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GAO

Report to Congressional Addressees

November 2005

COMMERCIAL AVIATION

Initial Small Community Air Service Development Projects Have Achieved Mixed Results

GAO-06-21

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Initial Small Community Air Service Development Projects Have Achieved Mixed Results

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Highlights

Highlights of GAO-06-21, a report to congressional addressees

Why GAO Did This Study

Over the last decade significant changes have occurred in the airline industry. Many legacy carriers are facing challenging financial conditions and low cost carriers are attracting passengers away from some small community airports. These changes, and others, have challenged small communities to attract adequate commercial air service.

To help small communities improve air service, Congress established the Small Community Air Service Development Program in 2000. This study reports on (1) how the Department of Transportation (DOT) has implemented the program; and (2) what goals and strategies have been used and what results have been obtained by the grants provided under the program.

What GAO Recommends

GAO recommends that DOT evaluate the Small Community Air Service Development Program in advance of the program's reauthorization in 2008. Also, to improve the effectiveness of the Air Service Development Zones, GAO is recommending that DOT clarify what support and services it will provide to the designated communities.

DOT, in commenting on a draft of this report, said it generally agreed with the report and would consider the recommendations as they go forward with the program.

www.gao.gov/cgi-bin/getrpt?GAO-06-21.
www.gao.gov/cgi-bin/getrpt?GAO-06-101SP.

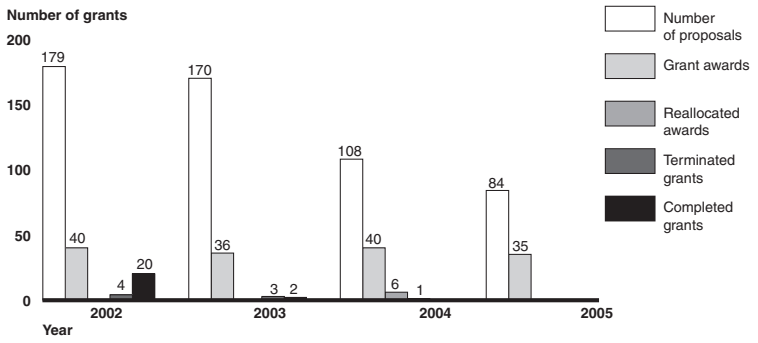
To view the full product, including the scope and methodology, click on the link above. For more information, contact Gerald Dillingham, (202) 512-2834, dillinghamg@gao.gov.

What GAO Found

The Small Community Air Service Development Program grants are awarded at the discretion of the Secretary of Transportation. GAO found that DOT considered the statutory eligibility criteria and priority factors as well as other factors in evaluating proposals and in making awards. The number of grant applications has declined since 2002. DOT officials see this as a consequence of the large number of ongoing grants and the impact of 2003 legislative changes. In surveying airport directors we found that grantee airports generally responded positively to DOT's process for awarding grants, about two-thirds were satisfied with the clarity of the selection criteria, while about one-third of directors at airports not receiving grants were satisfied with the clarity. DOT oversight is based on reviews of grantee reports and reimbursement requests, and DOT has terminated some projects and reallocated the unexpended funds to others.

Individual grant projects had goals including adding flights, airlines and destinations, lowering fares, obtaining better planning data, increasing enplanements, and curbing the loss of passengers to other airports. Grantees used a number of strategies to achieve their goals, including subsidies and revenue guarantees to the airlines, marketing to the public and to the airlines, hiring personnel and consultants, and establishing travel banks. Results for the 23 projects completed by September 30, 2005 were mixed: about half of the airports reported air service improvements that were self-sustaining after the grant was over. Some projects were not successful due to factors beyond the project, such as an airline decision to reduce flights at a hub. However, it is too soon to assess the overall effectiveness of the program, because most funded projects are not complete—127 of the 157 awarded grants are ongoing. DOT designates one airport each year as an Air Service Development Zone. The communities selected in 2002, 2003, and 2004 expressed similar concerns about the usefulness of this designation. None of the communities could cite any effect the Air Service Development Zone had for them. Instead, communities expressed confusion as to what DOT's designation was supposed to provide.

Small Community Air Service Development Program Awards



Source: GAO analysis of DOT data.

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Abbreviations

DOT	Department of Transportation
FAA	Federal Aviation Administration

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United States Government Accountability Office
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Congressional addressees

Over the last decade significant changes have occurred in the airline industry that have impacted service to small communities. Today many of the legacy carriers are facing challenging financial conditions.[1] Competition from low-cost carriers has contributed to passengers driving long distances to obtain low fares rather than use their small community airport. Since 2000, there has been a decrease in the use of small turboprop aircraft that serve small community airports, with many operators opting for larger regional jets holding 50 or more passengers. These changes, and others, have challenged small communities to attract adequate commercial air service at reasonable prices.

By establishing the Small Community Air Service Development Pilot Program in 2000, Congress created a new source of funds to help small, underserved airports improve their air service. The Congress has appropriated $20 million annually since 2002 for the Department of Transportation (DOT) to award up to 40 grants each year to communities that have demonstrated insufficient air carrier service or unreasonably high air fares. We reviewed (1) DOT's implementation of the Small Community Air Service Development Program and (2) the strategies communities receiving grants have used and the results obtained by the grants provided under the program. In addition, this report provides information on factors affecting air service to small communities, which is included in appendix II.

To determine how DOT has implemented the Small Community Air Service Development Program, we reviewed legislation authorizing and funding the program as well as related orders and guidelines. We interviewed DOT officials about their grant selection process and criteria. We reviewed grant award information and examined how DOT used its grant criteria to select grantees. We also reviewed program controls, receipts, quarterly reports, and the final reports that grantees submitted. We obtained and reviewed budget and finance data from DOT's Office of the Secretary as well as reimbursement data from the Federal Aviation Administration (FAA), which reimburses the grantees. To determine what strategies have been used and what results have been obtained, we reviewed the grant

[1]The U.S. legacy carriers are Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways.

applications and agreements for all 157 grants awarded through September 1, 2005. In addition, we reviewed the grants awarded, classified the types of strategies carried out within the grants, and summarized the types of activities funded. We also visited each of the 10 grantees that had completed their grants by December 31, 2004, and interviewed airlines and aviation consultants associated with these completed grants. We also contacted 13 additional grantees who completed their projects between January 1 and September 30, 2005. Further, we conducted two Web-based surveys. We used self-administered electronic questionnaires posted to the World Wide Web to survey the 146 airport directors involved in the 122 grants DOT awarded from 2002 through 2004, as well as 116 airport directors representing airports that applied for, but did not receive a grant during that period. We received response rates of 83 percent and 72 percent, respectively. To view our surveys and airport directors' responses, go to www.gao.gov/cgi-bin/getrpt?GAO-06-101SP. We performed our work from September 2004 through October 2005 in accordance with generally accepted government auditing standards. Appendix I provides more details on our scope and methodology.

