

SENATE TRANSPORTATION COMMITTEE

MINUTES OF MEETING

Tuesday, February 22, 1977

The meeting was called to order in Room #323, Legislative Building at 2:00 p.m. on Tuesday, February 22, 1977.

Senator Richard Blakemore was in the chair.

PRESENT: Senator Richard Blakemore, Chairman  
Senator Keith Ashworth, Vice Chairman  
Senator C. Clifton Young  
Senator Margie Foote  
Senator Joe Neal  
Senator Wilbur Faiss  
Senator William Hernstadt

OTHERS

PRESENT: James Vercillino, Retired-Arizona Transportation Dept.  
Ms. A. W. Shelley, Carson Tahoe Aviation  
Karl A. Fahr, Scenic Airlines  
Bob Alkire, Ely, White Pine County Commissioners  
Howard Wynn, Nevada Mining Association  
Bob Hayes, Air Transport Association  
Gary McCoy, Sierra Pacific Airlines  
Bob Warren, Nevada League of Cities

Testimony was then heard on the following bill:

SJR 8 MEMORIALIZES CIVIL AERONAUTICS BOARD TO PROMOTE  
COMPETITION IN RENO-LAS VEGAS PASSENGER AIR  
SERVICE.

Senator Hernstadt, introducer of SJR 8, testified from his seat. He said that SJR 8 is not a frivolous bill and it certainly is not anything spiteful against Air West. Air West is a good airline; it has good personnel; it has safe equipment, and he does not want the fact that he introduced the bill, in any way, to imply that as an airline, he is critical about the service.

Senator Hernstadt stated that he is an experienced air traveler with many different airlines. He has found the delays on Air West frustrating, he has found the condition of full flights on single service markets frustrating, he has found baggage handling frustrating. If there is a strike on Air West, we are at the mercy of one carrier between our two principle cities. The kinds of equipment that is allocated to this market is of some concern. On a recent trip, Air West left Reno for Las Vegas with nine empty seats because of weight and balance and there were 20 or 30 standbys at the gate.

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Senator Hernstadt continued by saying that part of the reason for this is that Reno Airport should have longer runways but part is the need for more powerful equipment.

There are responsible people who are supporting competition; people at the McCarren Airport and the Las Vegas Chamber of Commerce (Letter from Chamber is attached as Exhibit A.) Three air carriers have applied to the Civil Air Board for permission to serve this route; Delta, TWA and Western.

The addition of another airline besides promoting competition is that it enhances tourism at both ends. The airlines then add their passengers from their route structure into a new market. He felt that this would benefit Reno the most.

He was concerned about the expansion and new equipment necessary to handle this market. The Hughes estate is in a turmoil. Western is buying \$200 million worth of equipment and even those airplanes would not be used in this market, they would free others Western has which could be used.

Senator Hernstadt asked what is the effect of the Resolution? He said that it is actually asking the Federal Government and CAB to expedite the hearings and hopefully, favorably, consider competition on the route. The CAB has already scheduled hearings which will be held in Reno in early June. The hearing examiner, after getting the facts, may hold subsequent hearings and will eventually get around to rendering a decision. Whoever loses will obviously appeal the decision which will take time. This could all take two or three years. The effect of this Resolution hopefully will be to speed up this process. If the Resolution is killed, it was Senator Hernstadt's opinion that the CAB might believe that the Legislature was happy with the service given by Air West on the Reno, Las Vegas run and therefore, impact the tourism benefits from another route structure feeding into the Reno market.

In summary, he said that he believed in competition and by having alternatives other than traveling, by car between Las Vegas and Reno for six and one-half hours. He urged everyone's support of SJR 8.

Senator Blakemore asked Senator Hernstadt if he was aware that Air West's load factor is only running 48.52%, which seems quite low? He wondered if on this particular run, we could saddle Air West with further competition. Senator Hernstadt said this was the overall load factor for all of Air West's routes. Senator Young asked if Delta, TWA and Western are all applying for certification on this route? Senator Hernstadt answered yes, and all three go into Las Vegas at this time. Senator Young further asked if the interest of these airlines coming into Reno was partly to continue on to the Northwest? Senator Hernstadt said that Western just received authority to go up North. They now go nonstop from Las Vegas to the northern cities.

Karl Fahr, representing Scenic Airlines in Las Vegas, stated that he believed that the public, as well as the users in particular, should be aware the present fare structure on Hughes Air West is a very low per mile charge, which should have some bearing on the amount of service that can be offered. A one-way fare, Las Vegas to Reno, of \$28 to \$34, depending on the time of day, means you are looking at about 9¢ per mile return. He said that Scenic would consider this hopelessly low. In his opinion, it is quite evident that you have to have a very high load factor in order to break even when you are flying aircraft for such a low return.

