choice. The current ban prohibits these aircraft from being delivered to U. S. maintenance facilities for their scheduled and unscheduled maintenance.

**FUTURE INSURANCE PREMIUM INCREASES**

Although it was reported that the events of September 11th will cost the insurance companies less than 10 percent of their cash reserves, increases in aviation company's insurance premiums have been reported throughout the industry. Like many AEA members, my insurance provider has also notified me that my aviation insurance will increase dramatically as a direct result of the Terrorist Attack. My options are very limited in the aviation insurance market. There are only 3 companies that provide insurance for my shop. In the past 2 years my insurance has already increased by 56% even though I have not had a claim against my policy.

**AEA MEMBER LOSSES**

Since the events of September 11th, AEA members have seen, on average, a 45 percent decrease in business with specific members suffering much more.

I have described the losses that I have experienced in Iowa; other AEA members have had similar losses. As an example:

- One small business in Florida reports a 75 percent decrease in business and has begun laying off employees. The business had a major contract with a flight school canceled resulting from the slowdown in flight instruction. This facility has also reported cancellation of their War Risk insurance and an increase in their hangar insurance of over 50 percent.

- Another small business in Washington State reports a 75 percent decrease in business with monetary losses exceeding $20,000.00. Since this facility in under the Seattle-Tacoma enhanced Class B airspace their customers cannot deliver the aircraft for maintenance, repair or installations.

- An instrument repair station in Kansas has been informed of a 40 to 50 percent increase in their insurance premiums although they do not supply commercial aircraft components.

- A member in Idaho has lost over $100,000.00 and has had to reduce their staff by 10 percent. While this facility has had a reduction in avionics sales and installations, the majority of their loss has come from lost fuel sales to the airlines.

- A major general aviation repair station has seen their international business decline costing them over $600,000.00.

**SECURITY IN THE NATIONAL AIR TRANSPORTATION SYSTEM**

While the events of September 11th are tragic, they provide an opportunity to make a paradigm shift in our view of and management of the national air transportation system. This perspective is not a "them against us" perspective. For decades, government and industry have viewed the individual segments of aviation as a transportation mode within themselves. Compartmentalizing commercial aviation separate from business aviation, separate from charter and all distancing themselves from the more traditional general aviation. Clearly based on the events of the past two weeks, this is incorrect. There is one and only one national air transportation system.

The national air transportation system must be addressed as an entire system. The NAS is a national transportation resource not unlike the marine highway system, the railway system or the Interstate highway system. Many of the challenges facing the aviation industry today could be resolved if the entire aviation system were managed as an entire national transportation resource. The proposed security measures would be based on its effectiveness for the entire system, not just one segment: leading to performance based security measures appropriate for each supporting industry. In addition to the current security measures, many of the historical arguments for closing of an integral part of a national interstate air transportation system, such as a local airport, would take on a new perspective.

Because aviation has been considered unique, many proposals have surfaced that other modes of transportation are not asked to support.

- The marine industry is not responsible for performing background checks on Coast Guard certified seaman. The Coast Guard performs the checks.

- The trucking industry is not responsible for performing background checks on perspective students. The licensing agency performs the checks before the license is issued.

- The car rental industry is not responsible for screening its customers prior to the rental of the vehicle. If the customer presents the appropriate credentials, it is assumed that they are valid and the rental contract is initiated.

- The FAA, not my business, should be responsible for the background check of any certificated individual that they have a security concern for. If the FAA is going to issue the certificate, they should assume the responsibility of assuring the individual is qualified to receive the certificate.

In other transportation modes small businesses are not burdened with providing unique security screening. The agency overseeing the transportation mode provides the screening and management of the public with individual licenses and certificates. The FAA issues student pilot licenses, mechanic licenses, and certificated pilot licenses, why then doesn't the FAA perform background checks before they issue a certificate? Why is the burden shifted to the aviation small business?

The national air transportation system is a national resource that must be managed as a complete system with many supporting industries. The level of security measures put in place must be balanced between the overall national threat and the loss of this national resource.

**CONCLUSION**

We as small business owners are not looking for some kind of a Government subsidy to get us out of trouble. My dad always said if you're not part of the solution, you're part of the problem. It is not the Government's job to run any business or bail it out of its own mis-management. However, the government can help us survive the disaster of September 11th and the Federal Government security measures implemented as result of the disaster by providing tax relief and by making low interest loans available.

To help general aviation businesses weather the storms of the terrorist acts of September 11th and the resultant Federal action, the Association supports the General Aviation Small Business Relief Act of 2001 (H.R. 3007), introduced by Congressman Bill Shuster (R-PA) and would ask the members of this committee to also support it.

In addition, to help our aviation small businesses to return to work the Association would request from this committee:

1. Encourage the FAA to develop a plan that would allow for the delivery of U.S. registered aircraft to repair stations located in the 28 major metropolitan areas within enhanced Class B airspace.
2. Encourage the FAA to develop a plan that would allow for the delivery of foreign registered aircraft to U.S. repair stations for maintenance, repair and alteration. Many of these repair stations have spent decades establishing themselves as an international aviation resource. Now their loyal customers cannot get access to their facility.

3. Expand the boundaries of the disaster area to include the aviation businesses that have endured financial hardship as a direct result of the federal security measures put in place following the terrorist attacks in New York and Washington so that these businesses will have access to the disaster relief resources of the Small Business Administration. (Because the majority of general aviation facilities are outside of the immediate disaster zones of New York and Washington, they are not eligible for disaster relief support from the SBA. Even though their losses are directly related to the security measures taken following the terrorist attacks.)
4. Investigate and, if possible, stabilize the insurance premiums charged general aviation companies by the insurance industry. It is hard to understand why a terrorist act in New York should cause the insurance premium for a general aviation repair station in Florida to increase.

I appreciate the opportunity to testify before this Subcommittee on behalf of Spencer Avionics, my employees and the members of the Aircraft Electronics Association. I would be pleased to address any questions.

**TESTIMONY OF THE**

**THE AMERICAN SOCIETY OF TRAVEL AGENTS, INC.**

**Before the**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**HOUSE SMALL BUSINESS SUBCOMMITTEE**
**ON**
**REGULATORY REFORM AND OVERSIGHT**

Presented by:

Bonnie Adams
Owner
Lewiston Travel Bureau
855 Lisbon Street
Lewiston, ME 04240-6100
(207) 784-3571

Prepared by:

Paul M. Ruden, Esq., CTC
Senior Vice President – Legal & Industry Affairs
American Society of Travel Agents, Inc.
1101 King Street
Alexandria, VA 22314
(703) 739-2782
E-mail: paulr@astahq.com

October 11, 2001

**Testimony of the American Society of Travel Agents**

**Federal Aid for Travel Agencies**

Mr. Chairman, members of the Committee, my name is Bonnie Adams. I am the owner of Lewiston Travel Bureau in Lewiston, Maine. I thank you for this opportunity to speak to you on behalf of the American Society of Travel Agents ("ASTA") and the nation's travel agents.

ASTA offers this testimony for Congress' continuing deliberations with respect to the impact of the September 11 terrorist attacks on the travel industry. Our testimony differs somewhat from that of the airlines that testified before us in that we are concerned here not only with the airlines, but also with the directly related industries that are either an essential part of the airlines' ability to perform or are directly dependent upon their ability to perform.

When the airlines testified, their basic message seemed to be: take care of our needs and everyone else will then be better off too because we'll be able to continue flying. No doubt that is true: everyone will benefit if the airline industry keeps operating.

But it is far from the whole truth. In reality many people will not be better off even if the airlines continue to fly. Their businesses and careers in the travel business will have been destroyed – completely and definitively – and for the same reasons that brought the airlines before Congress and for the same reasons that the Congress, before hearing from anyone else, approved a $15 billion aid package for the airlines. These are the businesses and careers of people who had nothing to do with airline security or government surveillance of suspected terrorists. They are, typically, very small, family-owned businesses who arrange most of the air travel bought by Americans and also almost all the packaged tours and cruises, along with sizeable shares of the hotel rooms and car rentals sold in the United States.

They are firms who have been brutalized by the airlines over the past five years through a succession of compensation reductions that have reduced the average domestic commission rate from 10 percent in early 1995 to 3.75 percent in August, 2001.[1] The revenue results of this are depicted in Exhibit A to this testimony.

These actions have forced travel agents to shift costs to their customers in the form of service fees in order to maintain the air travel product line in their business. Other agencies simply stopped selling airline tickets, and still others, as would be expected, either failed or simply exited the industry for good.

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[1] These actions were accompanied by other steps designed to increase agency costs and impair agencies' ability to maintain customer relationships, much of which was described in a 1999 complaint to the Department of Transportation, as yet not acted upon.

The travel agency industry has shrunk from 23,937 firms in 1994 (the peak) to18,334 firms at the end of August, 2001 (decline of 23 percent).[2] See Exhibit B to this testimony. The air travel business done by travel agencies, including the hybrid Internet-based firms, has, however, increased from $53 billion the year before the first commission cap to more than $76 billion in the year 2000. See Exhibit C to this testimony. Air travel still represents 54 percent of the travel agency product mix and agencies still account for about 75 percent of the air travel sold in the United States.

The aggregate savings to the airlines in avoided commission expense for the entire period is in the tens of billions. Conversely, the impact on travel agencies was to weaken them as they struggled to make up for the lost commission revenue by shifting product mix to emphasize more profitable lines of business like cruises and tours. The move to cruise selling was recently met by a cruise industry reduction in commissions paid on the air portion of air-sea packages. And the recession of 2001 further cut into business travel, reducing still further the financial benefits of selling airline tickets and further impairing the financial condition of many travel agencies.

In addition, travel agencies that continue to sell air transportation must use a computerized reservations system to locate and book most seats. Most of the four remaining CRS systems are still substantially owned by airlines. Because their airline owners used them unfairly to prejudice the purchase of air travel in favor of the owners, the federal government regulates the CRS's and to some extent the airlines that own or participate in them. The contracts that CRS's impose on travel agencies typically require the agency to pay penalties if the number of segments booked falls below specified productivity thresholds.

The thresholds have several consequences. Travel agencies may harm their business if they attempt to book lower, and typically non-commissionable, fares from Internet web sites because they don't get CRS segment credits for such bookings. In recession, which we were having prior to September 11, agencies are harmed by both loss of business and loss of segment bookings. In the post-attack situation faced by agents, they must seek relief, the grant of which is entirely discretionary with the CRS's, from the segment thresholds.

Despite a formal request from ASTA, the four CRS's have announced relief measures, through the end of the year.

The point of all this is that the travel agency industry was, just like the airlines, already struggling with a severe financial problem when the attacks of September 11 brought a virtual halt to the sale of travel in all forms. They are caught between the hammer and the anvil: no new business, commissions recalled on previously sold business that was not performed or is being cancelled, and penalties for failing to make CRS booking thresholds.

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[2] As reported by the Airlines Reporting Corporation.

Travel agents and at-home retailers of travel services number about 300,000. We estimate job losses in the 100,000 range if immediate action is not taken to help them. Travel agencies typically do not have meaningful cash reserves nor do they own assets that could be made available as collateral for regular bank loans. Having been completely ignored by the airlines, they have nowhere to turn but the federal government.

We are not here just because travel agencies are being destroyed. We are well aware of the breadth and depth of the economic damage that the September 11 attacks have imposed on our economy and that there are other claimants to federal relief with powerful equities to cite. We well understand the central role that airlines play in our country's economy and can understand that federal relief was necessary to sustain the industry until government leadership returns to the traveling public its sense of confidence in the security of air travel. From the beginning ASTA supported a rational and equitable relief package that will help deliver a rapid return to full operations by the airline industry.

The term "airline industry" is, however, something of a fiction. That which we call the airline industry is in truth an economically integrated collection of related but independent businesses with highly specialized skills, experience and expertise.