Results In Brief

DOT considers numerous factors affecting the quality and feasibility of proposed projects before making Small Community Air Service Development grant awards. The law establishing the Small Community Air Service Development Program allows DOT considerable flexibility in implementing the program and selecting projects to be funded. We found that DOT considered the statutory eligibility criteria and priority factors in selecting grant projects. In addition, DOT considers other relevant factors in making decisions on projects, and the final selection is at the discretion of the Secretary of Transportation. As of September 30, 2005, there have been 157 grant awards made in the 4 years of the program. The number of applications has declined each year. In 2002, the first year of the program, DOT received 179 applications for grants, and by 2005 the number of applications had declined to 84. DOT officials said that this decline was in part a natural consequence of the large number airports implementing projects at the time, and the effect of legislative changes made in 2003 that limited a community to one grant award for the same project. I In our survey of airport directors, we found that grantee airports generally responded positively when asked about DOT's process for awarding grants. Two-thirds of grantee airports were satisfied with the clarity of selection criteria, while only about one-third of the nongrantee airports responding to the survey were satisfied. For program oversight, DOT relies on responding to grantee inquiries or requests, reviewing documents

associated with reimbursable expenses, and reviewing quarterly and final reports that the grantees are required to prepare. DOT oversight has identified cases where grant funds have not been used and it has subsequently reallocated about $4.5 million to other applicants. Finally, as of September 30, 2005, 23 grants were completed—20 from 2002, 2 from 2003, and 1 from 2004.[2] DOT officials said that, particularly for the first year of the grant program, projects were slow to complete, in part, due to the airlines' retrenchment after the September 11 attacks.

Grantees have identified a variety of goals for their projects and employed many strategies to improve air service and the results of the completed projects to date have been mixed: some have succeeded in meeting the program's goal of improving air service, for example, by adding carriers or destinations, and some have not. Grantee project goals have included adding flights, airlines and destinations, lowering fares, upgrading the aircraft serving the community, obtaining better data for planning and marketing air service, increasing enplanements, and curbing the loss of passengers to other airports. To achieve these goals, grantees have used a number of strategies, including subsidies and revenue guarantees to the airlines, marketing, hiring personnel and consultants, and establishing travel banks in which a community guarantees to buy a certain number of tickets. In addition, grantees have subsidized the start-up of an airline, taken over ground station operations to reduce costs for an airline, and subsidized a bus company to transport passengers from their airport to a hub airport. Incorporating marketing as part of the project was the most common strategy used by airports. Some airline officials also said that marketing efforts were important to the success of projects. Airline officials told us that projects that provide direct benefits to an airline, such as revenue guarantees and financial subsidies, have the greatest chance of success. These officials noted that these types of projects allow the airline to test the real market for air service in a community without enduring the typical financial losses that occur when new air service is introduced. The outcomes of the grants may be affected by broader industry factors that are independent of the grant itself, such as a decision on the part of an airline to reduce the number of flights at a hub. Our review of the 23 projects completed by September 30, 2005, found that although 19 reported service or fare improvements during the life of the grant, only about half reported that the improvements were self-sustaining after the grant was complete. A

[2]We considered a grant complete when the activities associated with the grant were finished and FAA had made final reimbursements of allowable costs.

more detailed review of the 10 grants completed by January 1, 2005, also showed a mixed record of meeting the program's goals, ranging from improved service that exceeded projected passenger loads, to a complete loss of air service to the airport. However, we were not able to determine the overall effectiveness of the program in achieving the act's goal of improving air service to small communities because a large majority of funded projects are still under way (127 of the 157 projects were ongoing as of September 30, 2005) and it will take more time to determine if any air service improvements achieved with the grants are sustainable after projects are complete. Finally, as part of meeting its requirements under the act, DOT has designated one airport each year as an Air Service Development Zone. Each of the three Air Service Development Zone communities that DOT selected through 2004 expressed similar concerns about the usefulness of this designation. None cited any effect or change that the designation had made and expressed confusion as to what the designation was supposed to achieve. All stated that anything that had happened at the airport would have happened without the designation.

We are recommending that in preparation for reauthorization of the program in 2008, DOT evaluate completed projects funded by the Small Community Air Service Development Program to determine the effectiveness of this program in improving air service to small communities. We are also recommending that DOT clarify what the support and services it will provide to communities that are designated as Air Service Development Zones. In commenting on a draft of this report, Department of Transportation officials said it generally concurred with the report and agreed to consider the recommendations as they go forward with the program.

Background

In 1978, the Congress deregulated the airline industry, phasing out the federal government's control over domestic fares and routes served and allowing market forces to determine the price, quantity, and quality of service. Most legacy carriers, free to determine their own routes, developed "hub-and-spoke" networks.[3] These carriers provide nonstop service to many spoke cities from their hubs. The airports in the small spoke communities include the smallest airports in the nation's commercial air

[3]Under the hub-and-spoke system, airlines bring passengers from a large number of spoke cities to one central location (the hub) and redistribute them to connecting flights for their final destinations.

system. Depending on the size of those markets (i.e., the number of passengers flying nonstop between the hub and the spoke community), the legacy airlines may operate their own large jets or use regional affiliate carriers to provide service, usually with regional jet or turboprop aircraft. (See fig. 1 for an example of a turboprop aircraft.) However, low-cost carriers, such as Southwest Airlines and JetBlue Airways, use a different model, flying point-to-point generally to and from secondary airports in or near major metropolitan areas, such as Ontario International near Los Angeles and Chicago Midway.

Figure 1: Great Lakes Aviation Twin Engine 19-Seat Turboprop

Source: GAO.

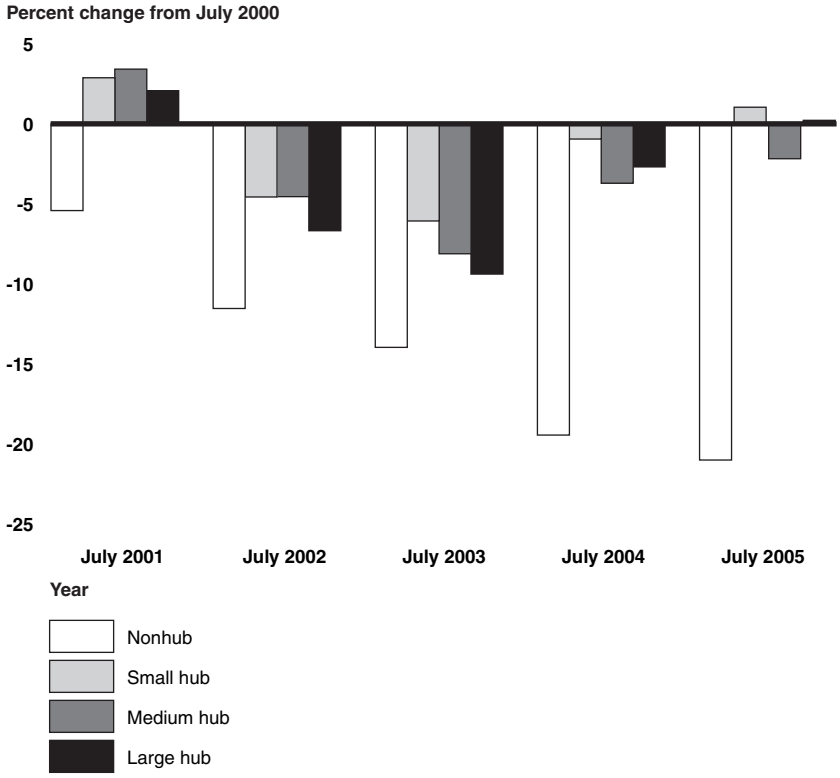
The nation's commercial airports are categorized into four main groups based on the annual number of passenger enplanements—large hubs,

medium hubs, small hubs, and nonhubs.[4] The 30 large hubs and 37 medium hub airports together enplaned the vast majority—89 percent—of the almost 703 million U.S. passengers in 2004, the most recent data available. In contrast, the 69 small hubs enplaned about 8 percent, and the 374 nonhub airports enplaned only 3 percent of U.S. passengers.