Senator Ashworth asked if this meant that if Air West has competition, the price will go up on fares? Mr. Fahr said that he was not sure the price would go up because it is basically in the hands of the Public Service Commission to regulate those prices. What he meant was that if the public wants frequent service with seats always available then those seats are going to cost more because the dollar amount stays the same on flying the airplane whether it is full or not.

Senator Ashworth asked if there would be more service if another airline were to be added to this route? Mr. Fahr said that he personally believed that if another carrier were to enter the market, there would certainly be added seats in getting from Las Vegas to Reno; however, how can the second carrier make any money at all when actually Air West, with no competition is losing money today. He added that with an airline such as Scenic, the normal return is 18¢ to 20¢ per mile. The tickets on Scenic Airlines between Reno and Las Vegas would have

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to cost \$68.00 one-way. The cost at this time from Carson City to Las Vegas is \$49.00 one-way and \$98.00 round trip. Air West charges \$68.00 round trip from Reno to Las Vegas.

Senator Neal asked Mr. Fahr exactly what his interests were. Mr. Fahr said that he was saying this as a preamble to Scenic's aim to become a commuter airline operating within the State of Nevada. If the communities of Tonopah and Hawthorne would want to receive air service, these communities will have to be in a position to pay for it. He wished to convey to the committee that for Scenic, which has depressed fares, it would have to charge 18¢ to 22¢ a mile in this market. He also pointed out that commuter airlines do not compete with the major airlines on major routes.

Senator Blakemore asked Mr. Fahr what his thoughts were, as far as what the citizens of Nevada could look forward to, in Nevada regarding air services? Mr. Fahr said that the time has come when the regional carriers have all acquired the DC 9 and 737 aircrafts, making it impossible and economically unfeasible to serve many of the smaller communities. However, a new group of carriers (the commuter airlines) are ready to assume that duty and obligation. The commuter airlines, in many parts of the country, have done a tremendous job. There are statistics that show the frequency of service is the key to selling airline tickets. In cases of where the regional carrier was allowed to get out of the market, the commuter would move in, provide perhaps two and three times the frequency, and really make it a viable proposition; good business for the commuter and much better service for the community.

Mr. Fahr continued by saying that Nevada could be a good market if it were expanded. For example, in Ely or Elko, if United Airlines which is presently losing approximately \$500,000 annually serving Ely and Elko, were authorized to give up that market place, Scenic Airlines would be ready tomorrow to serve those two communities with the most modern commuter equipment available (Swearinger Metroliner) and give it the frequency these markets deserve.

Senator Ashworth asked Mr. Fahr if he had seen the "Short Haul Air Study" which was performed about six or eight years ago by the Western Conference and Council of State Governments. This study included all of the load factors, frequency of flights, etc. throughout Nevada. Mr. Fahr said that historical data shows that Tonopah has boarded an average of 5 passengers a day, Hawthorne would have approximately 10 passengers a day, Ely-15 persons per day and Elko would have 30 persons per day. All of these figures are ideally suited to a commuter type operation.

Senator Hernstadt asked what the chances were of resuming the route between Elko, Ely and Las Vegas? Mr. Fahr stated that it was strictly a matter of economics. Scenic's load factor throughout the three years that they operated into Ely and Elko never exceeded, on an annual basis, 31.5%. You just can't operate an airline with such a low load factor.

Senator Blakemore commented that he had heard that Scenic Airlines has shown an interest in the old Bonanza route, which was Las Vegas, Tonopah, Hawthorne and Reno. He asked Mr. Fahr if this was true? Mr. Fahr said that Scenic Airlines have been approached by people in Tonopah and Hawthorne. Scenic Airlines is not prepared, at this time, to assume solely the financial risk of such an undertaking. If the market is there--and neither of these communities receive air service at this time--we would certainly recommend that a trial period be designated of at least six months, during which Scenic would be guaranteed to break even by some form of possible compensation. If the market warrants it and there is enough traffic generated for Tonopah and Hawthorne, then it should stand on its own after that time. The obligation of the State or the Four Corners Commission, or whatever body that would assume that responsibility, would be limited to the six months time frame. Then, if the traffic figures indicate that there is a need, then Scenic would stand on its own after that; and, the present equipment of Scenic Airlines (9 passenger Cessna and the 19 passenger Swearingen Metroliner) would be most adequate to serve those markets.

Senator Young asked what amount of subsidy would be needed in the six month trial period? Mr. Fahr said that it costs approximately \$18,000 a month revenue. The Swearingen Metroliner would cost double that amount. The subsidy would amount to the difference between what was made and that amount.