One of the most important of those essential components is the travel agency. Travel agencies are important not only because they dominate the statistics. That fact points to a deeper truth: the traveling public continues to demand the services of travel agencies in preference to other modes of purchasing.

This is not an accident and not a result of lack of choices. The public uses travel agencies because the agencies provide what the public needs in the way of information, counseling and transaction services for air travel, and, of course, for other forms of travel as well.

At ASTA we say "without a travel agent, you're on your own" and the American public agrees.

During the terrible days immediately following the September 11 attacks, America's travel agencies were again there for their clients. And they were there for others in need as well. Across the country, travel agents were in their offices trying to help the many thousands of people stranded by the nationwide airport closure. Many of them provided free assistance to people who had bought their tickets on the Internet and had no one else to contact for help.

Travel agents performed these services because they were the only people who could. At the same time they watched their businesses collapse. ASTA has many reports of agencies whose gross earnings for the week including September 11 were less than

$50. This is normally the peak season for holiday bookings. That business is at a standstill. Even large group bookings made for travel months in the future are being cancelled. The details of a small sample of these stories are set out in Exhibit A to this testimony.

It is a fact that in this unprecedented situation there was no substitute for the travel agent for tens of thousands of people who needed help. It is a fact that the nation's travel agencies face the same unprecedented financial crisis that the airlines face and are as deserving and needful as the airlines of assistance from the federal government. Finally, it is a fact that without travel agencies, the nation's travel industry, airlines included, simply cannot function. The airlines and their web sites cannot handle the volume of calls to assist consumers with the myriad of services that professional travel agents have provided and that account for the public's continuing preference for agencies. In the current situation, in particular, the services of professional agents with expertise in travel option analysis are going to be crucial to bringing the public back to the airways. Consumers are going to want and need people to talk to, preferably people they know but at least a human being with real knowledge of the system, the new rules and the requirements for achieving safe and expeditious travel. The only people available to fulfill that function are travel agencies. Recovery will remain an illusory myth for a very long time to come if travel agencies are not there to connect and serve the customer and the airline.

Some of the dimensions of the financial problem facing travel agencies are:

> Between September 11 and September 17, 2001, agencies lost an estimated $364 million due to the virtually total cessation of new sales and the recall by airlines of $73 million in air commissions on pre-September 11 sales for which transportation could not be provided.
>
> Agencies are losing about $26 million in airline sales-related revenue per day ($16 million in lost commissions, $10 million in lost fees per day)
>
> Agencies lose about $25 million per day in revenue from hotel sales ($6.3 million), car rentals ($4.3 million), cruises ($10.2 million), tours, rail and other miscellaneous sales ($4.6 million).
>
> For the four weeks following the attacks, we estimate total losses for all product lines at $1.36 billion.
>
> Estimate loss of air commissions alone through the end of the year 2001 estimated at $800 million.
>
> For the period through the end of 2002, estimated total loss for all product lines will exceed $4 billion.

Detailed projections of the effects for the balance of 2001 and for 2002 are set out in Exhibit D to this testimony.

The travel agency industry differs fundamentally in structure from that of the airlines. While there are some large firms in our industry, the overwhelming size of these businesses is "very small." In the 28,939 retail agency locations in the United States at the end of August, the average number of agency employees was six, with a median of five. Eighty-two percent are women. Just under 55% of ASTA's agency members have annual gross sales of $2 million or less.

In normal times, these small businesses handle an enormous volume of air travel. Through July of this year travel agencies sold $47 billion in airline tickets, averaging $297 million per day. Travel agencies have processed over 113 million airline sales transactions so far this year.

This business has shrunk to almost nothing since September 11. See Exhibit A. The impact on air sales passes directly through to affect the remaining 46 percent of travel agencies' product lines. Without air transportation the sale of cruises, which operate on a sustainable basis out of 13 ports in the United States, becomes almost impossible, even if the demand is there (and it is not). Hotel occupancy and car rentals are also directly and hugely dependent upon the delivery of passengers by air transportation. The tour industry uses buses for moving large numbers of travelers around, but many of them must get to the departure points using air travel. If air travel doesn't happen, these other sales don't happen either.

It is imperative that Congress provide travel agencies with financial relief comparable in nature to that given to the airlines. Given the magnitude of the short term losses and the uncertainty of near-term recovery, we seek $4 billion in no-interest or low-interest loans to be made available to travel agencies as soon as possible. These funds will help assure that irreplaceable travel agency services will not be cut off to the public when they need them the most.

Travel agencies need immediate cash infusions with a plan that includes these elements:

- Immediate cash to stabilize businesses, which may not be there by the time a more elaborate stimulus package is debated.
- Economic Disaster Loans that are industry-based not regional or size based.
- No-interest or low-interest loans below the current disaster loan level of 4% for SBA qualifying businesses.
- Loans should be based on the ability to repay not collateral.
- Loan forgiveness for agencies on the verge of bankruptcy.
- Loan abatement on both interest and principal to help travel agencies get back on their feet for SBA qualifying businesses.

Help us get back on our feet, and we'll help you get America moving again.

Finally, we want to address briefly the subject of the national recovery from the September 11 attacks. There is substantial consensus that potential travelers are still unsure whether it is safe to travel and experts= predictions for the end of that state of insecurity are grim. We have explained why we believe that federal assistance to travel agencies will assist the recovery and why allowing widespread failure of agencies will prolong the recovery. But beyond that, there is another fundamental point that is not apparently being made.

The government continues to release reports on a daily basis about the continuing presence of terrorists in our midst and about the evidence being collected about not only the September 11 attacks but about other unfulfilled threats. No doubt the people=s Aright to know@ is involved here, but we respectfully suggest that the release of this kind of information by the federal investigation of terrorism is doing nothing meaningful to bring terrorists to justice but is contributing materially to the public=s sense that it is still not safe to travel. The fundamental goal of restoring air travel, and thereby stimulating the economy as a whole, cannot be accomplished until the government makes up its collective mind that the details of the investigation, however, interesting, should be maintained confidentially until it is essential to make them public.

All the travel industry=s efforts to encourage the public to travel may go for nothing if counteracted on a daily basis by non-essential government disclosures having the opposite effect.

Finally, ASTA believes the government should lead the way with public service announcements about travel safety. ASTA is ready to work with the government, as well as other industry interests, to get that positive campaign underway.

ASTA appreciates the opportunity to have presented its views, and remains at the Committee's disposal to assist in any way it can.

Respectfully submitted,

Bonnie Adams
Owner
Lewiston Travel Bureau
855 Lisbon Street
Lewiston, ME 04240-6100
(207) 784-3571

EXHIBIT A

**TRAVEL AGENCIES IMPACTED BY AFTERMATH OF TERRORIST ATTACKS**
(Excerpts of messages from travel agencies)

AGENCY spent most of last week servicing clients who needed travel rearrangements. Our net air income for the week was $38.97. We have 5 front line agents and a small supporting staff. Our clients seem to appreciate all the work we are doing for them.

AGENCY ... employs three full time agents. Last week my net income from air sales were $32.21....we have written one air ticket since Monday.... a ground operator for incentive groups ... yesterday, they had all of their fall groups cancel....Another ground operator here ... has had 9 incentive groups cancel ....

AGENCY had a net revenue stream of $154 last week in an office of 4 full time people. Monday, September 17 we sold one airline ticket and no sales to Europe (our primary destination). Normally we receive 20 to 30 leads for European travel over the weekend ... this week we have 2 leads. On Monday we also cancelled 6 passengers on escorted tours to China - representing more than $5000 in lost commission income for October. AGENCY will be laying off at least two people at the end of this week.

Normal ARC week 100,000, last week less than 7,000 or gross income of 600. Lost in excess of 50,000 in tours prepaid and ready to go. Have waived fees for reaccommodations of people stranded. 12 full time people with 1 part time person. I figure it cost me about 9,000 loss to operate last week.

Out of last weeks business, over 60% of what we did transaction wise was refunds. 75% of the call volume were from stranded passengers or calls from the emergency bank. We are taking calls daily from people who are [squeamish] about traveling. This is having a significant impact on our agency and if things do not change within 30-45 days, we will need to reduce hours and layoff agents to help us get through. This normally is our booking season for fall break and the holidays and as all agencies December traditionally is our slowest month.

AGENCY fared better than we did - we gave back more than we made resulting in a negative of $90.49!

Arc Report Ending Sep 16, 2001 26 Sales and 17 Refunds; in Addition $9000.00 Paid in Full on a Tour on Monday, Canceled on Tuesday. Several Other Trips Cancelled for Travel in October and Even for Christmas. Unfortunately the Phone Isn't Ringing for New Business to Compensate for the Cancellations.

AGENCY spent most of last week and the first part of this week assisting clients who could not get through to the airlines. Since September 11, 2001 we have processed $31,098.32 worth of air refunds and $19,889.00 in tour and cruise cancellation refunds.

Since a large portion of the tour bookings were for inbound tourism, our commission income losses are approximately $13,400.00 for last week alone. We see very little confidence with consumers in our area, as we are having people cancel their travel plans for December, January and February. We are trying to change their minds, but everyone seems to be to depressed to think about travel right now.

AGENCY's agents spent 98% of their time last week servicing clients affected by this incident. We charge a processing fee for refunds and decided not to make an exception in this case. The only income we had last week was due to our processing fees, which totaled $1398.00. Any other commission income was negated by commission given back on refunds. Bottom line is that we lost money last week. That was not enough money to support 1 part-time and 4 full-time agents. This week will be even worse. There's very little income being generated and we will lose a lot of income due to the many tours that people have cancelled.

Our agency has reduced all employees to ½ their regular hours (3 full time & 2 part employees). Owners will work without pay. Bill must be paid & there is no income.... Cancelled trips this week along amount to over $50,000.

If I have to close my businesses 8 people ... will lose their jobs and the service we have provided to over 10,000 local residents and businesses over the last six years will cease.

AGENCY is a family operated agency .... Air sales for the past week were down over 60 percent. Air cancellations equaled sales leaving us with air sales almost equal to zero. Leisure bookings have come to a virtual halt with $15,000 in cancellations for packages under deposit. All calls this morning have centered about cancelling ticketed air and cancelling leisure travel scheduled to depart in the next few weeks. Total income for this office since September 11 has been negative. All activity has centered about getting clients home, rescheduling, and cancelling. No sales for future .....

Since the Sept. 11, we have sold only 2 airline tickets. No tours and no cruises ...

**Statement of**

**William H. Swift**

**President of Business Traveler Services, Inc.**

**and**

**First Vice Chairman of the Airport Minority Advisory Council**

**Before the**

**House Committee on Small Business,**

**Subcommittee on Regulatory Reform and Oversight**

**October 11, 2001**

Good morning, Chairman Pence, Ranking Member Brady and Members of the House Small Business Subcommittee on Regulatory Reform and Oversight. My name is Bill Swift. I am a business owner -- the CEO and President of Business Traveler Services, Inc. I have been involved with the airport industry for nearly 25 years, first as the Director of Purchasing for the City of Atlanta and now as a concessionaire with operations at the Hartsfield Atlanta International Airport, LaGuardia International Airport, JFK International Airport, Raleigh-Durham International Airport, Cleveland Hopkins International Airport, the two Houston, Texas Airports, Jacksonville International Airport and Augusta Airport.

I am also testifying today as the First Vice Chairman of the Airport Minority Advisory Council, known as "AMAC." AMAC is the only organization in the country that has dedicated its sole mission for the last 13 years to ensuring that minority, women-owned and disadvantaged business enterprises participate in the economic opportunities at our nation's airports. Our members operate food, beverage, services and retail concessions, provide professional services and perform infrastructure development contracts at U.S. airports nationwide.