Air service to nonhub airports has generally declined in recent years, as measured by the number of departure flights. As shown in figure 2, nonhubs have had an overall decrease in departures since July 2000. While all airports showed a decrease in service from July 2001 to July 2003, scheduled departures at small, medium, and large hub airports have increased since 2003. By July 2005, scheduled departures at small, medium, and large hub airports largely rebounded, with departures from large and small hubs exceeding the July 2000 number. However, the decline of service at nonhub airports continued, with 17 percent fewer departure flights serving these airports in July 2005 compared with July 2000. While small hubs and nonhubs are eligible to apply for Small Community Air Service Development grants, the nonhub airports have been the main beneficiaries of the program. As of fiscal year 2005, only 6 percent of the airports receiving grants have been small hubs.

[4]The categories are based on the number of passengers boarding an aircraft (enplaning) for all operations of U.S. carriers in the United States. A large hub enplanes at least 1 percent of all passengers, a medium hub 0.25 to 0.99 percent, a small hub 0.05 to 0.249 percent, and a nonhub less than 0.05 percent. Nonhubs and small hubs are defined in 49 U.S.C. 41731; medium hubs are defined in 49 U.S.C. 41714; and large hubs are defined in U.S.C. 47134.

Figure 2: Change in Scheduled Departures at Nonhub, Small Hub, Medium Hub and Large Hub Airports since July 2000



Source: GAO analysis of DOT data.

Note: The comparison baseline is the number of scheduled departures for July 2000.

This decline in air service to small communities is particularly prevalent at small community airports that are near larger airports. Passengers sometimes drive or take other modes of transportation to neighboring larger airports to take advantage of more frequent flights and lower fares, a phenomenon called leakage. Appendix II provides more information on the factors that have influenced the reduction of passenger traffic and air service at the nation's small community airports.

We have previously reported on the decline of air service to small communities noting the challenges these communities face in obtaining or

retaining commercial passenger air service.[5] These challenges include the lack of demand, inability to operate profitable air service, and competition from neighboring larger hub airports. Also, according to an aviation consultant, these factors, plus network carrier financial difficulties and changes in aircraft usage, have negatively affected nonhubs.

Two programs have been established to help address air service to small communities—the Essential Air Service program and the Small Community Air Service Development Pilot Program. The Congress established the Essential Air Service program as part of the Airline Deregulation Act of 1978. In general, the program guarantees that communities that received air service prior to deregulation will continue to receive air service.[6] If an air carrier could not continue service to a community without incurring a loss, DOT (and before its sunset, the Civil Aeronautics Board) could then use Essential Air Service program funds to award a subsidy to that carrier or another carrier willing to provide service. These subsidies are intended to cover the difference between a carrier's projected revenues and expenses, and include a 5 percent profit margin. Our prior work on the Essential Air Service program found, in part, that financial incentives may offer the best opportunity for communities to attract the new or additional service but that it may be difficult to bring about service that can be sustained after the incentives end.

More recently, the Congress authorized the Small Community Air Service Development Pilot Program as part of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, P.L. 106-181 (AIR-21), to help small communities enhance their air service. AIR-21 authorized the program for fiscal years 2002 and 2003. The Vision 100-Century of Aviation Reauthorization Act, P.L. 108-176 (Vision 100), reauthorized the program for an additional 5 years, through fiscal year 2008, and eliminated the "pilot" status of the program. While Vision 100 increased the annual authorization amount to $35 million, the Congress has appropriated $20

[5]GAO, *Commercial Aviation: Factors Affecting Efforts to Improve Service at Small Community Airports*, GAO-03-330 (Washington, D.C.: Jan.17, 2003).

[6]To be eligible for subsidized service, communities must meet three general requirements. They must have been listed on a carrier's Civil Aeronautics Board issued service certificate and received scheduled commercial passenger service as of October 24, 1978, may be no closer than 70 highway miles to the nearest medium or large hub airport, and must require a subsidy of less than $200 per person (unless the community is more than 210 highway miles from the nearest medium or large hub airport, in which case no average per passenger dollar limit applies).

million for the program each year from 2002 through 2005, for a total of $80 million.[7] No funds were appropriated for the first year of the program, 2001.

Under this program, DOT is authorized to award grants to up to 40 communities served by small hub or nonhub airports (as classified in 1997) that have demonstrated air service deficiencies or higher-than-average airfares. The Office of Aviation Analysis in DOT's Office of the Secretary is responsible for administering the program. The grants may be made to a single community or to a consortium of communities, although no more than four grants each year may be in the same state. Consortiums are considered one applicant for the purpose of this program.[8] Some relatively large airports qualify for this program. For example, Buffalo Niagara International Airport in Buffalo, NY, and Norfolk International Airport in Norfolk, VA, are eligible for the program, enplaning over 2.2 million and over 1.8 million passengers in 2004, respectively. In contrast, small nonhub airports such as the airports in Kake, AK, with about 2,500 enplanements, or Owensboro, KY, with about 2,800 enplanements, are also eligible. The program is available in the 50 states, District of Columbia, Puerto Rico, and U.S. territories and possessions.

The statute also directs DOT to designate one of the grant recipients each year as an Air Service Development Zone and work closely with the designated community on ways to attract business to the areas surrounding the airport and to develop land use options for the area. There are no additional funds associated with this designation, and no special benefit or preference is to be given to communities seeking this designation in receiving a grant under the program. Communities apply for this designation through the regular grant application process.

