

Small Community Air Service Development Pilot Program: Success Stories

By Louis Wolinetz

To paraphrase Tennyson, in the spring, a small airport's fancy lightly turns to thoughts of funding. Initiated in 2002, the U.S. Department of Transportation's (DOT's) Small Community Air Service Development Pilot Program (SCASDPP) has provided nearly \$40 million in grants to 76 small airports to enhance air service. With the 2004 application season upon us, this Measure of the Month examines the first two rounds of awards, and highlights some success stories.

SCASDPP Awards

By statute, DOT can fund up to 40 applicants annually, with no more than four in the same state. Priority is given to communities where: 1) air fares are high; 2) local, non-airport funds are contributed; 3) a public-private partnership exists; and 4) benefits are realized by a broad section of the traveling public.

In 2002, DOT received 179 applications from 47 states, with requests averaging \$796,000. Forty communities received awards, (two awardees declined and were replaced), and the typical award was \$500,000, ranging from \$44,000 to \$1.5 million, as noted in Figure (Fig.) 1A.

In 2003, 170 communities from 46 states plus Puerto Rico applied for funding, seeking an average of \$611,000. With

only 36 recipients, the average grant was larger than in 2000 at \$551,000. Seven recipients were awarded over \$700,000 in 2002, eight in 2003.

Local Participation

DOT encourages local/state governments or the private sector to contribute non-airport funds to awardees (Fig. 1B). Calculations shown are based on cash expenditures, and exclude in-kind assistance. In 2002, the local match by the average grant recipient was 30 percent of total project costs, ranging from zero to 78 percent. Average local participation was similar in 2003 at 29 percent, although the median local contribution fell to 20 percent from 23 percent, perhaps reflecting a tightening of local budgets.

In 2002, larger grant awards typically included a higher rate of local participation. Communities receiving grants over \$600,000 averaged 41 percent local participation. This trend did not continue in 2003, when larger grants averaged only 27 percent local participation.

Uses of Grant Funding

Projects proposed by funded recipients most commonly involved subsidies or

revenue guarantees, marketing efforts or research studies such as feasibility analyses (Figs. 2A, 2B). Many projects combined two or more of these elements (in such cases, the charts indicate the activity for which the majority of funds are being expended).

Transferring operating risk from carriers to the local community via direct subsidy, travel banks or revenue guarantees is by far the most common use of SCASDPP funding. Of the 76 awardees to date, 68 percent are using grant awards for risk-transfer, nearly all of which were accompanied by marketing campaigns. Interviews with DOT and airport staff suggest that carriers prefer revenue guarantees or cost offsets, and thus are more likely to improve air service than travel banks. DOT reports that no travel bank funded under the program has been successful.

Marketing programs were the second most common use of funds, with 13 projects primarily focused on educating consumers and travel agents about existing service. Five communities mainly funded research and analysis of their local market or the routes most likely to succeed. Two communities have hired new airport staff to improve airport marketing efforts. The remaining four projects are listed as "other" in the charts and includ-

Fig. 1A SIZE OF GRANT AWARDS

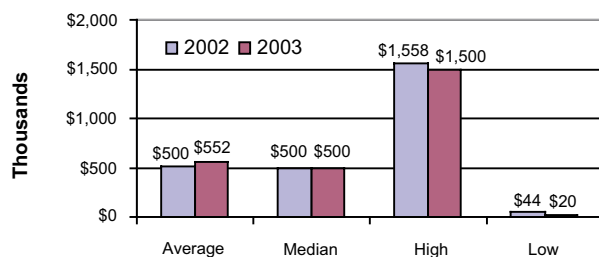


Fig. 1B LOCAL CASH CONTRIBUTION TO PROJECT

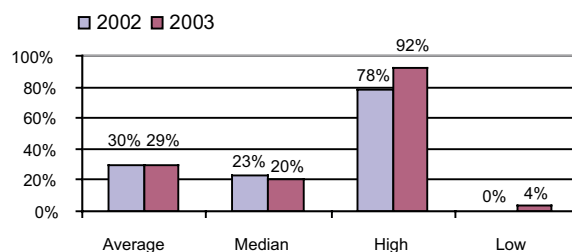


Fig. 2A 2002 GRANT USES

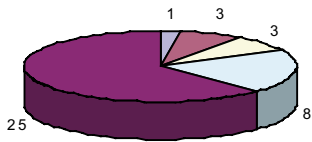
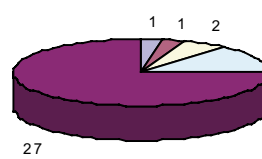


Fig. 2B 2003 GRANT USES

- Staff
- Other
- Research
- Marketing
- Subsidy/
Guarantee



ed purchasing equipment (including, in one case, an airplane) and providing ground transportation.