Thank you for allowing me the opportunity to speak on behalf of these small, disadvantaged businesses which have been directly and severely impacted, not only as a result of the terrorist attacks on our country, but also by our Government's actions in the aftermath. I hope that I can impress upon you the urgency of the need for congressional action to help these businesses sustain during this period of crisis.

For the record, Mr. Chairman, AMAC is supportive of H.R. 3011, the bill introduced last week by your colleague Congresswoman Nydia Velazquez, the Ranking Member of the full Small Business Committee. That legislation would authorize the Small Business Administration to provide financial assistance to firms that have suffered economic injury as result of the terrorist attacks against the United States, such as airport small businesses and other commercial tenants. We are very supportive of its purpose to help stabilize affected firms and appreciate the Members of Congress who have cosponsored the bill. We understand that Chairman Manzullo is considering introducing legislation to address this issue, and AMAC would welcome the opportunity to work with him and other members of the Committee on the matter. We are also aware that similar legislation has been introduced in the Senate separately by Senators Kerry and Bond, the Chairman and Ranking Member, respectively, of the Senate Small Business Committee. We are most grateful for the recognition of the crisis affecting small firms, however, I stress that this is an emergency situation which requires prompt congressional action.

As you know, the September 11 terrorist attacks have altered our lives forever, and our economy has and will continue to be negatively affected for some time. Today, hundreds of small disadvantaged women and minority-owned businesses are in jeopardy of closing their doors as a consequence of sharply reduced sales. This is particularly the case for airport DBE's and other airport commercial tenants. Their economic peril is a direct product of the federal shut down of airports for a time, as well as the impact of new increased security measures and other procedures—not to mention the over-head costs associated with existing lease and/or contract arrangements and debt service. We do not question the necessity of the government's actions. Indeed, to the contrary AMAC members understand and strongly support measures to enhance safety and the confidence of the travelling public. However, it is very important for Congress to understand and acknowledge the effects of the federal government's actions on airport small

businesses. For this reason, airport DBE's and commercial tenants merit federal assistance in the same way as airlines and airport operators.

AMAC members (and airport commercial tenants generally) are integral parts of the aviation and airport industry. Collectively these businesses are a major economic generator for airports and the communities in which they operate or are located. They provide employment, pay taxes, and perform services that contribute to the efficient operation of airports, and provide vital services to the travelling public.

AMAC is sympathetic and supportive of the airlines and airports—but not at the expense of small business. Thus, in AMAC's view the survival of airport small business, and in particular DBE participation in airport concessions and contracts, should be a priority concern of the Congress.

As you know, airport operators are seeking federal financial assistance to help them weather the current crisis and to help defray additional security and operating costs. Mr. Chairman, it is imperative that the concerns of every component of the airport industry are addressed. Thus, in this regard AMAC asks that you and the other members of the House Small Business Committee insist that any legislation providing relief for airports also include specific provisions for financial assistance to airport disadvantaged businesses and other commercial tenants.

We believe that as a matter of sound public policy and equity that a portion of financial benefits accorded airports should be extended to airport DBE's and other airport commercial tenants--whether that assistance is provided through additional funds from the Airport & Airways Trust Fund, through increased flexibility in the use of Passenger Facility Charge (PFC) revenues, or through changes in federal tax laws.

As a condition of receiving additional federal funding or tax benefit, an airport operator must be required to implement a plan for assisting airport DBE's and commercial tenants businesses. The plan should include:

- Stated percentage of federal help to the airport that will be dedicated for DBE and small business assistance
- Six-month moratorium on declaring concessionaires in default on their existing concession contracts
- Provision for extending existing concession contracts to help firms refinance
- Restructuring of existing concession fees payable to the airport (e.g. guaranteed fee payment amounts)
- Provision for concessionaires to restructure their pricing and goods and services
- Any other means of assistance to DBEs and other airport commercial tenants

Mr. Chairman, I have owned and operated airport concessions, including golf shops, a sports store, TGI Friday's restaurant, bookstores and business services, for more than 20 years. My current business, Business Traveler Services, Inc., provides Internet access points,

workstations, ATMs, prepaid phone cards and concierge service to airport users. I can tell you from my own personal knowledge and from talking to other business owners that the types of actions and assistance noted above would be very helpful.

For example, six-month rent abatement would provide another infusion of capital to help these businesses cover their costs. Some airports have attempted to address this issue, and we appreciate what they have done. But it is not enough. For example, Dallas–Ft. Worth International Airport has provided a 50-day deferral on minimum rent payments for three months and has suspended capital expenditures to be made in accordance with lease agreements until 2002. At Reagan National, rent and concession fee payments have been deferred. These examples are the exception, and only provide short-term, limited assistance. Unless Congress mandates longer-term mechanisms to help DBEs stay afloat during this period of economic crisis, DBE's may lose their businesses altogether.

Although the long-term effects of the September 11 attacks on our country are unknown, the immediate impact on airport small business owners is already evident. After the terrorist attacks, our businesses made no revenues while the airports were closed. Even after airports re-opened, the federal requirement permitting only ticketed passengers beyond the security screening points, and the reduction in air travelers generally, has caused a significant decline in the number of airport customers who make purchases from concessions. In the long-term it is probable that there will be a net reduction in the total number of concessionaires operating at airports. Some firms will not be able to recover from the initial airport shut down and its aftermath. Thus, we believe Congress should authorize and fund a grant program to be utilized by airport operators to buy-out the contracts of these firms.

Mr. Chairman, the general public has not regained its confidence in air travel. As a result our revenues are at an all time low and that trend will continue now that the war on terrorism has begun. But business owners are still required to pay their rental fees to airports and other commercial loan payments, as well as maintain employee compensation and benefits for the staff we can afford to retain. However, additional jobs are at risk. Moreover, many of our lease agreements are fixed rents and are based upon projected revenue streams. Clearly, the current state of air travel, new security requirements and decreased passenger traffic have made it nearly impossible for small and disadvantaged businesses to meet these fixed expenses. Therefore, AMAC is asking that Congress enact legislation that will provide immediate relief for airport DBEs and other commercial tenants. The House Small Business Committee has jurisdiction over SBA programs that can provide some emergency help and we ask you to act urgently on legislation that makes airport businesses eligible for SBA economic disaster assistance.

**Conclusion**

The measures I have outlined are urgently needed if existing federal policy requiring airports to maintain viable DBE programs is to be realized. I ask that each of you consider not only the impending losses to small airport DBEs, but also the tremendous loss our local communities and airports nationwide will experience if creative, dedicated and seasoned small business owners are forced out of business and replaced by large corporations.

Again, thank you for listening and inviting me today. Your attention and sensitivity to these issues is greatly appreciated.

HEARING OF THE SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT OF THE COMMITTEE ON SMALL BUSINESS OF THE UNITED STATES HOUSE OF REPRESENTATIVES

REGARDING:

"THE ECONOMIC IMPACT OF THE EVENTS OF SEPTEMBER 11, 2001"

TESTIMONY OF MR. HECTOR TORRES, VICE PRESIDENT OF CAPITAL HOTELS, WASHINGTON, DC. AND MEMBER OF THE HOTEL ASSOCIATION OF WASHINGTON, D.C.

THURSDAY, OCTOBER 11, 2001 10:00 A.M. ROOM 2360 RAYBURN HOUSE OFFICE BUILDING, WASHINGTON, D.C.

MY NAME IS HECTOR TORRES, VICE PRESIDENT OF CAPITAL HOTELS, WASHINGTON, DC. WE OWN AND MANAGE TWO HOTELS: THE GOVERNOR'S HOUSE HOTEL AND THE ST. GREGORY, BOTH LOCATED IN DOWNTOWN WASHINGTON, BOTH MEMBERS OF THE HOTEL ASSOCIATION OF WASHINGTON, DC.

LIKE THE REST OF THE NATION WASHINGTON, DC HAS EXPERIENCED A MAJOR NEGATIVE ECONOMIC IMPACT IN THE WAKE OF THE TRAGIC EVENTS OF SEPTEMBER 11. THIS IMPACT WAS HIGHTENED DUE TO THE CLOSING OF NATIONAL AIRPORT, THE FRONT DOOR TO OUR NATION'S CAPITAL.

UNTIL THE HOSPITALITY AND BUSINESS ECONOMY OF THE NATION'S CAPITAL IS REVIVED, PERCEPTION TO THE WORLD WILL BE THAT OUR NATIONWIDE ECONOMY REMAINS CRIPPLED. AS THE NATION'S CAPITAL, WASHINGTON, DC WILL BE THE SYMBOLIC LEADER OF THE NATION'S RETURN TO NORMALCY. **REVITALIZING WASHINGTON, DC MUST BE THE FIRST STEP TO A NATIONWIDE RECOVERY.**

WITHIN THE WASHINGTON METROPOLITAN REGION, THE HOSPITALITY INDUSTRY IS THE LARGEST PRIVATE SECTOR EMPLOYER, COMPRISING IN EXCESS OF 3,000 BUSINESSES AND 260,000 EMPLOYEES.

IF THE WASHINGTON, DC HOSPITALITY INDUSTRY DOES NOT RECOVER, YOUR FAVORITE LOCAL RESTAURANT, AND EVEN PURVEYORS OF FOOD AND OTHER ESSENTIAL SUPPLIES TO CONGRESS WILL BE NEGATIVELY IMPACTED. MANY WILL NOT EVEN SURVIVE. IF YOU STOPPED AT THE ST.GREGORY HOTEL THESE PAST WEEKS YOU'D SEE VERY FEW VISITORS, AN EMPTY LOBBY, AND LESS THAN HALF THE NORMAL STAFF DUE TO LAYOFFS THAT HAVE ALREADY OCCURRED. ALSO AROUND THE CORNER FROM THE WHITE HOUSE, MANAGEMENT AT THE RED SAGE RESTAURANT HAS ALREADY HAD TO REDUCE THE NUMBER OF DAYS THEY WILL BE ABLE TO STAY OPEN AND OPERATING, AND THEY, TOO, HAVE HAD TO INSTITUTE SIGNIFICANT LAYOFFS. THESE ARE NOT ISOLATED EXAMPLES, BUT MERELY A SNAPSHOT OF WHAT IS OCCURRING THROUGHOUT THE CITY AND THE REGION. THE TRICKLE DOWN EFFECT IS, IN FACT, INCALCULABLE.

**REALITY**

- AS CONGRESSWOMAN ELEANOR HOLMES NORTON HAS REPEATEDLY EXPRESSED IN THE DAYS AFTER THE OPENING OF REAGAN NATIONAL AIRPORT, WE MUST NOT LOOK AT REAGAN NATIONAL'S OPENING AS A VICTORY LAP. ITS OPENING IS JUST THE BEGINNING. WE NEED TO RESUME FULL SERVICE IN ORDER TO RID THE PERCEPTION THAT NATIONWIDE AIR TRAVEL IS UNSAFE AND TO RETURN TOURISTS TO OUR CITY.