DOT has not issued separate regulations for the Small Community Air Service Development Program. Instead, DOT issues an order every year that requests applications and provides guidance for the proper format and content of the applications. The authorizing legislation provides that if

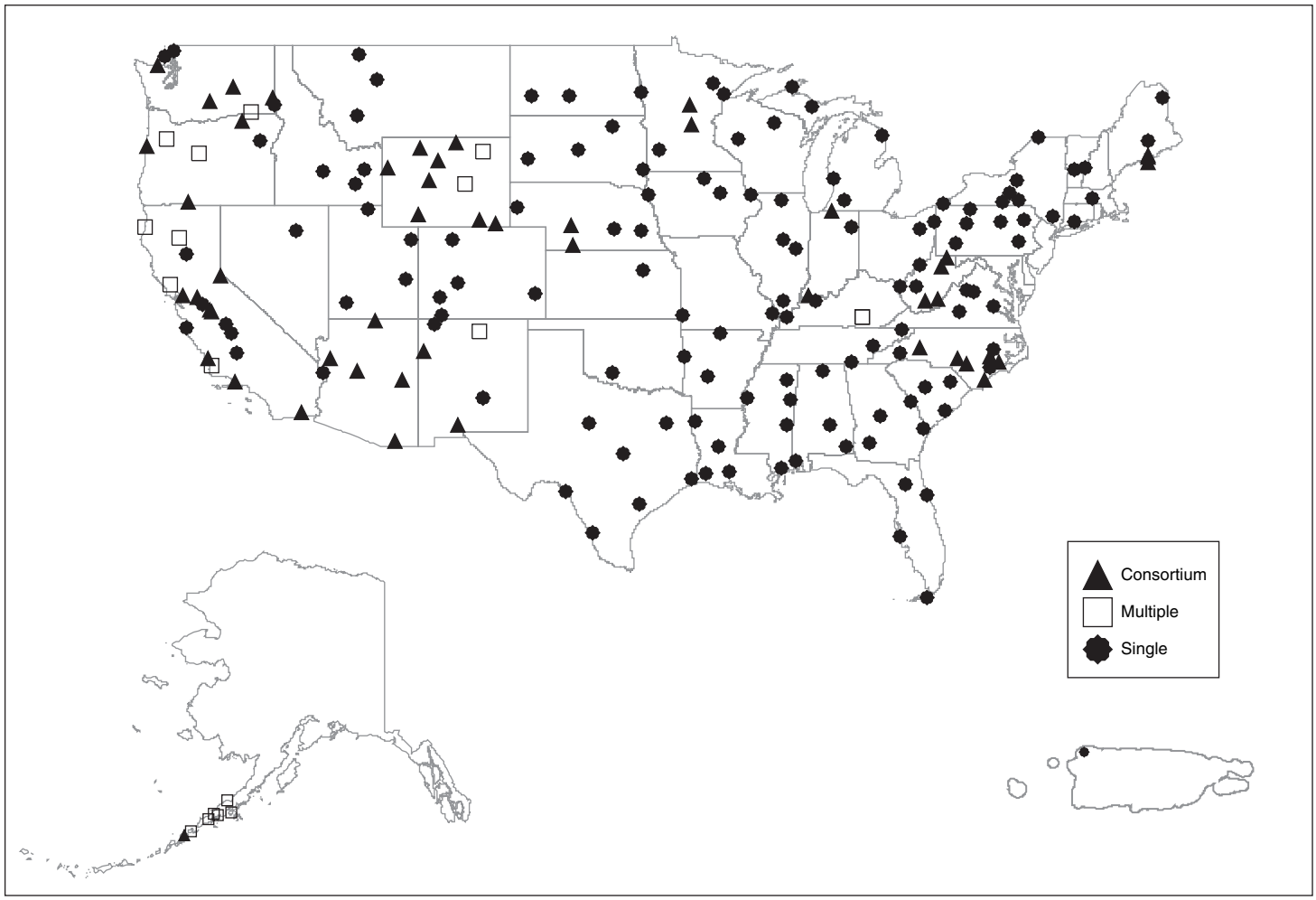
[7]For fiscal year 2005, DOT transferred $5 million from the Small Community Air Service Development Program to the Essential Air Service Program, under authority granted by The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005, P.L. 109-13.

[8]Communities that do not currently have commercial air service are also eligible, but when they seek grant funds to secure air service under the grant program they must have met or be able to meet in a reasonable period all necessary requirements of the Federal Aviation Administration for the type of service involved in their grant applications.

funds are used to subsidize air service, the subsidy cannot last more than 3 years. However, the time needed to obtain the service is not included in the subsidy time limit. While the legislation does not limit the period for expenditure of funds on non-subsidy projects, DOT's fiscal year 2005 order indicates that in general, grant funds should be expended within 3 years of the award.

As shown in figure 3, DOT's awards have been geographically spread covering all states except Delaware, Hawaii, Maryland, New Jersey, and Rhode Island. To date, no communities in Delaware or Rhode Island have applied for a grant. Appendix IV contains information on all grants awarded as of September 30, 2005.

Figure 3: Small Community Air Service Development Program Grants, 2002 - 2005



Source: GAO analysis of DOT data.

Note: The graphic represents all grants awarded under the program, including terminated grants.

DOT's Implementation of the Small Community Air Service Development Program Includes Awarding Grants by Using Legislatively Established Priority and Other Factors and Providing Grant Oversight

In the first 4 years of the Small Community Air Service Development Program, DOT awarded a total of 157 grants.[9] In 2002, the first year the program was funded, DOT received 179 grant applications, but this number has been declining and was at a low of 84 applications by 2005. DOT officials believe this decline is natural as the program matures; many airports are currently implementing grants and others now understand DOT's expectation of local matching funds. DOT evaluates the applications according to legislatively established priority factors and other criteria. DOT first considers five priority factors specified in the laws and then considers numerous other factors in a second tier review of the projects. Certain legislative factors, such as whether a local community can demonstrate support by contributing some local matching funds, or DOT factors such as whether an airport has received a grant in the past, were major considerations in award decisions. In our survey of airport directors, we found that airports that received grants generally were positive about DOT's process for awarding grants. However, only about one-third of the airports we surveyed that applied for but did not receive a grant expressed satisfaction over the clarity of selection criteria. DOT's oversight of projects relies largely on reviews of reimbursement documents and required grantee quarterly reports; it does not perform on-site monitoring visits. DOT monitoring has been sufficient to identify cases where grant funds have not been utilized and reallocated the funds to other applicants. As of September 30, 2005, 23 of the grants awarded were completed—20 for 2002, 2 for 2003, and 1 for 2004. About $12.5 million, or 62 percent of the $20 million total funds for 2002 had been expended by grantees as of September 30, 2005. DOT officials said that the newness of the program in 2002, and the need to negotiate agreements with airlines, help explain why many early grants are still ongoing.