Mr. Fahr said that Scenic Airlines operates under part 298 of the CAB as air taxi or air commuter airlines. They are free to go anywhere within the United States except if we are operating within a state, such as Nevada, we come within the authority of the Public Service Commission. Scenic's main business is the Las Vegas-Grand Canyon tour market. They also operate into Palm Springs and Long Beach from Las Vegas. Scenic Airlines receives no subsidies at this time. Federal subsidy, at this time, can only be granted if an airline becomes certificated. Scenic Airlines do not plan to become certificated because with the certificate comes a tremendous amount of overhead and cost that they are trying to avoid by staying on the present part 298.

Mr. James Vercillino was the next to testify. He stated that he has 35 years experience in this particular field. The last 20 years were spent as Director for the Department of Aeronautics for the State of Arizona. The last 2 years of that 20 was as Assistant Director of the Department of Transportation in Arizona.

He informed the committee that he has had considerable experience with intrastate carriers and various forms of subsidy. The last experience was when the Four Corners Regional Commission allocated his department a sum of money; we, in turn, contracted with an intrastate carrier to serve three preselected markets and we guaranteed Cochise Airlines a break-even situation. The experiment was not too successful. As a matter of interest, he said that there was a recent meeting in Reno of the Four Corners Regional Commission in an effort to combine the five states instead of just the four corner states (Nevada became a member recently) to develop some kind of a certification situation for intrastate airlines whereby they would receive a subsidy. He did not know what the outcome of this meeting was but he wished to caution Nevada on two things:

1. Quite frequently when one major carrier flies over another major carrier on a route, the competition becomes destructive.
2. When doing business with a commuter airline, it is indeed wise to select an airline that has had experience, which is dependable, and one that is well established.

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Senator Ashworth asked Mr. Vercillino if you had two carriers, would you have less service? Mr. Vercillino answered that you would have more service, however, this service would become destructive in the sense that neither carrier could probably acquire a profitable situation. In other words, the service would be better immediately, but then the price would go up and in the long run service would decrease to the point that it would become worse than it was when there was only one carrier.

Senator Ashworth asked how we can get the one airline to give better service. Mr. Vercillino answered that he felt if the market was there, the service would be there.

Senator Ashworth asked Mr. Vercillino if he thought the State of Nevada should have a Department of Transportation or Department of Aeronautics? Mr. Vercillino said that he didn't think the State of Nevada should have an independent department or commission at this time, but he really believed that within either the Public Service Commission, the Department of Economic Development or the Governor's office, that some kind of an organization, whether it be one man, two men or whatever, to handle aeronautics in the state. He, personally does not favor a Department of Transportation, but he felt it was inevitable that it would eventually be implemented. He said the reason he was against a Department of Transportation was because he has seen, in small states, too many small, efficient agencies which did not cost the state a great deal of money, get lost in the giant bureaucratic administration of a new large department, which costs a great deal of money.

Senator Ashworth asked if Nevada could be losing some Federal funds in all areas of transportation by not having a Department of Transportation? Mr. Vercillino said that even starting a Department of Transportation which covered ground transportation was not wise. He felt that in Nevada, the Department of Transportation is under the Highway Department and he felt that they are capable of getting all of the Federal funds available. On the other hand, he did not think the State of Nevada, simply because it does not have someone

designated to direct the activities of the monies available from the Federal Aviation agency, is getting a square deal. As Director of the Department of Aeronautics in Arizona, in one year he was able to get \$1.5 million over and above the state apportionment solely because he could give it the attention that it needed and he knew what he was talking about. Senator Ashworth said that this was what he was concerned about and he felt that the out-lying areas of Nevada could and should be getting some Federal help to extend aviation services outside of Reno and Las Vegas. Mr. Vercillino felt this was true.

Senator Hernstadt then asked Mr. Vercillino the following questions:

Q. You referred to the air service between Phoenix and Tucson; what is the mileage between those two cities?

A. A little less than 100 miles by air and 125 by road.

Q. Do you think that is comparable to Reno and Las Vegas?

A. No, Sir.

Q. As an expert on transportation matters, are you familiar with the air service between Seattle and Portland?

A. No, Sir.

Q. A lot of the arguments about one carrier vs. many carriers was raised many years ago on that route and it is my understanding, that with competition, none of the terrible things, infrequent service and raises in fares, occurred.