- THE HOSPITALITY INDUSTRY NORMALLY SUPPORTS 260,000 INDIVIDUALS AND THEIR FAMILIES. IT PUMPS NEARLY $10 BILLION DOLLARS ANNUALLY INTO OUR ECONOMY.
- THE HOSPITALITY INDUSTRY IS LOSING OVER $10 MILLION A DAY. **IN THE NEXT 100 DAYS WE ANTICIPATE A LOSS OF OVER $1 BILLION LOCALLY.**
- SMALL BUSINESSES MAKE UP 90% OF ALL DISTRICT BUSINESSES- MANY OF THEM ARE TOURISM RELATED OR DEPENDENT, AND DO NOT HAVE THE CAPITALIZATION OR CASH RESERVES TO SURVIVE THIS DOWNTURN.
- METRO DC HOTELS NORMALLY ENJOY 80% OCCUPANCY THIS TIME OF YEAR. WE ARE CURRENTLY RUNNING AT APPROXIMATELY 40%.
- METRO RESTAURANTS HAVE EXPERIENCED MASSIVE LAYOFFS AND A DRAMATIC DOWN TURN IN REVENUES IN MANY CASES MORE THAN 50%.
- SMALL HOTELS' OCCUPANCY HAS ALSO DROPPED SIGNIFICANTLY, PARTICULARLY AS THEY CANNOT COUNT ON A NATIONAL ADVERTISING CAMPAIGN TO SUPPORT THEIR LOSSES IN THE FORM OF ADVERTISING AND MARKET SUPPORT. LOSS IN SOME CASES AMOUNT TO AS MUCH AS 50% OF THEIR BUSINESS. IN ONE GROUP ALONE, THE WORLD BANK, THE LOSS WAS OVER $100,000 TO OUR HOTEL--LITERALLY ONE FIFTH OF THE HOTEL'S POTENTIAL REVENUE FOR THE MONTH. ACCORDING TO THE WOLD BANK IMF, THERE WERE APPROXIMATELY 25 HOTELS PARTICIPANING

DIRECTLY OR INDIRECTLY, ALL SHARING SIMILAR, IF NOT GREATER, LOSSES IN JUST ONE WEEK'S TIME. THE ONLY ALTERNATIVE LEFT WAS THE REDUCTION OF PAYROLL, INVARIABLY THE LOSS OF JOBS.

- THE HUMAN TOLL FALLS ON ALL THE INDIVIDUALS LOSING JOBS, WHO EARN SALARIES TO SUPPORT FAMILIES AND CONTRIBUTE TO THE GROWTH OF OUR REGION /CITY. ALL THEY WANT IS WORK...AND THEY WILL DO THEIR BEST.
- OF THE OVER 10,500 (AND COUNTING) JOBS LOST, A VERY HIGH PERCENTAGE ARE OF MINORITY BACKGROUNDS: BLACKS, HISPANICS, ASIANS. THESE INDIVIDUALS HAVE ENJOYED THE AMERICAN DREAM, BECAUSE THEY HAVE SO CONTRIBUTED THE SAME, THROUGH THE FRUIT OF THEIR LABOR. WE CANNOT RELEGATE THEM TO A WELFARE SYSTEM THAT STEALS THEIR DIGNITY. THEIR LIVES ARE CHANGED NOT ONLY ECONOMICALLY, BUT EMOTIONALLY AS WELL. CONSIDERING THAT OVER 90% ARE UNABLE TO CONTINUE RECEIVING HEALTH BENEFITS FURTHER COMPOUNDS THE PROBLEM. INDEPENDENTLY OWNED HOTELS CANNOT AFFORD TO MAINTAIN HEALTH COVERAGE.

**DC'S CURRENT RESPONSE**

- THE WASHINGTON DC CONVENTION AND TOURISM CORPORATION AND MAYOR WILLIAMS HAVE EACH COMMITTED $1 MILLION TO IMPLEMENT MARKETING, ADVERTISING, PUBLIC RELATIONS AND PROMOTIONAL ACTIVITIES AIMED AT REESTABLISHING

WASHINGTON, DC AS A PREMIER CONVENTION AND VISITOR DESTINATION. ADDITIONAL SUPPORT HAS BEEN PLEDGED FROM OTHER PRIVATE SECTOR SOURCES. THESE DOLLARS WILL NOT BE SPENT UNTIL THE AMERICAN PUBLIC IS PREPARED TO RE-ENGAGE THEMSELVES IN TRAVEL ACTIVITIES.

- THE CITY AND THE WASHINGTON CONVENTION AND TOURISM CORPORATION ARE COLLABORATING WITH 29 BUSINESS AND ECONOMIC DEVELOPMENT ORGANIZATIONS. THIS TASK GROUP WILL FOCUS ON COMMUNICATIONS AND COOPERATIVE MARKETING ACTIVITIES TO BRING LIFE BACK INTO OUR CITY BY CREATING AWARENESS OF OUR DESTINATION AS A SAFE AND WELCOMING PLACE TO VISIT.
- SUPPORT OF UPCOMING SPECIAL EVENTS TO ASSURE THEY HAVE PATRIOTIC THEMES AND MAXIMIZE POTENTIAL FOR THE LOCAL TOURISM INDUSTRY.

**REQUESTED SUPPORT FROM THE UNITED STATES CONGRESS**

- SMALL INDEPENDENT HOTELS BENEFIT FROM A HEALTHY DESTINATION OCCUPANCY. TRULY, WHAT IS GOOD FOR THE BIG GUYS IS GENERALLY GOOD FOR US: A HEALTHY ECONOMY, DESTINATION AWARENESS AND THE PREDISPOSITION TO TRAVEL. INDEPENDENT HOTELS HAVE FOR YEARS CARVED A NICHE IN THE DC MARKET AS AN ALTERNATIVE FOR THE GUEST SEEKING UNIQUE ACCOMODATIONS AND FLAVOR. WE TRULY CONVEY AND REFLECT A VERY LOCAL SENSE OF HOSPITALITY.

- SUPPORT THE FULL USE OF REAGAN NATIONAL AIRPORT TO RESUME FLIGHTS AS USUAL.
- SUPPORT AND EXPEDITE GSA'S LAUNCH OF THE PREMIER LODGING PROGRAM (PLP) FOR THE DISTRICT. THIS WILL HAVE SIGNIFICANT IMPACT ON OUR REVENUES.
- FINANCIAL SUPPORT OR TAX CREDITS TO EMPLOYERS TO MAINTAIN HEALTH COVERAGE FOR EMPLYEES LAID OFF
- GOVERNMENT NEEDS TO BE SYMPATHETIC TO THE "MIXED MESSAGES" THAT ARE CAUSING CONSTERNATION, CONFUSION AND EVEN FEAR TO THE GENERAL PUBLIC. THIS HAS A PARALYZING EFFECT ON THE TRAVELING PUBLIC.
- URGE STATE DEPARTMENT TO COMMUNICATE WITH EMBASSIES TO ENCOURAGE INTERNATIONAL VISITATION TO WASHINGTON, D.C.
- COMMUNICATE WITH CONSTITUENTS TO ENCOURAGE TRAVEL.
- BECAUSE OF WASHINGTON'S POSITION WITHIN THE GLOBAL ECONOMY, ENCOURAGE THE WORLD'S LEADERS TO SUPPORT THE RESUMPTION OF INTERNATIONAL TRAVEL, SUPPORT EFFORTS AT RE-ATTRACTING TOURISM THROUGH PR CAMPAIGNS AND PROMOTIONAL SUPPORT ON LOCAL, REGIONAL, NATIONAL AND INTERNATIONAL LEVELS.
- AS CONGRESS DEALS WITH THIS CRISIS, URGE FEDERAL AGENCIES TO COOPERATE WITH DC AUTHORITIES TO MINIMIZE DISTURBANCE TO LOCAL COMMERCE AND NEGATIVE NATIONAL IMAGES. THE

PERCEPTION THAT WASHINGTON, D.C. IS UNDER SIEGE HAS HAD HIGHLY NEGATIVE RESULTS.

- IMMEDIATE AID TO THE SMALL BUSINESS HOSPITALITY COMMUNITY. SUCH AID WOULD BE OFFERED IN GRANTS AND LOW INTEREST LONG TERM LOANS AND **TAX RELIEF .**
- MATCH THE $2 MILLION FUNDS RAISED BY THE WASHINGTON, DC CONVENTION AND TOURISM CORPORATION AND THE DISTRICT OF COLUMBIA TO BE INVESTED IN THE " UNITED WE STAND MARKETING FUND."

SINCE WASHINGTON, D.C. IS THE EPICENTER OF AMERICAN CULTURE AND OF THE FREE WORLD, WE APPEAL TO YOU TO WORK WITH US TO RETURN OUR BELOVED CITY TO SOME LEVEL OF NORMALCY. WE ARE NOT LOOKING FOR A FINANCIAL BAIL OUT, BUT RATHER WE NEED YOUR HELP DURING THESE EXTRAORDINARY CIRCUMSTANCES. WASHINGTON, DC'S HOSPITALITY AND BUSINESS COMMUNITY WILL PULL ITSELF THROUGH THIS CRISIS, THROUGH ITS LEADERSHIP, INGENUITY, AND THE SHEER NATURE OF OUR CITY. HOWEVER, YOUR MORAL SUPPORT AND THE VAST RESOURCES OF THE CONGRESS AND THE FEDERAL GOVERNMENT ARE CRITICAL TO OUR SUCCESS.

MORE IMPORTANTLY, AS THE SEAT OF OUR NATIONAL LEADERS WASHINGTON, DC PLAYS HOST WITH WELCOMING ARMS TO EACH AND EVERY ONE OF YOU AND THE WORLD. WASHINGTON, D.C. IS A

REFLECTION OF AMERICAN INGENUITY, CULTURE, PRIDE AND HOPE. TO ALLOW THE NATION'S CAPITAL TO VANQUISH AS A VIBRANT REPRESENTATION OF OUR NATION SENDS A MESSAGE THAT IS INTOLERABLE; THAT WE ARE BEATEN. AND NO ONE SHOULD BE GIVEN THE POWER TO SEND THAT MESSAGE. NO ONE SHOULD BE GIVEN THE POWER TO TAKE AWAY OUR NATIONAL PATRIMONY, A VISION THAT HAS LONG INSPIRED OUR VISITORS AND THAT WE AS AMERICANS, HAVE STRUGGLED SO MUCH AND FOR SO LONG TO BUILD.

IT IS IN YOUR POWER TO SEND THE RIGHT AND ONLY MESSAGE.
WE HAVE GREAT LEADERSHIP IN OUR CITY THAT WE WILL PUT TO GREAT USE. NOW IS YOUR OPPORTUNITY TO SUPPORT THE CITY THAT HOSTS THE WORLD, NOT TO MENTION OUR NATIONAL LEADERS.

THANK YOU

TESTIMONY OF
DAVID CHESEBORO,
PRESIDENT, DAYTONA ORLANDO TRANSIT SERVICE, INC. ("DOTS"),
DAYTONA BEACH, FL.

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT

OCTOBER 11, 2001

HEARING ON

*Aviation Dependent Businesses*

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Good morning, Mr. Chairman and members of the Committee. My name is David W. Chesebro, and I am President and founder of DOTS Motorcoaches, of Daytona Beach, Florida. I am pleased to be here and represent the 3400 members of the American Bus Association. To begin, I would first like to thank you Mr. Chairman for your leadership in convening this hearing and we appreciate the opportunity to testify on this urgent matter.

The ABA is a national trade association for the intercity motorcoach industry. It is comprised of organizations that operate buses and provide related services to the industry. Nearly all of the operator members provide charter, tour or commuter services and some 100 of ABA member companies provide regular route scheduled service. The American bus industry is a large and diverse one. Members provide service to communities with no other form of intercity transportation. Another 2500 ABA members include representatives of the travel and tourism industries, and the manufacturers and suppliers of products and services for the motorcoach industry. All together, ABA members provide all manner of bus service to 774 million U.S. passengers annually. We provide service to some 4000 communities and we provide this service while compiling the best safety record of any mode of commercial transportation.

ABA members are equally diverse, ranging from Greyhound Bus Lines, which provides service to 2,500 destinations, to my company, which provides service to and from Orlando International Airport. However, most of the ABA member companies are small businessmen and women like me. To give you an appreciation of what we do I'd

like to take a minute to describe my company and the service we provide. From there I will try to give the Committee an appreciation of what the September 11th attacks on New York City and the Pentagon and the consequent lack of travelers has done to my business as well as to motorcoach businesses all over the country.