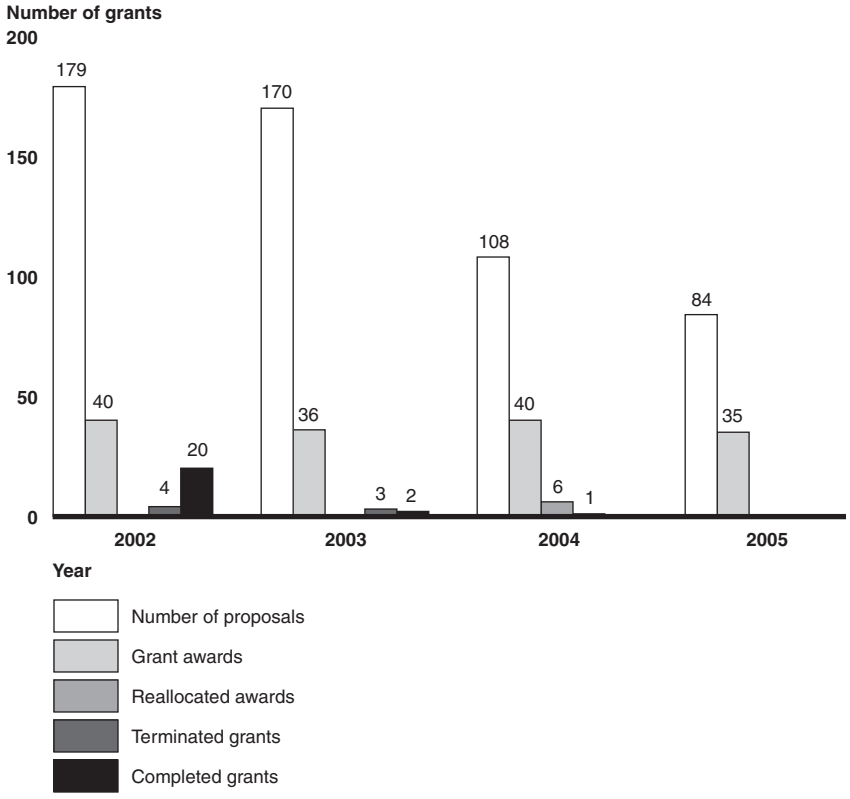
DOT Has Awarded 157 Grants Since 2002, but Grant Applications are Declining

To be considered for a Small Community Air Service Development Program grant, airport communities prepare a grant proposal in response to a notice in the *Federal Register*. The applications should discuss, among other things, the need for additional or improved air service, the available fares at the airport, and how the grant will help communities address these situations. From 2002 through 2005, DOT has awarded 157 grants. In the first year of the program, demand was the highest, with 179 applications

[9]Two of the 157 grants DOT awarded were later terminated by DOT before grantees expended any federal funds.

requesting a total of about $142.5 million in federal funding. However, from 2002 through 2005 the program has experienced about a 50 percent decline in the number of applications. (See fig. 4 for details on the number of applications, awards, and completed and terminated grants each year.)

Figure 4: Small Community Air Service Development Program Grant Applications, Awards, Completions, and Terminations, 2002 through 2005



Source: GAO analysis of DOT data.

Note: In 2004, DOT awarded six grants with prior year funds that were reallocated from four grants that were originally awarded in 2002 and 2003 but were later terminated.

According to officials at DOT's Office of Aviation Analysis, the downward trend in the number of applications was a natural consequence of the implementation of the program. First, many eligible airport communities have already received a grant and are still implementing their projects—as of September 30, 2005, 127 of the 157 grants were ongoing. Current grantees are not likely to reapply soon because many of the projects that

were funded take time to implement, with some taking over 3 years to complete. Second, Office of Aviation Analysis officials told us that the airport community has learned that DOT expects that a local cash match should be part of the proposal and that communities must honor their committed local contribution for the proposed projects. The officials told us that some applicants did not fully appreciate this expectation during the pilot phase of the program. Finally, according to DOT officials, legislative changes in 2003 prohibited communities or consortiums from receiving more than one grant for the same project and established the timely use of funds as a priority factor for DOT to consider in awarding grants.

Based on our survey, for airports that had applied for but never received a grant at the time of the survey, 58 of 81 airport directors, or about 72 percent, said that they would reapply. The remaining 23 airport directors indicated that they would not, or were unsure whether they would apply. These airport directors cited two primary reasons for not applying—the cost and effort of applying, or a belief that DOT would not fund their desired project.

Finally, some eligible airports have never applied for a grant. To understand why, we contacted airport directors from a group of 20 randomly selected airports that had never applied under the program but were eligible to do so. Although this does not constitute a generalizable sample, it provides some useful information on the reasons why some communities did not apply. Among the more common reasons cited by the directors for not applying were that they did not know about the program, or they felt that the cost and effort of applying were too burdensome. Among the other reasons given by more than one airport director were the airport already had sufficient air service, officials thought the airport was not eligible, their grant application would not be competitive, or DOT would not fund the kind of project the airport would like to do.

In our survey of 2002 though 2004 grantees and discussions with officials of the 10 completed projects, we found that the grantees were generally satisfied with the application process and paperwork requirements. Of the 121 grantee airport directors responding, 103 were satisfied or very satisfied with the application process. In addition, in our discussions with the directors of the 10 community airports that had completed grant projects, most were satisfied with the application process, although three expressed concern about the limited amount of time they had to complete their applications after the 2002 announcement. In our survey of grantees, this issue did not appear to be significant, especially in years subsequent to

2002. DOT has made minor modifications in the application process as it has gained experience with the program, such as allowing 90 days instead of 60 days to complete the application, and has continued to allow for flexibility in application format, according to Office of Aviation Analysis officials.

DOT Evaluates Grant Applications According to Legislatively Established Priority Factors and DOT Criteria

The Small Community Air Service Development Program is a discretionary program that allows DOT considerable flexibility in selecting projects for financial assistance, within the basic eligibility criteria. To be eligible, the airport cannot be larger than a small hub airport based on 1997 FAA boarding data and must have insufficient air service or unreasonably high air fares. In addition to the basic eligibility criteria, DOT must give priority to projects according to five factors established in the law. These factors constitute DOT's Office of Aviation Analysis' first tier of project evaluation. DOT must give priority consideration to communities that (1) have air fares higher than average for all communities, (2) provide a portion of the cost of the project from local sources other than airport revenues, (3) have or will establish a public-private partnership to facilitate air carrier service to the public, (4) will provide material benefits to a broad segment of the public that has limited access to the national air transportation system, and (5) will use the assistance in a timely manner. Although a local community match from nonairport revenues enhances a community's chance of receiving a grant, it is not required under the act. However, DOT has funded only two projects that did not contain a local cash match.

In addition to the priority factors, DOT has, as part of a second tier evaluation, other "service-related" and "project-related" factors that it takes into consideration in evaluating competing proposals. (See app. III for a list of the factors used in DOT selections.) DOT uses this second tier evaluation to ensure that a project has a strong justification, and the factors themselves have changed and evolved over time, according to DOT officials. For example, as part of this second tier evaluation, DOT looked at 15 air service factors to identify whether a carrier served the airport and reviewed the airport's existing service frequencies, destinations, aircraft size, and passenger boardings. It also examined air service in the broader geographic area, including the applicant community's proximity to larger airports and the quality of the roads providing access to those airports. DOT also considered 26 project-related factors, which include such items as whether the area's demographics will support the project or whether the project actually addressed the community's air service problem. Some project-related factors can make it less likely to be selected, including

whether (1) the proposal simply shifted costs from the local to the federal level, (2) the air service was in proximity to other service that would detract from the proposal, and (3) the proposal potentially worked at cross purposes with another grant if the airport is located close to a past grant recipient.

DOT has developed review procedures that detail how it processes the applications that it receives and how it applies this two-tier evaluation of projects. DOT moved to a more structured process when the Congress, in December 2003, changed the status of the program, dropping the pilot designation of the program. For 2004, DOT developed more formal documentation of its assessment of how well projects met the statutory eligibility criteria and priority factors for each grant application.