A. I feel that in that case, there is a situation of a large population which might be a compensating factor.

Q. Are you doing any consulting in your retirement?

A. A little in Arizona -- master plan for airports.

Q. Are you doing anything for Hughes Air West?

A. No, Sir. I am not connected with Hughes Air West in any way.



Senator Ashworth asked if Mr. Vercillino was familiar with the Western Short Haul Study? Mr. Vercillino said yes, he was a member of the study group. Senator Ashworth said that at the time of the Study, he had requested that Nevada be one of the states considered for the demonstration and unfortunately it was not chosen. He then asked if Mr. Vercillino felt there was a possibility that the concept of a demonstration study could be resurrected so that possible subsidy could be given to someone like Scenic Airlines to help the rural areas in Nevada? In Mr. Vercillino's opinion the Study did not have any merit. The program fell flat on its face because there never was any demonstration program. There was an attempt to sell the program in Washington after the study was completed to acquire funding to implement these programs but it didn't materialize. He felt that the best vehicle available at this time is perhaps through the Four Corners Regional Commission.

The Committee members all thanked Mr. Vercillino for testifying.

Gary McCoy from Sierra Pacific Airlines was the next to testify before the Committee.

He said that Sierra Pacific Airlines is a California based commuter airlines and are much smaller than Scenic. They had received a telephone call from a man in Tonopah and had talked to people in both Tonopah and Hawthorne regarding them coming in from Bishop, California and on through to Reno. Presently, they are serving Reno from Bishop twice a day on a nonstop basis. He did not know what type of service Nevada needs. Sierra Pacific would be interested in serving both of those communities (Tonopah and Hawthorne) out of Bishop. Their average traffic runs about 5 passengers a day to Reno; and even though they are only running about 25% they do plan to continue this service for at least another year.

Robert Alkire, a member of the White Pine Chamber of Commerce Aviation Committee and also the White Pine Airport Advisory Board, was the next to testify.

He said that from Elko to Las Vegas and from Delta,

Utah to Tonopah or Fallon, there is only one functioning, fixed base operated airport on any kind of full time basis in that 144,000 square miles; and, that airport is going to hell. We, in Ely, live constantly in fear of losing our only airline service left into Ely. This is a real problem because we have a lot of elderly people, a lot of medical cases who must get to other specialists, and the only way they can do this is by airline. They suspect, that given the right circumstances, we would lose our United Frontier service.

His concern is that Scenic could not make it if they were to step in, but he is worried that the Federal Government, through CAB, is so concentrated on the major airline service, that it hasn't really developed any kind of far reaching program to do something about the small communities that simply can't support an airline. Senator Ashworth interceded by saying that this actually is the fault of the State of Nevada that the small airports have had no consideration. Mr. Alkire said that he was talking about the Federal FARs not being developed properly under which third level carriers can operate at a profit.

Mr. Alkire said that one of the priorities regarding air service is that money is needed to improve the small community airports.

Senator Hernstadt asked Mr. Alkire that in case Ely were to lose United Frontier service, would they be satisfied with Scenic, with smaller equipment, giving the needed service? Mr. Alkire said that in the event that Ely should lose United's service, he would hope there was another service ready and waiting.

Senator Young asked why were airports built in Ely and other small communities throughout the state? Mr. Alkire said that most were built because of pressure (major airlines battling for chosen routes) but in the beginning, of course, the majors were granted certain "sugar" routes in return for which they agreed to serve nonlucrative points. Over the years, there has been a tendency to get out of the nonpaying runs. Then the CAB set up secondary level airlines to pick up the outlying areas by subsidising them as mail routes. Now these regionals have gotten big enough so that the marginal points they were serving are now semi-major points. The CAB has not gone down and said the next level of marginal points need some type of service. He added that in Ely you cannot get a subsidy for a third level carrier unless they operate under a different FAR.

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Senator Ashworth remarked that most of the airports had been built during the Second World War because many of the small towns in Nevada (Tonopah, Winnemucca, Lovelock, Ely and Fallon) were all military bases. People then started flying into these communities and giving them service after the war. However, Nevada had no vehicle or mechanism to keep those airports up, so consequently, with the exception of Reno and Las Vegas, all the other airports have "gone to the dogs" because the state has not taken the gasoline money and put it into aviation. Of course, the airlines come into Nevada without paying any fuel tax. Under state law airlines are exempt from paying the fuel tax. Chairman Blakemore said that he had introduced a measure at each of the last two sessions to have the airlines pay a fuel tax, but they had both been unsuccessful.

Mr. Howard Wynn, representing the Nevada Mining Association, testified regarding the question of whether or not Nevada needed a Transportation or Aeronautics Department. He stated that someone is going to have to do some planning before the problem of air service to rural Nevada is solved. He said that it is impossible to find any answers to this problem unless someone is designated to be the planning agency and define the problem and find a solution. Air service in rural Nevada is very thin, it is very much needed and the moment of truth is coming very soon.