I own and operate the Daytona Orlando Transit Service, Inc. Most of my customers call it "DOTS". I founded DOTS in 1982, beginning with three employees and three vehicles. Nearly 20 years later the company has grown to 42 employees and includes 14 vehicles, our services range from local shuttles to interstate trips on motorcoaches. Like all of the private commercial bus industry, I receive no federal funding to support my company's operational structure. In addition to my shuttle service to and from Orlando International Airport I also provide charter and tour service throughout the United States. DOTS provides charter and tour services to the Northeast during the fall foliage, trips to the casinos in Biloxi, Mississippi and to the country music center at Branson, Missouri. While those services have also suffered during the past month, it is the effect of the September 11th attacks on my airport shuttle service that forms the core of my testimony today.

The mainstay of DOTS has always been the Orlando International Airport shuttle. It is approximately 75 to 80 percent of my business. DOTS grew steadily from three round trips a day, which mainly encompassed the Daytona area to, and from the Orlando International Airport. Today, DOTS operates 15 hourly round trips daily to and from the Volusia County area to the Orlando International Airport.

To acquaint the Committee with my post September 11th troubles, I'd like to walk you through my operations. Normally, at this time of the year I can count on shuttle gross receipts of approximately $78,000 per month. Against this I have to maintain the vehicles and make monthly payments on most of them. I also employ three full time reservationists, two part-time dispatchers and some 30 full and part-time drivers. Given an average price of $ 25.00 for a one-way ticket to or from the airport, my gross revenue during any given day is likely to be $2,600. Beginning with the attack on the World Trade Center and the Pentagon and ending with the last day of September DOTS revenue has been down some $21,000. This is a great deal of revenue for a business, which grosses $1.7 million a year. This figure includes shuttle, charter and tour business. Indeed, on September 18th I sent a memorandum to all my employees asking that they voluntarily take time off each week so that I could keep all part-time drivers on the payroll. (A copy of this memorandum is appended to the end of my prepared statement).

The effect of the attacks on DOTS is even worse than it sounds. There was a lull in my business in the spring and summer of 2001 and I was counting on September and October to take up the slack from that period. In fact, August had seen an increase in business that I hoped would be a harbinger of a good, solid autumn. Of course, the events of September 11th eliminated that possibility.

As the ABA has documented, my plight is not unusual. One week after the attacks the ABA surveyed its members asking them to document their losses in the wake

of the attack and to speculate as to the effect of the attacks on their future. The losses were astounding. ABA members, charter and tour, scheduled service providers and sightseeing operators all told of catastrophic losses. These losses were not limited to Washington and New York, or even the east coast.

ABA operators from California, Montana and Missouri as well as Florida, North Carolina and Louisiana told us of one-week losses ranging from $20,000 into millions of dollars. These operators also noted cancellation rates of 30 to 80 percent. Even more ominous, the cancellations included trips planned for spring 2002. VecTour, the largest privately owned ground transportation company in North America, headquartered in Pennsylvania, has a business that is more than fifty percent airport related. It experienced an immediate drop in business of about 40%. This loss will cost the company almost $7 million in cash between now and the end of the winter.

This cascading series of cancellations points to an even greater problem. As I indicated, this time of the year is "high season" for many ABA members engaged in charter and tour services as well as for those of us who serve airports close to major United States tourist destinations. The money we earn during this time of year is "banked" so that there is money to pay those bills due during January and February when there is little or no traveling and no income and minimum cash flow. Without these savings many motorcoach operators face a bleak winter and maybe the prospect of shutting their doors for good. Already some operators have contacted their lenders and asked the lenders to take back vehicles, as the operators can no longer afford to make the monthly payments on them.

The question for this Committee and for Congress is to decide how to ameliorate the effects of the attacks on this segment of the transportation industry. ABA has released an economic recovery list the implementation of which should help our members regain their footing until the American people begin flying again. (A copy of this list is appended to the end of my prepared testimony).

In sum, the motorcoach industry seeks financial assistance of any sort until the spring and more normal transportation and travel patterns reassert themselves. One recovery suggestion within the purview of this Committee is the expansion of access to small business economic injury disaster loans and loan guarantees. Under SBA regulations, businesses "located" within a declared disaster are eligible for financial assistance from this program. The nature of motorcoach business is that our business is "located" wherever our customers travel. The industry must have access to these loans to foster recovery and loan guarantees to provide motivation for equipment lenders to work with bus owners to meet scheduled payments.

No one doubts that the American people will return to the skies and travel again. It's just a matter of time. However, until that day the businesses affected by the attacks on us will have to have financial help in order to be in service when that day comes. We look to you members of Congress to aid the bus industry and indeed all of us in attaining this goal.

Once again, thank you for the opportunity to be with you today and I will be pleased to answer any questions you may have for me.

## Economic Support Urgently Needed for the U.S. Motorcoach Industry to Remain Solvent

**THE PROBLEM**

The U.S. motorcoach industry is in the midst of an economic crisis brought on by the September 11 terrorist attacks on the nation. At the same time, the industry must take on an increasingly vital role as an alternative public transportation and civil defense system and, like all modes, must take strong measures to enhance passenger security. We are a small business industry with average companies operating fewer than 10 buses – and highly vulnerable to economic swings. However, combined, our network of small businesses moves more passengers every year than the airlines and Amtrak – 774 million.

Though initially motorcoaches were active in the relief effort, ensuing cancellations, diminished travel and tourism and the cessation of travel across our nation have left a devastating economic void. Without ongoing charter and tour business or economic relief, motorcoach operators cannot continue to be available for mobilization or relief efforts. It should be noted that the continuation of many rural and other light-traffic route service is only economically viable if operators can rely on the income stream provided by charter and tour business.

The industry must be aided and safeguarded to preserve its ability to:

- Ensure the continued mobility of U.S. citizens
- Accommodate passenger displacement likely to result from changed flight schedules, and rules regarding access to airports and public facilities.
- Mobilize U.S. military troops and serve as a bridge between airports, rail stations, ports and military bases
- Support civilian evacuations or other civil defense activities as necessary.

A major portion of our lifeblood is the charter and tour business. Tourism has been dealt a devastating blow by the events of last week. The member companies of the American Bus Association report up to 80% cancellation rates – cancelled student travel; airport shuttles way down; tours to two major tourist destinations, Washington and New York, canceled for the foreseeable future; canceled charters to sporting events, theaters and other recreation activities.

And it couldn't happen at a worse time. Fall is a peak travel season when motorcoach companies are attempting to build reserves to carry them through the lean months of January and February. Due to their small scale, motorcoach operators simply do not have cash reserves or alternative services to promote. With the "peak" wiped out, motorcoach companies will not make it through the next few months much less the "valleys" of mid-to-late winter.

The nation's intercity bus industry provides service to over 4,000 communities nationwide with affordable public transportation. Many of these communities have no other form of intercity public transportation and all of them have an increased need for alternatives to air transport.

We are a link to destinations nationwide. We link to airports and sea ports, connect rail stations to transit systems (as well as serving to supplement the transit system) and connect rural communities to education, healthcare and the rest of America's transportation network. During the crisis on September 11 and the days that followed, we moved stranded passengers and victims' families as companies ranging from small charter companies to large fixed route providers pulled together to help out.

And we provide a vital link between military personnel and military installations or to anyplace where they may be directed to serve a protective role. More than 350 often small, family-owned motorcoach companies are MTMC approved carriers and provide regular service to the U.S. military. **We must remain economically viable if we are to continue to serve our nation during this time of need.**

**THE SOLUTION**

We are seeking assistance to sustain this important transportation link that must be strong to serve the nation as we respond to this continuing crisis.

**The industry needs at least $1 billion to enhance security at the thousands of points it serves nationwide; to preserve vital services provided by small business that have been economically devastated; and to preserve and enhance the industry's vehicle and terminal infrastructure.** We seek the following:

*A grant program is needed to maintain critical alternative passenger transportation systems.* The motorcoach industry must have access to direct grants in light of the increased need to maintain alternative transportation systems. These grants would not be directed toward losses incurred but, instead, would be used as emergency assistance to ensure the viability of this alternative mode. **We are seeking direct assistance for motorcoach companies that must continue to operate in service to the nation.**

*Access to small business Economic Injury Disaster Loans.* Under SBA regulations, businesses "located" within a declared disaster area are eligible for financial assistance from this program. The nature of motorcoach business is that our business is "located" wherever our

customers travel on our buses. New York City and Washington D.C. are the two top destinations for motorcoach travel. ***We urge SBA to liberally interpret its EIDL eligibility rules to include those motorcoach companies that are not only physically located within those disaster areas but also those that derive significant revenue from providing transportation into those areas.***

*Creation of a fund to allow motorcoach operators to reduce monthly payments.* This fund would allow motorcoach operators to tender interest-only payments to those financial institutions which hold the paper on the operators' equipment and allow the operators to defer full payment until the end of their contract term. In the event of default, funds would be available to the financial institutions as backing for the payments due from the small business motorcoach owner.

*The industry seeks* ***immediate tax relief*** *as follows:*

> *A temporary exemption from the 7.4 cent federal fuel tax on diesel for motorcoaches*, which deliver more than 160 passenger miles per gallon of fuel, and yield more people-moving efficiency per Btu than any other mode. The environmental benefits of group travel on motorcoaches are widely recognized. For the industry to continue to deliver this societal benefit we must find every way possible during this economic crisis to cut costs. School buses and transit buses are already exempt from this burdensome tax. The industry uses approximately 360 million gallons of fuel per year – an exemption, therefore, would yield a savings of $26.6 million annually. **We are seeking an immediate exemption from the 7.4-cent federal fuel tax on diesel for motorcoaches for the foreseeable future.**
>
> *Inclusion of a 10% tax credit for purchase of commercial highway passenger transportation vehicles in order to maintain the nation's vital alternative transportation system infrastructure.* This program would provide opportunity for operators to maintain adequate fleets and to support the motorcoach industry at a time when the nation must rely on alternative modes of passenger transportation. **A 10% tax credit must be created for the purchase of new or used commercial highway passenger transportation vehicles.**
>
> *Inclusion of tax-credits for wheelchair lifts in any economic stimulus package.* Currently, the motorcoach industry must absorb significant costs related to provisions of the Americans with Disabilities Act that require operators to install wheelchair lifts in their vehicles. A wheelchair lift adds $35,000 to the cost of a motorcoach. The Transportation Research Board estimated the

annual cost of compliance with the motorcoach requirements at up to $42 million. However annual funding currently made available to the motorcoach industry for ADA compliance is only $5 million. **A tax credit amounting to 50% of the cost of purchasing and installing wheelchair lifts is needed to promote the short and long term economic viability of this industry.**

*A bus facility infrastructure program that would provide terminal and bus facility owners and operators funds to upgrade and enhance facilities, garages and the security systems within them.* The bus industry is unique in that it has built its physical infrastructure primarily with private capital. Still, those facilities must be upgraded and expanded with public support in order to serve as critical public transportation alternative facilities. They also must develop and acquire enhanced security systems, given the new threats they face.

*Suppress further damage to the motorcoach industry by halting unfair practices of federally subsidized competition.* Federally funded local transit agencies commonly compete with and harm private bus operators by providing charter bus service or providing regularly scheduled bus service outside of the urban area for which the funding was intended. This damage is only exacerbated during difficult economic times. **At a time when the nation needs its entire surface transportation network to remain viable, we are asking Congress to enforce the existing prohibitions on use of FTA funding by transit agencies to alleviate increasing economic pressure on struggling motorcoach companies.**

*The establishment of a government program to restore confidence in the tourism industry.* The public's confidence has been shaken and consumers are responding by staying home. This has a potentially disastrous effect on the economy given that tourism is a $455 billion-a-year global business. **We are seeking re-establishment of a government program that promotes travel and tourism. This initiative could provide low interest loans to travel-related businesses to both keep them solvent and provide them with funds to advertise and market their travel-related business.**

The immediacy of the need for these measures to be implemented cannot be overemphasized. Many of these small businesses do not have the reserves in place to carry them through to the remainder of the year.