The DOT application evaluation reports we reviewed have shown how DOT incorporates the priority factors in its 2004 deliberations and how those results then translate into the projects it recommends to the Secretary of Transportation. Generally, applications that meet fewer of the priority considerations are less likely to be selected for grant assistance. However, priority factors are not the sole criteria in the final selection. As shown in table 1, applications that met four or five of the priority factors were not guaranteed selection. Twelve of the 35 applications that met four out of five of the priority considerations did not make the final award list, and one proposal that met all five was not selected. In contrast 13 applications that met three priority considerations were funded.

Table 1: Fiscal Year 2004 Grant Applications Meeting Priority Factors and Award Results

Priority factors met	Number of applications meeting factors	Number receiving awards
1 of 5	5	0
2 of 5	14	0
3 of 5	37	13
4 of 5	35	23
5 of 5	5	4
Disqualified	12	0
Total	**108**	**40**

Source: GAO analysis of DOT data.

Note: A fiscal year 2004 application may have been disqualified because it was incomplete, the airport community received a grant for the same project in prior years, the project concept was no longer feasible, or the service was obtained without a grant.

Projects that meet priority factors may not be funded for a number of reasons. According to a DOT official, a project may meet the priority factors yet not have any realistic possibility of implementation or success. DOT may also choose to award a grant to a community that has never received one before awarding a second grant to another community. DOT's review of the priority factors involves determining a yes or no response for each factor. DOT does not use a weighting or point system or other scoring system to numerically rate the projects. However, DOT officials told us that they are aware that, although in some cases a proposal may technically meet the factor, it may do so very weakly. For example, a project satisfies a priority factor if it will use nonairport revenues as part of its local contribution, no matter how small that nonairport contribution may be. On the other hand, a large non-airport contribution can be viewed as a strong indicator of community support. The final decisions on which projects are selected are thus a result of the consideration of both the priority factors and other factors that affect the quality of the proposal and its perceived chances of success.

Once Office of Aviation Analysis staff have reviewed and analyzed the individual projects, the Assistant Secretary for Aviation and International Affairs reviews the staff assessments and finalizes a list of recommended projects for the Secretary of Transportation. According to Office of Aviation Analysis staff, through fiscal year 2004, the Secretary had agreed with the recommended list. In fiscal year 2005, subsequent to the meeting with the Secretary to review recommended awards, DOT made changes in the recommended grants. According to Office of Aviation Analysis staff, this was done to achieve a better balance of participating communities and a better balance in the distribution of funds.

Our survey of grantee airports showed that a large majority of the directors at these airports were satisfied with DOT's selection criteria and process for the program, while fewer nongrantee airport directors thought the selection criteria were clear. Eighty of 121 grantees responding—or 66 percent—were either satisfied or very satisfied with the clarity of the selection criteria, while only 26 of 82 nongrantee airport directors—or 32 percent—were either satisfied or very satisfied with the clarity of the selection criteria. A possible explanation for this is that while DOT has flexibility in making awards and considers many criteria in addition to the five priority factors, the ultimate selection decision is discretionary. A few

of the fiscal year 2002 airport grantees we visited observed that although they were pleased they were chosen, they were not sure how grantees are selected and what criteria were used.

DOT Oversees Projects Largely by Reviewing Reimbursement Documents and Reports from Grantees

DOT's Office of Aviation Analysis staff are responsible for oversight of the grants and serve as contact points with grantees. For the 2005 program cycle, six staff were assigned part-time to the program, an increase from four part-time staff during the program's first 3 years. DOT uses a document review approach to oversight in which it requires grantees to submit quarterly reports that are used to assess a project's progress and timeliness. The agency also requires that grantees submit a final report on the project, which is used as the basis for its overall evaluation of the project and holds back 10 percent of the grant funds until the receipt of a final report. DOT operates the program on a reimbursable basis—grantees must first expend funds from their own resources for project activities and then request reimbursement from DOT for allowable expenses. To ensure that government reimbursements are proper and allowable, DOT reviews expense receipts, invoices, and other evidence of expenditures grantees submit for reimbursement and, if satisfactory, will authorize FAA to make payment.[10] DOT and FAA maintain and monitor reimbursement information on their financial databases. Office of Aviation Analysis officials told us that they use this approach because performing on-site visits is impractical given the small number of DOT staff who administer the over 100 active grantees currently in the program. They also noted that there is no provision for administrative expenses in the appropriation, thus DOT does not have funds available for site visits.

DOT monitoring has been sufficient to identify cases where grant recipients have been both successful and unsuccessful in implementing their grants. In those cases where sponsors have difficulty implementing their projects and are unable to utilize their grant awards, the grants are terminated and funds reverted back to DOT for reallocation to other applicants. From 2002 through 2004, DOT reallocated about $4.5 million to other projects.

[10]Funds for this program come out of the Airport Improvement Program and are actually disbursed by FAA staff in Oklahoma who make payments to grantees based on information from the Office of Aviation Analysis.

The manner in which DOT administers oversight of grantee reimbursements and provides assistance generated a favorable response from grantees. Our survey found that grantees had high levels of satisfaction with the way DOT monitored the grants and provided assistance to grantees. Specifically, 108 of 121, or 89 percent, of grantee airport directors who responded to our survey said that they were satisfied or very satisfied with DOT's assistance. Likewise, 96 of 121, or 79 percent, of responding airport directors were satisfied or very satisfied with DOT's monitoring or oversight activities.

In general, grantees did not see the amount of paperwork required by DOT's quarterly reporting mandate as burdensome, with 86 of 121—71 percent—of survey respondents being satisfied or very satisfied with this quarterly reporting requirement. A lower number, 58 of 119—or about half of airport respondents—said they were satisfied or very satisfied with the paperwork DOT required for reimbursement and only 5 respondents were dissatisfied or very dissatisfied. However, one airport consultant noted that for very small airports with very few full-time staff, the reimbursement requirements can be more difficult to complete.

Grantees Have Been Slow to Implement Some Projects

The Vision 100—Century of Aviation Reauthorization Act added a provision that DOT grant assistance will be used in a timely fashion as an additional priority consideration for selection to participate in the program as of 2004. The only limitation the authorizing legislation places on the timely expenditure of funds is that air service subsidies cannot last more than 3 years. DOT's 2004 and 2005 grant announcements set an expectation that the funds should be used within 3 years. Although this criterion was not part of the 2002 grant process, it does provide a benchmark for performance, and 2002 grants are at the 3-year point. As of September 30, 2005, 16 of 40 fiscal year 2002 grants were still active, 20 were completed, and 4 had been terminated by DOT. About 62 percent of the $20 million total 2002 program grant allocation had been reimbursed to 2002 grantees. In addition, 58 grants are scheduled to expire in fiscal year 2006. Table 2 shows the amounts DOT reimbursed each year through September 30, 2005. (See app. IV for more detailed information about the status of specific grants.)

