Small Community Air Service Development Program

Background:

After the deregulation of the airline industry in 1978, the free market exposed small community airports as unsustainable for servicing by major airlines outside their "hub and spoke" networks. Instead of using small community airports, passengers chose to drive to the closest major or mid-level airports because they offered lower rates and better flight schedules. To help sustain the impacted small community airports, the Essential Air Service (EAS) program was enacted as a transitional program during the deregulation to subsidize airlines at a 5 percent profit margin for continued service to airports that were operating prior to 1978. Thirty years later, the transitional program continues to subsidize over 150 airports costing $123,000,000 annually.

Despite these EAS subsidies, small community airports travel continued to decline. In 2004 only three percent of all airline passengers used small community airports. Consequently, as part of the Wendell H. Ford Aviation Investment and Reform Act for the 21st, the Small Community Air Service Development Program (SCASDP) program was created in 2000 to help still-underserviced small community airports enhance their service. The program's core objective is to "secure enhancements that will be responsive to a community's air transportation needs and whose benefits can be expected to continue after the initial expenditures."[1]

Eligibility

Unlike the EAS program, that limits eligibility to only airports operating prior to 1978, the SCASDP opens up eligibility to any airport that was classified as a small hub airport or smaller in 1997. A small hub is defined as an airport that has at least 0.05% but less than 0.25% of the annual passenger boardings in the United States. The classifications are based on the Department of Transportation 1997 enplanements report.[2]

Funding

The SCASDP is intended to provide up to 40 grants per year, with a maximum of 4 grants to a single state, to communities or consortium of communities that have demonstrated insufficient air carrier service or unreasonably high air fares. SCASDP grants can be used for a variety of purposes, including but not limited to:

1. Advertising or promotional expenses;
2. Air service deficiency and passenger traffic loss studies;
3. Hiring employment staff

[1] http://ostpxweb.dot.gov/aviation/X-50%20Role_files/smallcommunity.htm#Use

[2] http://ostpxweb.dot.gov/aviation/X-50%20Role_files/scasdp/97%20Hub%20Classification%20Stats.pdf

4. Public relation agency or consulting firm expenses.

5. Subsidies or revenue guarantees to air carriers to establish new routes

In 2011, there were 29 SCASDP grants awarded totaling $14,984,000. Since the passage of SCASDP in 2000, a total of 285 grants have been rewarded totaling $132,230,822.

Year	# of Grants	Funding Totals
2002	40	$19,985,056.00
2003	35	$19,849,807.00
2004	40	$19,853,546.00
2005	37	$18,952,685.00
2006	25	$9,692,600.00
2007	26	$8,975,678.00
2008	15	$6,499,000.00
2009	19	$6,445,450.00
2010	19	$6,993,000.00
2011	29	$14,984,000.00
Totals	256	$132,230,822.00

SCASDP Grant Examples

A majority of the grants were used by airports for marketing enhancement for existing airlines, revenue guarantees to attract new airlines or a combination of both. The following examples of SCASDP grants show how some of the funds were put to use.

Subsidizing Commercials for Subsidies

The SCASDP prohibits grants to be awarded to subsidize new routes to airports already receiving Essential Air Service subsidies. However, grants can be awarded to EAS airports for marketing improvement purposes "to promote their existing, recently restored, or newly subsidized air services." Since 2004, there have been 24 grants awarded for the purposes of marketing changes to promote EAS lines with the goal of generating enough passenger traffic to eliminate the need for EAS subsidies. Out of those 28 grants affecting 37 EAS airports, all 37 airports are still receiving EAS subsidies.[3]

Government grant goes bust in casino town

Tunica Airport in Mississippi received a grant for $500,000 for marketing, start up costs, and revenue guarantees to attract scheduled Air Tran service with Atlanta to the airport in 2009.[4] Tunica is located

[3] http://ostpxweb.dot.gov/aviation/x-50%20role_files/NonAlaska010110.pdf

[4] http://www.regulations.gov/#!documentDetail;D=DOT-OST-2009-0149-0039

29 miles southwest of Memphis, TN, which has a major airport. The largest sector of Tunica's economy is the gambling industry, which takes in the eighth most gambling revenue in the United States.

In order to cover the costs of the Air Tran revenue guarantees, local casinos' covered most of the difference between the $500,000 federal grant and the projected $1.3 million cost. This grant forced taxpayers into a partnership with casinos to funnel more gamblers into Tunica, so that the potential gamblers do not have to be inconvenienced by 29 mile drive from the major airport in Memphis. Air Tran discontinued its service line to Tunica Airport upon the expiration of the SCASDP grant in May.