Oct-06-2001 02:49 From-HON DONNA M CHRISTIAN CHRISTENSEN 13407748033 T-770 P.002/005 F-276

ADMINISTRATION (340) 776-
ACCOUNTING (340) 776-
FAX MACHINE (340) 776-

October 4, 2001

Ms. Donna Christian Christensen
Virgin Islands Delegate to Congress

Dear Delegate to Congress:

My name is Curtis R. White. I am the President and General Manager of Four Star Aviation, Inc. dba Four Star Air Cargo.

Please allow me to try to explain a large problem that has arisen in the operation of our airline.

Four Star Air Cargo is an all cargo airline. Four Star operates as a certified air carrier under the Federal Aviation Regulations of Part 135. Four Star was issued its air carrier certificate in 1982. Scheduled routes include flights to and from San Juan, St. Thomas, St. Croix and Tortola, BVI.

As you are aware, as a result of the September 11th bombings, numerous changes have taken place within the air transportation industry.

Four Star began operations again this past week (after being grounded as was the entire American fleet) within the guidelines and parameters provided to us by the FAA and other associated agencies.

October 3rd, 2001 Four Star had a routine scheduled flight from San Juan to Tortola, BVI. The following is a chronological list of events as they occurred yesterday.

0900 Four Star crew called SJU Flight Service Station for a preflight briefing. The crew filed an IFR (instrument flight regulations) flight plan from SJU to EIS. FSS never mentioned any travel restrictions to Beef Island Airport.

1005 The crew was issued their clearance and they taxied at 1009 and took off at 1016. No restrictions from ATC (aircraft tower control) were issued at this time about the destination as filed (Tortola, British Virgin Islands). During the flight the crew elected to divert to STT due to a mechanical discrepancy and landed at approximately 1046. The mechanical discrepancy was corrected in short order and the crew prepared to take off for EIS.

1100 The Four Star crew tried to refile the flight plan from STT to EIS and the SJU FSS

1100 The Four Star crew tried to refile the flight plan from STT to EIS and the SJU FSS informed the Four Star crew that they were not allowed to file a flight plan nor fly to EIS.

At this point the Four Star crew called the Director of Operations of Four Star for instructions. The Director of Operations (DO) of Four Star called the SJU Flight Service Station and spoke with Mr. Hernandez. FSS Specialist. Mr. Hernandez advised that Four Star was not authorized to fly to EIS. Mr. Hernandez instructed the DO of Four Star to contact Four Stars FAA Principal Operations Inspector. Mr. Hernandez further advised that the FAA POI should have a list noting any and all restrictions regarding Four Star operations from EIS in the United States, its territories and possessions. The DO of Four Star proceeded to call the POI, Mr. Jose Gueits. Mr. Gueits informed the Four Star DO that the San Juan Flight Standards District Office did not have any such list and instructed the Four Star DO to contact Mr. Purcell of the SJU Air Traffic Control Center for more information regarding possible restrictions.

The Four Star DO contacted Mr. Purcell at SJU ATC and Mr. Purcell advised the Four Star DO that Mr. Purcell showed no restrictions for Four Star and was not able to provide any other information and instructed the Four Star DO to again call back the Four Star FAA POI.

The Four Star DO then again called Mr. Gueits who in turn told the Four Star DO to contact the FAA Principal Security Inspector at the SJU office.

The Four Star DO then contacted the SJU Security Office and spoke with Mr. Buste. Mr. Buste stated that he did not know anything about restrictions or anything having to do with aircraft operations themselves, or Four Star flying to or from the British Virgin Islands. Mr. Buste told the Four Star DO that he could not help Four Star in this matter and suggested that Four Star contact the local Flight Standards District Office or our POI.

The Four Star DO again contacted the POI, Mr. Gueits at the SJU FSDO and Mr. Gueits informed the Four Star DO that he didn't have any kind of list restricting Four Star from operating in to or out of the British Virgin Islands. Mr. Gueits stated to the Four Star POI he had no restrictions for Four Stars operations in to or from the British Virgin Islands. Mr. Gueits further advised Four Star to attempt to file a Flight Plan. If such Flight plan was granted Four Star could proceed with the flight.

The Four Star flight crew was advised to call the SJU FSS. The crew did so and obtained a flight plan. The aircraft departed STT. The flight plan was activated and closed with SJU FSS by the flight crew. And the aircraft arrived at EIS.

After the aircraft had landed at EIS, Mr. Hernandez the SJU FSS specialist called Four Star Operations in SJU and asked to speak with the Four Star DO. Mr. Hernandez informed the Four Star DO that he had a list of operators not allowed to operate to EIS and vice-versa. The Four Star DO questioned Mr. Hernandez on why a flight plan was granted and why the flight crew was not informed of any restrictions at the time of filing, activation, or cancellation of the flight plan.

FOUR STAR AVIATION

(The Four Star DO and my own comments follow in this paragraph) Now, all of a sudden there is a "list" of operators that are restricted from operation out of the British Virgin Islands into the US. As of this writing, NO ONE at Four Star has received such a list or any other official notification or notification of any kind regarding any restrictions of operations from the BVI.

Mr. Hernandez instructed the Four Star DO to contact the FAA Air Traffic Control Command Center because the decision to include Four Star on this list came from them.

1530 The Four Star DO contacted the command center and spoke with Mr. Richard Sullivan. Mr. Sullivan informed the DO that Four Star was "good to go" and that Four Star could fly from the BVI to the US.

1610 The Four Star DO instructed the crew in EIS to proceed to file a flight plan to depart EIS but to check back with Four Star operations before departure.

1615 Mr. Sullivan called the Four Star DO in SJU. Mr. Sullivan indicated that he had checked all papers except one that turned out to be a list restricting Four Star from operating from the BVI into the US. Mr. Sullivan stated that the FSS specialist in SJU had been correct in his information. Mr. Sullivan then suggested that Four Star call its assigned FAA Principal Security Inspector. This inspector (as explained by Mr. Sullivan) is responsible for checking on Four Star security from the BVI and if secure, then call the Washington FAA Security Office to delete Four Star from the restricted list.

(NOTE: Couldn't this information have been explained to Four Star on its initial calls? Or more important, shouldn't have this information already been disseminated to Four Star in a formal manner to allow Four Star the opportunity to comply with any necessary requirements!)(On another note - in the past two years Four Star has submitted to the FAA Security a safety and security plan to be incorporated into our operations manual. Both times this plan has been submitted, the plan has been turned down because Four Star is told that a Security Program is not required by the FAA for an all cargo carrier. Hence we have never been formally assigned a PSI, although a PSI does make random inspections of our operations in SJU.)

1625 The Four Star crew was instructed to terminate the flight at EIS and it was.

1630 The Four Star DO called the SJU FAA Security office and there was no answer. Four Star later discovered the Security office hours of operation are 0800-1600 local.

10/04/01 Between the hours of 0800 and 0835 numerous calls were made to the FAA SJU Security office with no answer.

FOUR STAR AVIATION

As I write this the Four Star DO has just called me. He has just returned from the FAA SJU Security office. There are nine (9) Principal Security Inspectors in the SJU office. The Four Star DO has spent hours this morning speaking with the majority of them. The FAA SJU Security Inspectors have informed the Four Star DO that they cannot help Four Star because Four Star is not required to have a security program, therefore none of them have been assigned the task of reviewing Four Star nor assisting Four Star in accomplishing Four Stars immediate goal of getting Four Stars aircraft clearance to fly from the BVI to US territory.

As the President of Four Star Air Cargo I am requesting your assistance in solving this matter. Someone in the FAA has to direct a PSC officer in SJU to review Four Star OR simply inform the Air Traffic Command in Washington that Four Star is exempt from the restrictions because Four Star is not required to have a security program.

The telephone number of Mr. Richard Sullivan in Washington is 703-787-8351.

The telephone number of Ms. Linda White in Atlanta is 404-305-5507.

Both of these individuals are key individuals in the Air Traffic Control Command Center and have key abilities in rectifying our present situation.

Further, as with everyone in the United States and many parts of the world Four Star has seen a dramatic down turn of business as a result of the senseless attacks of September 11th. For Four Star to have one of its aircraft held hostage because of a "catch 22" situation within the government is costing Four Star substantial sums of money. We are a small business. Without the ability to operate our aircraft we will soon cease business.

Any assistance that you could provide us in this matter would be deeply appreciated.

Sincerely,

Curtis R. White
President & General Manager
Four Star Aviation, Inc.

FOUR STAR AVIATION

Oct-10-2001 23:15 From-HON DONNA M CHRISTIAN CHRISTENSEN 13407748033 T-779 P.002/003 F-300

October 10, 2001

The Honorable Donna Christian-Christensen
V. I. House of Delegates
Nisky Center, Suite 207
St. Thomas, USVI 00802

Dear Ms. Christian-Christensen;

This letter is to address the issue of the virtual grounding of private aircraft due to the constraints of the Federal Government in not allowing Part 91 operators to transfer island to island, i.e. international flying. This has and does cause a severe economic hardship for the businesses that own and operate these aircraft for private use. My company, Caribbean Inflatable Service, specializes in marine and safety equipment, sales and service. We currently have a project underway in Anguilla which we are not able to complete with these restraints. The domino effect is that our customer is a commercial ferry boat operator and he will be shut down from operating soon unless we can complete the required work.

* One suggestion I may have is that you please investigate the possibility of issuing waivers as the amount of aircraft effected on St. Thomas alone is probably a handful or less. I have no idea of the amount of aircraft effected in St. Croix. This could possibly be the easiest avenue for you to approach as all of us carry VIPA identity badges and have undergone federal background checks. They know who we are and they know our aircraft.

* In the past we have been required to notify U.S. Customs at least one hour prior to our arrival back in U.S. territory from a foreign port. This has always been an acceptable method of providing security for private aviation in the past and would be the simplest method for instances such as mine. I also understand that operators in Alaska are able to fly to

6200 ESTATE FRYDENHOJ 56 SUITE 2 ST. THOMAS VIRGIN ISLANDS 00802-1405
TEL 340 775-6159 • EAST END BOAT PARK • FAX 340 775-2014
www.caribbean-inflatables.com email cisco@viaccess.net

Canada and back using our old established methods and Florida private aircraft are also allowed to fly to the Bahamas and back. At least this was the case the last time I checked several days ago. I am available for your questions and comments and can be reached at the numbers listed below or on my cell phone at 340-771-6159.

Sincerely,

Frank Gazarek
President

Rural Route 2
Henry E. Rohlsen Airp
St. Croix U.S.V.I. 008

Tel: (340) 778-9177
Fax: (340) 772-5932

Email: bohlke@viaccs.
Website: www.bohlke.

October 9, 2001

Honorable Donna M. Christiansen
1510 Longworth House Office Building
Washington D.C. 20515-5510

Dear Donna:

General Aviation has come to a complete halt in the US Virgin Islands. The events of September 11, 2001, have changed our lives and the way we do our daily business. General aviation in the Caribbean has come to a standstill.

The United States Virgin Islands, with airports on St. Croix and St. Thomas are 1000 miles from the continental United States. Since September 11, the Federal Aviation Administration has placed many restrictions on the general aviation community and currently Part 91 flights from many foreign destinations are still prohibited. At this time, the closest foreign country for international entry back into the US Virgin Islands or Puerto Rico is the Bahamas. The new regulations were put into place to protect the coastal boundaries of the United States but did not take into consideration that Puerto Rico and the US Virgin Islands are 800 miles in the opposite direction, south of the Bahamas. In the immediate area, there is six FAA approved Part 107 airports, which are: St. Croix, St. Thomas, San Juan, Ponce, Mayaguez, and Borinquen. These airports are secured and approved for international flights for Part 121 and Part 135 aircraft both U.S. and foreign registered.