The 2004 Program

The program became permanent in the FAA's Century of Aviation Reauthorization Act, authorized at \$35 million annually through 2008, although 2004 appropriations are projected to be around \$20 million. A new selection criterion for timeliness that favors proposals with realistic timeframes ready for immediate implementation has been added.

DOT still favors local commitments demonstrated by broad-based cash and in-kind contributions. Applicants are expected to submit realistic proposals, and DOT may be less tolerant of changes to the project following award. Communities are urged to consider not just the number of passengers that will use new service, but whether the passengers will be the high-yield travelers carriers need to be profitable in today's hyper-competitive market.

Success Stories

One of the aims of SCASDPP is sustainability of the project once public support is exhausted. While it is too early to evaluate the program as a whole, success stories are emerging. DOT reports that 19 of 40 2002 awardees have received new or upgraded air service. Some of the winners:

Daytona Beach International Airport used SCASDPP funds to provide a revenue guarantee to Continental Airlines, which, coupled with an aggressive marketing program, prevented a loss of service to its most popular market (*AM*, January/February 2004, p. 52). Continental initially guaranteed only two daily flights to Newark, but strong results led to a third daily flight this winter as well as initiation of non-stop service to Cleveland.

Rapid City Regional Airport, South Dakota, received \$1.4 million in 2002, the

second largest SCASDPP grant. Matched dollar-for-dollar with local and state funds, Rapid City embarked on a marketing campaign to educate travel agents and the public about the Black Hills region. As a result, enplanements rose 10 percent in 2002 and another 5 percent in 2003, Great Lakes Airlines initiated three daily flights to Denver connecting to Frontier Airlines flights, and United Express upgraded turboprop service to regional jets (RJs).

Protected by a \$590,000 revenue guarantee, Northwest AirlinK changed two one-stop flights to non-stop service from Rhinelander-Oneida County Airport, Wisconsin to Minneapolis-St. Paul. Not only have enplanements at Rhinelander increased 19 percent, the service has been profitable enough that less than 20 percent of the available guarantee money was used in 2003, indicating the improved service should be sustainable.

Friedman Memorial Airport in Hailey, Idaho, used SCASDPP to leverage significant private support for air service. Attempting to attract skiers to Sun Valley resort, Hailey received \$600,000 for a revenue guarantee for Horizon Air to initiate daily service to Los Angeles International (LAX). When a similar application in 2003 to add service to Oakland was not funded, the Sun Valley Company, impressed by the LAX results, contributed \$600,000 to back both the Oakland service and continuing service to LAX.

Abilene Regional Airport, Texas, received the second smallest 2002 grant (\$85,010) to establish a formal business development program and hire a manager. The program led to Continental Connection becoming the airport's second carrier and resulted in a 47 percent increase in enplanements in the last four months of 2003, the airport's best performance since 1994.

Lynchburg Regional Airport, Virginia, and Yeager Airport in Charleston, West Virginia, each used a \$500,000 revenue

guarantee to attract RJ service. Both airports have seen load factors in the mid 60 percent range.

Conclusion

Many small airports are certain that new service would succeed, if only it could be established. SCASDPP is a powerful tool to attract investment by the local community and air carriers. Allowing flexibility in the types of projects funded increases the likelihood of success by program grantees.

The most successful grant applicants appear to be those that have clearly defined plans, realistic goals and have leveraged local and private cash contributions prior to the award. However, obtaining grant money is only a means to increasing air service. Implementing a successful program requires a commitment from airport staff to obtain the backing of local governments, businesses and the traveling public, aggressively marketing to potential carriers and taking calculated risks in providing support and guarantees for new service.

Seventy-eight communities have been offered SCASDPP funding out of 238 total applicants over two years, including three that declined. With the eligible applicant pool limited to 478 small-hub and non-hub commercial service airports (reliever and general aviation airports are also eligible and have been funded), increased funds potentially available in the near future, and a commitment by DOT to spread funding to different communities, this is an opportunity not to be missed.

How does this experience compare to your airport? If you would like to share your ideas and information, please e-mail lwolinetz@imggroup.com

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