Senator Ashworth said that there was a bill in the Assembly to study the possibility of setting up a Department of Transportation in Nevada. Senator Young said that possibly some definite action should be taken in having an interim study on aviation in Nevada.

Senator Neal stated that recently the Economic Development Department has been working with the rural communities that could be of help in getting some planning monies from the Federal Government.

There being no further business, the meeting was adjourned.

Respectfully submitted,

  
Molly M. Torvik, Secretary

APPROVED BY:

  
Senator Richard Blakemore, Chairman



KEN O'CONNELL  
Executive Vice President

February 18, 1977

Senator William Hernstadt  
Capitol Complex  
Legislative Building  
Carson City, Nevada 89701

Dear Bill:

We are making every possible effort to be in Carson City for the hearing Tuesday on SJR-8. However, in the event that we cannot make the trip to Carson City, here is some additional information in support of SJR-8:

For more than six years the "Las Vegas Parties" have petitioned the Civil Aeronautics Board to provide daily competitive non-stop airline service between Las Vegas and Reno. The "Las Vegas Parties" consist of the City of Las Vegas, County of Clark, Greater Las Vegas Chamber of Commerce, Las Vegas Convention/Visitors Authority, Nevada Resort Association and the Downtown Casino Center Association.

Three airlines have petitioned C.A.B. to compete with Hughes Airwest in this Las Vegas-Reno airline Service case. Those airlines are Trans-World Airlines, Delta and Western.

We have been informed by the C.A.B. that the hearings on this matter are scheduled for June 1st in either Las Vegas or Reno. I believe it would strengthen SJR-8 if the Legislature were to ask the C.A.B. to hold the hearings in the State of Nevada. The resolution would then assist the "Las Vegas Parties" in:

1. Assuring that the hearings will be held in our State and
2. Letting the C.A.B. know the State Legislature is aware of the need for competitive airline service between Nevada's two major cities.

One of the most knowledgeable persons in this particular matter is Erle Taylor, Clark County Director of Aviation, McCarran International Airport, Las Vegas, Nevada.

We certainly hope that SJR-8 is passed by the Senate and Assembly and we would appreciate receiving copies of SJR-8 in its final form. We will then supply copies to the C.A.B. and to members of the "Las Vegas Parties".

Cordially,

Ken O'Connell  
Executive Vice President

GREATER LAS VEGAS CHAMBER OF COMMERCE

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MRS BILL KERNSTADT, DLR

STATE CAPITOL

CARSON CITY NV

REGRET UNABLE TO BE PRESENT HEARING SJRS DUE TO EMERGENCY MEETING

FULLY SUPPORT YOUR EFFORTS

GESXES-TWA

NNNN

## ***R-J viewpoint***

# **Hernstadt right on this resolution**

There is a resolution in the Senate on a subject that we have continued to harp on and will continue to do so until some results are seen.

The resolution introduced by State Sen. William Hernstadt, is SJR8, and it calls for competition between the Las Vegas-Reno flights.

We urge the assemblymen and senators to pay particular attention to this bill, however, those who use the service know and have known for years, that this should not be a monopoly.

We would like to see the Chamber of Commerce here give its support to this measure. We would like to see our businessmen get involved with this matter.

We have stated numerous times that it is not simply because we feel Airwest is not doing the job, but it is necessary to have additional service. Figures bear out how heavily traveled this route is, and common sense dictates that competition would be healthy.

The resolution asks that the U.S. Civil Aeronautics Board expedite hearings on air carrier applications for passenger service between Nevada's two largest cities.

Both Western and Trans World Airlines have made application to the CAB. Airwest feels it should have the route alone because it pioneered the route. That's ridiculous logic.

Hernstadt pointed out in his resolution that the monopoly allows for abuse. He said with two carriers there would be better rates and "now it is very hard to get on a flight on Friday or Sunday night or Monday morning." He is correct.

The senator pointed out that he introduced the measure not simply for legislators, but for the average person.

The senator also pointed out one interesting thing. He said that Western has announced it will buy millions of dollars worth of airplanes this year, but the Summa Corporation and the Hughes estate are in flux and they would be pressed at the present time to make any capital investments.

Naturally Airwest wants to hang on to this route, one of the biggest money making routes in the country, but we feel the addition of another airline is vital for the two cities.

You won't find us agreeing with most things Sen. Hernstadt has to say, but he knows what he's talking about when he says this is a problem and it must be solved.

We can't recall how long we have been saying it.