General aviation flying is not just recreational. Large portions of our customers do businesses or own property on the islands that surround the USVI but are owned by foreign countries. The British Virgin Islands are just 15 miles from the airport in St. Thomas. St. Maarten, which is both French and Dutch, is 90 miles from St. Croix or St. Thomas. According to the current flight limitations put on Part 91, if our customer left St. Croix for Tortola, BVI (a 40 mile flight) in order to return to St. Croix that aircraft would be required to fly to the Bahamas and then back to St. Croix. That is 1600 extra miles of flying. Many of these piston business aircraft do not have the range to depart from the Bahamas and reach a Part 107 airport in Puerto Rico or the US Virgin

Islands. Obviously, this has hurt the livelihood of many Virgin Islands businesses.

Fractional Jet operators such at NetJets, Flight Options, Raytheon Travelair, and FlexJets who operate under Part 91 are severely restricted. Example: a jet leaves Florida to drop off an owner in the Dominican Republic and its next destination was to pick up another owner in Puerto Rico, there only option is to fly back up to the Bahamas and then return to Puerto Rico. Again, I believe when the rule was implemented Puerto Rico and the US Virgin Islands were overlooked completely.

We have several customers stuck in Florida who cannot fly their aircraft back to their home base in the US Virgin Islands because the aircraft do no have the range capability. Our company provides outside aircraft maintenance. With customers located in the surrounding islands such as Virgin Gorda or St. Maarten, they are unable to bring their aircraft into receive required inspections.

My solution to this problem is that these general aviation aircraft that need to operate between the surrounding islands of Puerto Rico and US Virgin Islands be on an assigned transponder squawk file a flight plan prior to departure and there first landing in US airspace must be a Part 107 airport. These airports meet the FAA's stringent security standards.

We would appreciate you directing our concerns and using your influence to obtain a timely solution to these restrictions.

Warmest Personal Regards,

William Bohlke, Jr.
President

cc: Governor Charles Turnbull
Lt Governor Gerard James
Senate President Almando Liburd

**DMCGVI00,**

**From:** Robert Miller [bobmiller@ameritech.net]
**Sent:** Tuesday, October 02, 2001 1:38 PM
**To:** Christensen, Donna
**Subject:** Class B Airspace

Robert Miller
22249 Solomon Blvd. #3224
Novi, MI 48375

October 2, 2001

The Honorable Donna M. Christian-Christensen
United States House of Representatives
1510 Longworth House Office Building
Washington, D.C. 20515-5501

Del. Christian-Christensen:

Hello Delegate Christensen!
Since relocating to Michigan from St. Croix, I am caught up in he restrictions underway in "Enhanced Class B Airspace". It seems only IFR

rated pilots, and students with instructors, are alllowed to depart and land in this airspace now. As a member of the Aircraft Owners and Pilots
Association, I am writing to you to enlist your support in getting Congress to work with the NSA in easing these restrictions. As a licensed
Private Pilot I cannot fly from the small airport located in Plymouth, Michigan because it is now in the "enhanced Class B Airspace" for Detroit
Metro Airport. The small flight operator here, like many around the nation, are seeing their livlihoods evaporate from lack of business. I know St. Croix does not have this problem, but as my favorite person in Washington, I was hoping you might lend yoru support to your colleagues who are hearing from their constituents today regarding this matter. All

the best to you and your family! I saw you on TV after the terrorist attack as the President was addressing Congress. I am very worried about
the negative impact on the V.I. Economy. I still maintain my unit at Questa Verde and will move back when I am able to do so. Thank you, Donna!
Please give my best to Monique.

Bob Miller
22249 Solomon Blvd. #3224
Novi, Michigan 48375

Sincerely,

Robert Miller

**DMCGVI00,**

**From:** John Ballard [jballard@viaccess.net]
**Sent:** Thursday, October 04, 2001 1:33 PM
**To:** Christensen, Donna
**Subject:** Let me come home!

John Ballard
P.O. Box 24408
Christiansted, VI 00824-0408

October 4, 2001

The Honorable Donna M. Christian-Christensen
United States House of Representatives
1510 Longworth House Office Building
Washington, D.C. 20515-5501

Del. Christian-Christensen:

Hello,
I operate a small helicopter on St Croix. When the terrorist attack occurred on Sept 11, my helicopter was in Florida have maintenance done. I have been trapped there ever since. Part 91 VFR aircraft are not allowed to leave the US except to Mexico and Canada. My 50 gallon fuel capacity does not pose a threat to anyone. I would be happy to talk to Air Traffic Control the entire time. Please let me come home. I have been trapped in Florida for three weeks now. I operate a Robinson R-44 helicopter registration number N7192B.

Sincerely,

John Ballard

# SAMA

Small Aircraft Manufacturers Association

Statement of

**Paul C. Fiduccia**

**President,**
**Small Aircraft Manufacturers Association**

To the

**Subcommittee on Regulatory Reform and Oversight**
**Committee on Small Business**
**U.S. House of Representatives**

**Economic Impact on Aviation-Related and Aviation Dependent Small Businesses as a Result of the Events of September 11, 2001.**

## Adverse Impacts on and Needed Relief for Small Aircraft Manufacturers

**October 12, 2001**

**Small Aircraft Manufacturers Association**
4226 King Street, Alexandria, VA 22302-1507 Phone: 703-379-1800 FAX: 703-379-1801

## Statement

SAMA's message to the Small Business Committee is simple: **aviation small businesses, including small aircraft manufacturers, have been severely impacted by the flight restrictions imposed for security purposes, the future of the general aviation industry is endangered by this situation, and this could cause the severe and possibly permanent impairment of an important part of our Nation's transportation infrastructure and our economy**. This critical segment of the economy is the general aviation (GA) businesses, both the service businesses and the manufacturers. Many small aircraft manufacturers have suffered major reductions in orders and sales, and have had to lay off personnel to continue in business. These aviation businesses could be bankrupted by this situation and many will require government assistance to avert bankruptcy.

However, this disaster can be prevented by quick action of this Committee and the Administration. The Congress and the Administration need to act immediately unless they want the country that invented aviation to allow terrorists to destroy its vital general aviation sector just in time for the 100th anniversary of the original GA airplane – the Wright Flyer – in 2003.

SAMA is the national trade association which represents the leading producers of experimental, kit-built aircraft and new-design certified small aircraft. The majority of new design general aviation piston-engine airplanes certified in recent years are produced by SAMA member companies. SAMA also represents manufacturers of engines, propellers, avionics, ground systems, and other equipment for small aircraft flown for personal and business use. Many of our members are small businesses, with limited financial reserves insufficient to weather a prolonged period of economic inactivity.

SAMA was founded to assist its members in expanding the market for small aircraft, especially those used for personal and business transportation. Our activities have been focused on improving the safety, reliability, ease-of-use and affordability of small airplanes to make them an even more important part of the nation's transportation system. These small airplanes are important elements in the mobility of Americans and thus support our way of life and our economy. Like the automobile, small aircraft provide individuals and small groups with transportation to smaller communities and suburban areas, compared to the airlines, which like trains or buses, provide mass transportation between larger population centers. Both are needed in our transportation system – the world's best.

### Importance of General Aviation to the Economy

While the main focus of these hearings has been on the economic impact on the industry, we must not forget that personal aviation supports fundamental values of our country dear to all Americans: individuality, freedom of movement, and entrepreneurship. As expressed in the preamble to the US Constitution:

- GA "provides for the common defense" – by providing a high-speed, point-to-point transportation system that is resistant to terrorist attack and other disruptions because of its widely distributed nature – with over 5,000 public use landing facilities and another 10,000 private landing facilities served by almost 200,000 aircraft.

- GA "promotes the common welfare" – as a part of our national air transportation system that too many have taken for granted, and the economic importance of which has now unfortunately been amply demonstrated. It provides air access to all of our communities, even those too small or remote to warrant air carrier service. Small aircraft connect our communities in large rural states and states with mountainous terrain, and connect all communities to the economic main stream. And it provides our businesses with a link to the rest of the world that is an important element of US economic strength.

- GA "preserves the blessing of liberty" – by supporting one of our most cherished liberties, freedom of movement across our great land, mobility to not only support the economic system, but to retain contact with our loved ones and friends in distant cities. The ultimate resolution of the security issues surrounding general aviation must not result in the loss of liberties by those Americans who love to fly or need to fly.

For these and other reasons, general aviation is an important part of our American way of life and our economy, and is worthy of protection by the Congress in this crisis.

**Interdependence of our National Aviation System**

The national aviation system is highly interdependent. In fact, the major airlines are supported by general aviation in many ways. Smaller airports are essential components of the hub-and-spoke system that the major airlines rely on, and the fixed base operators provide fuel at many of these airports for air carrier as well as general aviation operations. Our flight schools train airline (and some military) pilots, and the pipeline of pilots to fuel aviation system expansion in coming years will dry up if they fail. Small manufacturers provide aircraft and components used for these training aircraft.

Within general aviation, we are also highly interdependent. SAMA's rely on training schools to provide potential purchasers, on maintenance facilities to keep the airplanes in the air, and on avionics shops to install the new safety enhancing equipment that we make. In return, the training schools, maintenance facilities and avionics shops require aircraft and parts manufacturers to supply them with products.

The entire system is threatened by the current restrictions on access to airspace and airports in our metropolitan areas. The collapse of general aviation flight and training activity in many areas of the country will cause the failure of airport fixed base operators and related airport businesses, such as maintenance facilities, avionics shops, and restaurants. The airport itself and all of its businesses may then fail.

We urge you to recognize the importance of general aviation to the entire Nation as both businesses and providers of transportation infrastructure.

**Impact on General Aviation Manufacturers**

Since the restrictions on general aviation have been announced, many SAMA members have seen sales drop precipitously, in some cases virtually to zero. Most of SAMA's members are small businesses that cannot long survive a significant reduction in revenues. Even a few weeks of this can completely eliminate any annual net profit. Adverse impacts typical of SAMA's members include the following.

- Some avionics and other component manufacturers saw an immediate collapse in sales, as aircraft owners were not able to get to avionics shops because of the government ordered flight restrictions that prevented most or all operations at the airports where they are located.
- In the longer term, general aviation customers fear permanent government restrictions that will reduce the utility of their aircraft, and are not willing to invest in new avionics at this time, leading to a continuing fall-off in orders, with some companies seeing very limited recovery of their orders from the initial complete collapse in important product lines. On average, orders appear, to be down from 30% – 75%.
- Manufacturers of small aircraft and their components used mainly for VFR operations have been most severely affected, with orders off from 60 - 100%. One has laid-off the entire staff, having had no sales for the last month.

- Manufactures of propellers have had orders reduced by 40%. Manufacturers of aircraft used for IFR operations have been less severely, impacted, with orders off about 50%.
- All manufacturer members of SAMA polled have had order reductions. The larger the purchases had more "momentum", and held up better at first, but even these orders have now declined.
- Small aircraft modification businesses have had an 85% reduction in orders, and have laid-off 25% of their employees, with more soon to come as pre-September 11 work backlogs in other parts of the company are completed.
- The complete impact of this disaster for small aircraft manufacturer businesses has not yet been felt because of order backlogs that many of them enjoyed, but that are now disappearing. This will increase lay-offs at these firms when employment must be supported only by the reduced rate of current orders.
- Most, if not all, of these businesses will suffer substantial losses this year and many will be forced to lay off a significant percentage of their employees because of the terrorist attacks and resulting flight restrictions.

The adverse economic impacts on small aircraft manufacturers have been caused by government actions taken to increase aviation security. Some have been directly impacted and others indirectly impacted – but all have been impacted by Federal Government actions taken for national security purposes.