Table 2: Reimbursed to Grantees, as of September 30, 2005

Dollars in millions

Year of reimbursement	FY 2002 grants amount and (percent)	FY 2003 grants amount and (percent)	FY 2004 grants amount and (percent)	Total reimbursed amount
2002	$0 (0.0)			**$0**
2003	5.5 (27.3)	$.01 (.05)		**5.5**
2004	4.9 (24.7)	2.2 (10.9)	$0 (0.0)	**7.1**
2005	2.1 (10.5)	4.1 (20.5)	2.2 (11.1)	**8.4**
Total	**$12.5 (62.4)**	**$6.3 (31.5)**	**$2.2 (11.1)**	**$21.0**

Source: GAO analysis of DOT data.

Notes: (1) The percentages shown were determined by comparing the amount of reimbursements made in that year with total awards for that grant year. (2) Calendar Year 2005 reimbursement are through September 30, 2005. (3) DOT recovered about $2.6 million unused from fiscal year 2002 grants and about $1.9 million unused from fiscal year 2003 grants and transferred these funds to other grants. It also transferred $5 million in fiscal year 2005 funds to the Essential Air Service program.

Office of Aviation Analysis officials told us that the 2002 grants are not an indication of what has happened with the grants awarded in following years. According to the officials, a number of factors contributed to the 2002 projects being delayed. First year grants were not awarded until late fall of 2002. In addition, the airlines were at that time still recovering following September 11, which made it difficult for communities to attract new service. Many projects included revenue guarantees, which can take some time to finalize. Finally, communities may wait to ask for reimbursements after several months of expenditures, which slows the payout of federal funds. The reimbursement data indicate that the 2003 grants also experienced low reimbursements the first year. Only about 11 percent of the 2003 grant funds were reimbursed by the end of calendar 2004.

Finally, it should be noted that when a project includes a revenue guarantee, the slow expenditure of funds does not always indicate a problem. Revenue guarantees are only paid out if the airline fails to meet a revenue target. If it meets the target, no funds are drawn down, which may actually be an indication of project success. For example, the $500,000 grant award to Rhinelander, WI, included almost $492,000 for a revenue guarantee. However, upon project completion, Rhinelander had used about $254,000 for the revenue guarantee. According to the airport director, the new route initiated under the grant generated more revenue for the airline during the grant period than had been expected. Therefore, the airport did not have to reimburse the airline as much as it had anticipated.

As part of our survey of grantees, we asked whether their projects were proceeding on schedule, and, if not, why they were proceeding more slowly than expected. About 40 percent—42 of 106—of the grantee airport directors reported that their projects are behind schedule, including 11 of 26 airport directors surveyed who were involved in implementing grants awarded in 2002. (See table 3.) Most of these respondents, 23 of the 42, cited difficulties in entering and finalizing agreements with the airlines as the main reason for the delay. Grantees we surveyed also cited other reasons for delays, including issues with airport personnel and among the grant consortium, operational changes at Chicago O'Hare airport, and the need to coordinate the grant with the Essential Air Service program.[11]

Table 3: Airport Directors Assessments of Grant Progress

Year grant awarded	Ahead of schedule	On schedule	Behind schedule	No basis to judge/No response	Total responses
2002	0	9	11	6	**26**
2003	1	13	19	7	**40**
2004	3	22	12	3	**40**
Total	**4**	**44**	**42**	**16**	**106**

Source: GAO analysis of survey results of airport managers involved in grants.

Note: Because not all airport directors responded to our survey, the number of respondents is smaller than the number of grants awarded.

On a case-by-case basis, DOT has approved a number of grant amendments, including extending the grant expiration date, to projects that have been slow to be implemented. As of July 26, 2005, DOT had amended a total of 47 grants, including 27 of the 2002 grants. For example, Binghamton, NY, wanted to obtain enhanced service to Washington, D.C., via United Express and Detroit, MI, via Northwest Airlink by providing the airlines with revenue guarantees. According to officials from the Office of Aviation Analysis, there was some delay because of difficulties in negotiating with the airlines. DOT agreed to extend the grant expiration date, allowing Binghamton extra time to work out agreements with United and Northwest. However, during these extended negotiations, the airlines told Binghamton that they would agree to provide the enhanced service

[11]DOT officials said they will not award grants that involve obtaining air service that would compete with the air service provided by a subsidy under the Essential Air Service program.

only if the community offered subsidies rather than revenue guarantees. As a result, DOT also allowed Binghamton to amend its grant to provide the airlines with subsidies rather than revenue guarantees to better accommodate the airlines' requirements. Another example is the grant agreement amendment DOT provided Lamar, CO. Lamar did not have any commercial service prior to its grant award. The purpose of the grant was to obtain service from Rio Grande Airlines to access scheduled service to Denver International Airport. Lamar was not successful in obtaining service from Rio Grande Airlines and instead obtained service to Denver's Front Range Airport from Lamar Flying Service, a charter carrier. The Office of Aviation Analysis agreed to amend Lamar's grant to allow Lamar Flying Service the time to expand its base of operations and establish dependable air transportation. Lamar subsequently provided four scheduled trips a week to Denver International Airport and has since been able to upgrade its aircraft.

Variety of Goals and Strategies to Improve Air Service are Used, but the Results to Date of Completed Projects are Mixed

The Small Community Air Service Development Program allows communities to set a variety of goals for projects, and individual projects have been directed at adding flights, airlines, and destinations; lowering fares; changing the aircraft serving the community; completing a study for planning and marketing air service; increasing enplanements; and curbing the leakage of passengers to other airports. To achieve these goals, grant sponsors have used a number of strategies, commonly including subsidies and revenue guarantees to the airlines, marketing to the public and to the airlines, hiring personnel and consultants, and establishing travel banks in which a community guarantees to buy a certain number of tickets. In addition, communities have employed a number of other strategies, including buying an aircraft, subsidizing the start-up of an airline, and taking over ground station operations to reduce the costs for an airline. The outcomes of the grants may be affected by broader industry factors that are independent of the grant itself, such as larger strategic decisions on the part of the airlines. Our evaluation of completed projects indicates mixed results, but only 23 of 157 projects were completed as of September 30, 2005.[12] While officials at 19 of the 23 airports reported improvements to air service or fares during the life of the grant, only about half said that the improvements appeared to be self-sustaining. With 127 of the 157 grants still ongoing, it is too soon to determine which specific types of strategies