Government funds finds loophole to spend more government funds

The Port Angeles, WA, airport received a grant for $360,000 to hire a marketing advisor to attract more service to the airport in 2009. This airport is located about 3 hours from the Seattle-Tacoma airport by car. This marketing advisor is working to put the airport on the list of approved General Services Administration airports, so that government employees are eligible for reimbursement to use the airport. This would help ensure a National Parks Service project to remove a local dam will result in lots of government scientists and engineers using the airport. Additional marketing and surveying is planned."[5]

This federal grant paid for an employee to find a way to use government money to reimburse government workers so they can fly to a more conveniently located airport to work on a government funded project.

Chicago-Rockford airport receives a "risk-free" trial- again

The Chicago-Rockford International Airport received a grant for $500,000 for marketing, start up costs, and revenue guarantees to create a new route to a major business city destination in 2009. This grant was awarded, even though the Airport is located 72 miles from Chicago O'Hare Airport – the third busiest airport in the world. Amy Ott, the airport's deputy director of administration and finance, said "Sometimes these secondary marketplaces get overlooked….Secondary airports need to get out in front of (airlines), show them our numbers show them what's possible. It's a risk-free trial."[6]

It is important to know that the Rockford airport also received a $1,000,000 grant to establish a new route with United Airlines to Denver in 2005. United discontinued the grant funded airline service after two years due to inconsistent passenger totals and the expiration of its revenue guarantee. Chicago-Rockford is ready to try to start up a new service route again with their gained experience from the last failure.

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[5] http://www.peninsuladailynews.com/article/20100810/NEWS/308109993/kenmore-air-eyes-setting-up-expedia-travelocity-links

[6] http://www.rrstar.com/carousel/x1025060394/RFD-gets-500K-grant-to-attract-more-fliers

After wasting $1,000,000 on a failed route to Denver in 2005, taxpayers are getting a discount by funding this "risk-free trial" at only $500,000. Why the initial grant was made in the first place is already questionable. The fact that grant was a waste and that the third busiest airport in the world is 72 miles away, it's unbelievable FAA found it appropriate to award an additional $500,000 in taxpayer funds to this airport.

Cloak and dagger not-so-small community grants

In 2009, two separate grants were rewarded to Huntsville, AL and Knoxville, TN for $1,000,000 and $500,000 respectively. Both airports were attempting to launch a new carrier service or airplane route destination. The actual details, however, are unavailable because both Huntsville and Knoxville filed confidentiality agreements to exempt them from disclosing their detailed plans for the grant money due to competition concerns.[7]

Based on analyzing new air traffic routes from 2009 and 2010, it appears the Knoxville grant was used to establish a new route from Knoxville to Myrtle Beach[8].

The Huntsville International Airport used the grant to subsidize new routes to Orlando and Thurgood Marshall Washington-Baltimore Airport[9]. However, service to both Washington National and Dulles International airports were already available from Huntsville International Airport. United Airlines, which serviced the Huntsville to Dulles route, filed a complaint about the subsidized routes violated an anticompetitive principle of the SCASDP program. However the SCASDP decided that BWI, Reagan National, and Dulles airports are three separate markets, so there is not competition between the new subsidized route and the existing non-subsidized routes.[10] While they may be classified as separate markets, the justification of a federally subsidized route is hard to accomplish given that BWI, Reagan, and Dulles airports are within 90 miles of each other.

These so called "small" communities of approximately 500,000 people are receiving federal tax dollars to establish new routes. But Knoxville already is serviced by seven airlines flying to 25 different destinations and Huntsville is serviced by seven airlines flying to 14 different destinations. In contrast,

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[7] http://www.regulations.gov/#!documentDetail;D=DOT-OST-2009-0149-0008.1
http://www.regulations.gov/#!documentDetail;D=DOT-OST-2009-0149-0036

[8] http://s47461.gridserver.com/Airport_AR_2010.pdf

[9] http://pressroom.airtran.com/phoenix.zhtml?c=201565&p=irol-newsArticle&ID=1399645&highlight=

http://blog.al.com/breaking/2010/02/huntsville_international_airpo_3.html

[10] http://www.regulations.gov/#!documentDetail;D=DOT-OST-2009-0149-0477

Tulsa International airport is serviced by 5 airlines flying to 14 destinations[11] and Will Rogers World Airport in Oklahoma City is served by 6 airlines flying to 19 destinations.[12]

When airports (worried enough about competition to file for confidentiality agreements) receive federal funds to subsidize additional routes to vacation destinations and preexisting routes through a program whose main objective is to assist small community airports that have "demonstrated insufficient air carrier service," something doesn't add up.

New Service to Dothan- Take Two

Dothan Regional Airport not only received a $200,000 grant to establish a new commercial route to either Dallas/Fort Worth or New York City in 2003[13], but was also designated with the special Air Zone Development program tag. The Air Zone Development tag constitutes direct help from the Secretary of Transportation along with additional assistance from the Department of Commerce to attract business and improve land development in the designates area. However, according to their 2009 grant proposal, they never were able to establish a new line to Dallas/Fort Worth or New York City, even with revenue guarantees and additional assistance.