**Congressional Response Requested**

Actions must be taken to support general aviation businesses, including small aircraft manufacturers. These must be undertaken immediately to avoid the imminent loss of these small businesses and the jobs they have created.

1. Preserve general aviation small businesses, including small aircraft manufacturers. Declare the entire national airspace system a disaster area, because its closure has been a direct result of the attack and the Federal Government restrictions imposed, and expand access to disaster relief support to all aviation businesses, including small aircraft manufacturers. Congress must provide low-interest rate loans through the Small Business Administration (SBA) to all small aviation businesses, including general aviation manufacturers, just as if they had been hit by a hurricane and declared within a national disaster area.

2. Enable general aviation businesses to re-open. Strongly encourage FAA to open up the Class B airspace to all traffic, which will enable the aviation businesses located at the airports underlying this airspace to get back in business. Security officials must work with general aviation interests to devise effective solutions to real security threats that also preserve freedom of travel by general aviation to the maximum extent possible, and preserve the thousands of general aviation small businesses.

3. Restore general aviation consumer confidence. High government officials, at the White House and Congressional Leader level, must make clear statements to the public that they understand the importance of general aviation to our American way of life and to our economy, and that they will soon take steps to restore it to vigorous, long-term health. Our aviation businesses are suffering from a sever loss of consumer confidence caused mainly by Federal Government actions, and this can be remedied by Federal Government statements.

Thank you for this opportunity to present our views on this matter of great national importance. I would be happy to work with this Subcommittee on these and other proposals to address the issue of preserving small aircraft manufacturers and other general aviation small businesses.

Before the Committee on Small Business,
Subcommittee on Regulatory Reform and Oversight
of the United States House of Representatives

Written Testimony Submitted to the Hearing

*SEPTEMBER 11, 2001 PLUS 30: ARE AMERICA'S SMALL BUSINESSES STILL GROUNDED?*

on

Thursday, October 11, 2001

Prepared by
Jason Dickstein
Washington Counsel
Airline Suppliers Association

**Airline Suppliers Association**
**1707 H Street, NW, Suite 701**
**Washington, DC 20006**
**Voice: (202) 730-0270**
**Fax: (202) 730-0274**

**Info@airlinesuppliers.com**

**Respond to: Jason Dickstein**
**Direct Dial: (202) 730-0272**
**jason@airlinesuppliers.com**

October 11, 2001

There is an immediate economic crisis in the aviation industry – a crisis that threatens to endanger aviation safety. That economic crisis is being faced by the small businesses that provide safety-sensitive goods and services to the aviation industry. No one doubts the impact that the terrorist attack of September 11 has had on the entire American economy; however the small businesses that provide aircraft parts and maintenance/alteration services to the aviation industry represent a part of this nation's critical infrastructure that must be preserved in order to prevent safety problems from developing in our nation's skies.

Founded in 1993, ASA represents the aviation parts distribution industry, and has become known as an organization that fights for safety in the aviation marketplace. ASA's members distribute aircraft parts used by air carriers, and some of the companies also repair these parts under authority granted by FAA repair station certificates. ASA members may be described as aviation companies that fall within NAICS Codes 421860 and 488190 (SIC Codes 5088 and 4581). Although a small number of ASA's supporters are household names, like Boeing or United Airlines, ASA's core membership is made up of small businesses.

ASA's members are much more than warehousers of goods. All aircraft parts distributors play an important role in air safety by providing value-added services that assure quality and safety of aircraft parts. This role has become so important that many air carriers *rely* on their distributors to provide them with acceptable airworthy parts.

We face an important danger. The parts distributors with quality systems that help ensure safe parts are installed on aircraft are in danger of rapidly becoming extinct. This will have more than just the obvious economic effect, it could also have a devastating effect on safety.

In the first part of this testimony, ASA describes the economic state of the industry, and the effects that have been felt since September 11, 2001. In the second part of this testimony, the Association explains the important role that distributors play in

assuring aviation safety, and the reason that failure to assist distributors would have an adverse effect on safety. In the third part of this testimony, the Association explains how low-interest loans would assist the industry in maintaining the fundamental core of its critical infrastructure.

**Adverse Economic Effects**

The aviation parts business is down significantly. In summary, air carriers have cut back on their purchase of parts in the short term, and they are not able to pay for the parts that they are purchasing. Therefore, ASA members are currently seeing no revenue as they continue to support the aviation industry.

ASA recently conducted a survey, and the Association members responding indicated that the average company encountered a 60% drop in business immediately after the September 11 terrorist attack. All but one of the responding businesses qualifies as a small business.

Some members who specialize in overseas business experienced no drop in business, but companies servicing domestic customers reported significant immediate drops. While some very small businesses reported that they lost 100% of their business in the weeks following September 11, business reductions of 70%-85% were quite common for average small business distributors. Some of the companies with the highest average sales figures fared the best, reporting business reductions in the 45-60% range.

ASA members predict that their gross revenues will be down 46% over the next six months, and 43% over the next year (predictions are weighted by volume of business).

83% of the companies responding indicated that they have already taken measures to cut expenses since September 11, and 82% indicated that they plan to take cost-cutting measures in the near future due to the events of September 11 (most of those contemplating future cost-cutting are companies that have already taken some initial cost-cutting actions). Cost-cutting measures in the industry have included:

- terminating employees,
- taking across-the-board pay-cuts and eliminating bonuses,
- cutting back on benefits like health insurance,
- breaking warehouse lease agreements,
- canceling purchase arrangements,
- curtailing inventory purchases, and
- deferring expansion and growth plans

Although business is down, there is still a small amount of business occurring. ASA members are willing to do their part to keep the air carriers flying because they know that if an air carrier cannot fly its planes because it does not have replacement parts, then it will go bankrupt and the distributor will never see its money. This small amount of parts sales may not be enough to permit companies to survive, though, because air carriers have asked their business partners to extend their credit terms to 90 and even 120 days. Many ASA members report that their customers simply are not paying existing bills at this time. This means that for the short term, these small businesses are receiving no revenue. They have no cash flow to pay employees or even pay for heat as the weather turns colder.

The short-term answer to these quandaries must be loans. There is a general belief that the industry will bounce back. The problem is that credit is hard to find while businesses wait for air carriers to be prepared to purchase parts, and to pay for them. Many ASA members have existing lines of credit; however their lines of credit are often contingent on revenue streams. With no revenue stream, it becomes difficult for these companies to maintain their lines of credit.

Some parties in the industry have also asked their business partners to cut all unpaid pre-September 11 invoices by 10% as part of their patriotic duty. It seems possible that those who agree to this sort of strong-arm tactic will be given preferential payment treatment. For now, however, it is understandable that air carriers are using their current revenues and federal grants to pay off the banks that threaten to repossess their aircraft, rather than the much smaller distributors and repair stations; however it makes it especially important for the government to help find a way to preserve our nations network of aircraft parts and services providers, because until the air carriers are more financially stable, it is unlikely that they will be able to pay for the airworthy parts and services that they need and that are provided by America's small businesses.

**Adverse Impact on Quality Systems**

Even though parts distributors are not FAA certificated entities, they play an important role in aviation safety, and they have taken it upon themselves to police their own industry. In the early 1990s, many people in the industry were concerned about the dangers of suspected unapproved parts. Many people feared that substandard parts could be installed on aircraft. The FAA prepared a report to Congress on this issue with a recommendation for a voluntary accreditation program. ASA was eager to work with the FAA on programs to prevent substandard parts from making their way through the system.

ASA was a proponent of industry quality systems that would assure that aircraft parts sold to operators, repair stations and mechanics would be airworthy and safe.

ASA and other safety proponents worked together with the FAA to develop a model quality system that would protect parts and ensure that they are accurately described to subsequent users. This program was published as FAA Advisory Circular 00-56, *Voluntary Industry Distributor Accreditation Program* (Sept. 5, 1996). Commonly known to many as "AC 00-56," the program was part of the FAA response to the Suspected Unapproved Parts Program Plan, which had been presented to Congress just one year earlier.

Today, the AC 00-56 program is a success story. Air carriers and major manufacturers require AC 00-56 accreditation as a condition for doing business. They require it because it has had a noticeable effect on safety and quality. Customers have noticed marked quality improvements industry-wide. The FAA has noticed a vastly improved participation by AC 00-56 accredited distributors in identifying unapproved parts and eliminating them from the system.

Losing accredited distributors means losing the quality systems that help assure safety. If a distribution company goes out of business, then the warehouses are still present. Someone else can buy the warehouses and begin a new business when economic times are better. But the new owner cannot duplicate the quality system. Quality systems are developed over a period of time and are specialized to each individual company's own particular needs. A quality-system-in-a-box approach to aviation quality assurance usually is not designed to meet the particular safety concerns of the aviation industry. This is why the existing aviation parts distribution network is so critical to American aviation safety, and why the aviation parts distributors cannot be permitted to fail.

**Remedies**

The Federal Government can save these elements of our critical aviation infrastructure by making available low-interest loans through the SBA economic disaster assistance program. Congress could make the declaration through legislation or the SBA has the authority to make the declaration under 15 U.S.C. 636(b)(2)(C). Of course, SBA would only make this declaration if it was assured that Congress would continue to appropriate the funds necessary to run the loan program.

For this reason, the Airline Suppliers Association asks the Committee to make its intent clear by asking the Administrator of the SBA to issue a disaster declaration recognizing that aviation small business concerns have suffered and are suffering a substantial economic injury as a direct result of the disaster that was declared in Executive Proclamation 7463, *Declaration of National Emergency by Reason of Certain Terrorist Attacks* (Sept. 14, 2001).

We would also appreciate it if the Committee would explicitly address authority to borrow money to support accreditation or certification expenses required for participation in FAA safety programs. This will help to make it clear that money may be borrowed to help fund the systems that most directly help to assure aviation safety.

Loans will not save every company. There are some companies that cannot be helped because they are too close to the edge of bankruptcy. In fact, the SBA Economic Disaster Assistance program requires a company to demonstrate that it will remain a viable concern if it receives the loan – the SBA only makes loans to reasonable credit risks. This limitation is a good policy, in that it helps to assure that the companies that borrow money from the government of the United States will be able to pay it back.

Low interest loans will mean the difference between survival and failure for many companies. They are vitally important to the survival of our industry.

**Conclusion**

Right now, air carriers generally aren't buying replacement parts. This is understandable. They are concerned about their continued viability so they are concentrating on the things they need to do to fly safely, today.

Soon, though, air carriers will once again need to buy approved aircraft replacement parts. They will need distributors with adequate quality systems to make sure that they get airworthy parts, and they will need repair stations with the right qualifications to install those parts. Without the safety and quality systems of the current existing distribution infrastructure, our air carriers lose an important safeguard in the battle against bogus parts.

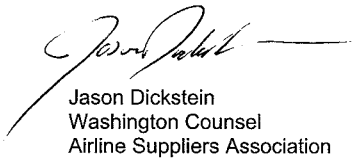
Air carrier inventories parts are not inexhaustible, and the day that the air carriers need to start buying parts again is easily foreseeable. We, as a nation, must make sure that the parts and maintenance infrastructure can survive until that day comes.

ASA recommends that the Small Business Committee ask the Small Business Administration to declare a disaster reflecting the aviation suppliers and services community [NAICS Codes 421860 and 488190], and to make Economic Disaster Assistance Loans available to those small businesses.

ASA also asks the Aviation Subcommittee to consider legislation that would make SBA loans available on a temporary basis to all aviation suppliers and services.

ASA would be happy to meet with the Committee, its members, or its staff at any time to discuss industry problems and solutions to these problems. Please feel free to call ASA at (202) 730-0270.

Respectfully submitted,



Jason Dickstein
Washington Counsel
Airline Suppliers Association