Despite the complete failure of the first grant, Dothan was able to receive another grant in 2010 for $750,000 to establish a new line to Dallas/Fort Worth International Airport. Dothan Regional Airport is located within 126 miles of six other regional airports, all of which have more competitive commercial flight rates then Dothan. [14]

Albany International Airport used federal funds to shed its "East Coast-centric" service problem

In 2011, a SCADP grant was recently awarded to Albany International Airport to provide revenue guarantees for a United Airlines direct flight to Houston. Notably, Albany received this "small community" grant despite the fact it is already served by 7 different airlines with 24 nonstop destinations, including New York City, Chicago, Boston, Washington DC, Charlotte, Atlanta, Philadelphia, Cleveland, Detroit, Minneapolis, and Orlando. Albany International Airport is going to use the federal funds to help solves its "East Coast-centric" service problem so that travelers from Albany to smaller market destinations in the Southwest and Mexico do not have to make the dreaded "double connections."

[11] http://www.tulsaairports.com/index.cfm?id=2

[12] http://www.flyokc.com/index.aspx?page=service

[13] http://www.regulations.gov/#!documentDetail;D=DOT-OST-2003-15065-0185

[14] http://www.regulations.gov/#!documentDetail;D=DOT-OST-2009-0149-0007

Third Time's a Charm

Lynchburg Regional Airport recently received $700,000 in federal funds to establish revenue guarantees for a commercial route to Atlanta. Amazingly, this is Lynchburg's 3rd SCASDP grant since 2002, totaling $1.45 million in taxpayer funds. In their proposal, Lynchburg Regional Airport claims the need for a second commercial route based on "considerable untapped air service potential" that is not met through its current service to Charlotte.[15] However, the demand capacity in Lynchburg is questionable, considering the failure of the 2006 SCASDP revenue guarantees to ever attract a commercial carrier. The Lynchburg Regional Airport received a one-year extension at the end of the 3 year grant period, but was never able to successfully attract a recipient airline for the revenue guarantees, claiming the "value of the total package was clearly inadequate to garner much attention." Given the need for a more lucrative revenue guarantee package, this hardly seems like a candidate that meets the program's sustainability standard of benefits that "can be expected to continue after the initial expenditures."[16]

Quick Hits

-Palmdale Regional Airport, located 73 miles from Los Angeles International airport, the 7th busiest airport in the world, was a 2006 SCASDP recipient of a $900,000 grant to establish its first commercial route from the airport through revenue guarantees[17]. United Airlines discontinued the new route to San Francisco the day after the grant expired.[18]

-Two Indiana regional airports received a $1,000,000 grant to provide service from Evansville to South Bend through Indianapolis in 2004.[19] Because the routes established were not economically feasible without the grant's funding, the routes were discontinued once the funds ran out.[20] Undiscouraged by the failures, both airports will receive 2011 SCASDP awards totaling $1,250,000 to try again.

Department of Transportation Inspector General Finds 70 Percent Failure

The Department of Transportation Inspector's General found a high failure rate for SDASDP grants awarded from 2001-2003 and. The IG found "Most Projects Failed to Fully Achieve Their Objectives" and that only "Certain Grant Types Were More Successful Than Others." [21]

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[15] http://www.regulations.gov/#!documentDetail;D=DOT-OST-2011-0119-0042

[16] http://ostpxweb.dot.gov/aviation/X-50%20Role_files/smallcommunity.htm#Use

[17] http://www.redorbit.com/news/business/738703/los_angeles_world_airports_city_of_palmdale_request_airline_proposals/index.html

[18] http://articles.latimes.com/2008/nov/18/local/me-regional18

[19] http://www.insideindianabusiness.com/newsitem.asp?id=11704

[20] http://www.journalgazette.net/apps/pbcs.dll/article?AID=/20080306/NEWS07/803060366

[21] http://ostpxweb.dot.gov/aviation/X-50%20Role_files/OIG_Report_May_2008.pdf

The IG concluded that 70 percent of the grants reviewed failed to fully achieve their objectives. This included 50 percent of all grants which were unable to achieve **<u>any</u>** of their grant objectives, 12.5 percent that were voluntarily terminated prior to any substantive progress being achieved and 7.5 percent that were unable to obtain or achieve all their grant objectives. We found that 30 percent were successful in achieving their grant objectives and sustaining the resulting benefits for at least **<u>12 months.</u>** In other words, 62.5 percent of all grants didn't accomplish any of their objectives. That is an extremely high rate of failure.

<u>Conclusion</u>

While the purpose of this program is questionable given duplication and funding concerns, there is little reason to extend a program with such a dismal success rate. SCASDP only temporarily props up regional airports with taxpayer subsidies and has not resulted in sustainable development, providing service for limited time periods with no medium or long-term benefits.