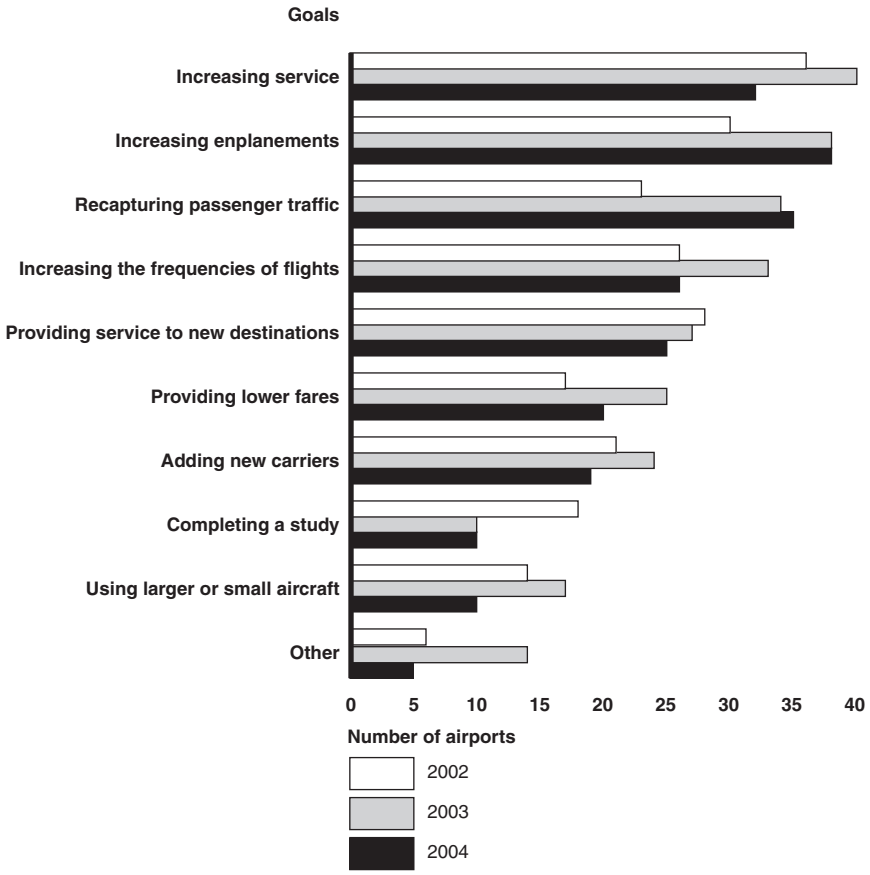
[12]DOT has also terminated seven grants.

work best or assess the overall effectiveness of the grant program to improve air service to small communities.

Most Common Project Goals Were Related to Increasing Service and Enplanements

According to our survey of 146 airport directors that received funds from the 122 grants DOT awarded from 2002 through 2004, the most common goals associated with Small Community Air Service Development Program grants were generally related to increasing service and enplanements (see fig. 5). Recapturing passenger traffic—that is, stopping leakage to other airports—was also a frequent objective that increased in importance each year of the program. In contrast, conducting a study of the local market or changing the type of aircraft serving the community were relatively infrequent goals. By 2004, relatively few airports cited these goals for their grants. Finally, although addressing high fares is an explicit goal of the program, lowering fares was cited as an objective by 62 airport directors of the 146 airport directors over the 3-year span.

Figure 5: Project Goals as Identified by Airport Directors for Grants Awarded 2002 through 2004



Source: GAO survey of grantee airport directors.

Note: Some airport directors identified more than one goal. In addition, because some grants cover multiple airports through a consortium, the number of airport directors responding may be greater than the number of grants DOT awarded in that year.

Grant Projects Use Many Different Strategies to Meet Their Goals

Grantees engaged in a number of strategies to meet their goals, including various financial incentives, marketing, studies, and other approaches. For example, a number of different financial incentives have been funded under the program, including:

- Start-up subsidies—these provide assistance for an airline to begin operations or pay for an aircraft.

- Revenue guarantees—the community and air carrier agree on a revenue target and the community pays the carrier only if revenues from the service do not meet the target.

- Travel banks—businesses or individuals deposit or promise future travel funds to a carrier providing new or expanded service. A business entity may handle an account containing the travel funds, and contributing entities then draw down on this account.

- Airport station operations—the airport may assume the ground station operations for one or a number of carriers serving the airport. Ground personnel such as baggage handlers and ticket agents become airport employees and may be shared among the airlines. Airlines pay for these services, but their cost can be lower than if provided by the airline itself.

Marketing support generally took a variety of forms, including mass media such as television, radio, magazine and newspaper advertising, outdoor advertising such as billboards and banners, direct mail, internet advertising including using the airport web site, airport special events such as open houses, frequent flyer promotions, travel agent incentives, and other approaches. Figure 6 shows an example of the use of outdoor advertising in one of the marketing projects funded by the grants.

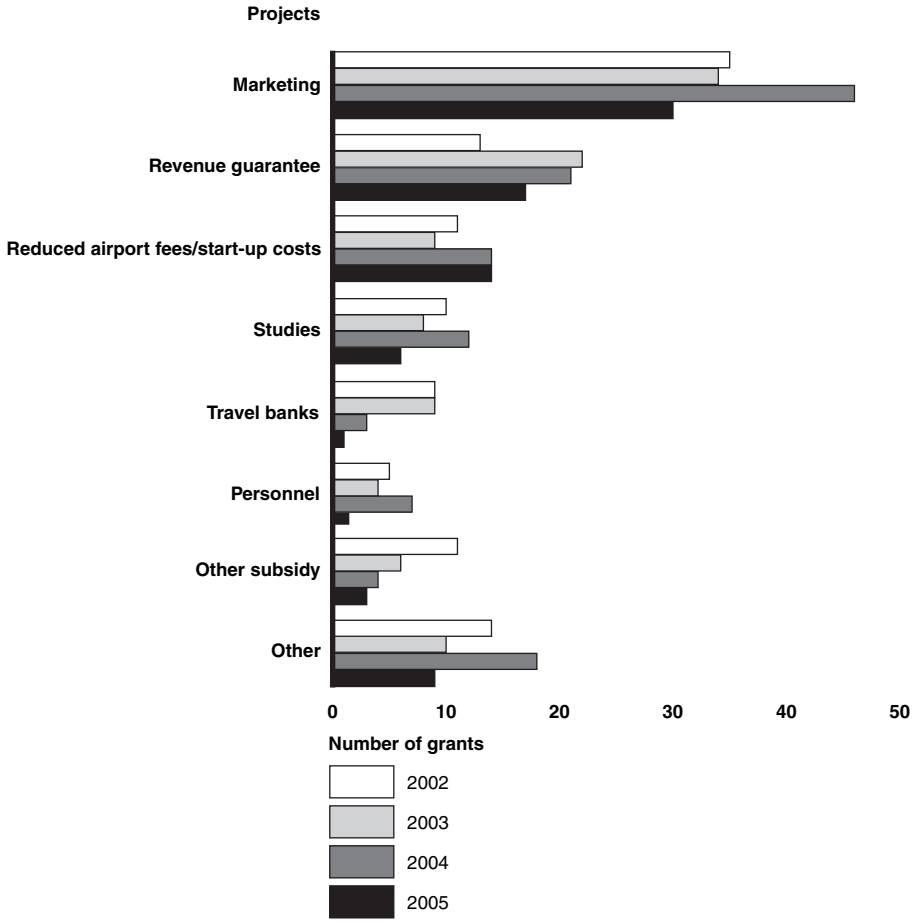
Figure 6: Example of a Billboard Advertisement Resulting from a Grant Project

Source: Lynchburg Regional Airport.

The Small Community Air Service Development Program also has funded studies and various other approaches. For example, in 2002, DOT awarded the Aleutians East Borough in Alaska a $240,000 grant to study the air service market for some rural airports in the lower Alaskan peninsula and the eastern Aleutian Islands. DOT also subsequently awarded the Aleutians East Borough $70,000 in 2003 to expand the study. Finally, other approaches have included developing alternative ground services such as bus service to nearby hubs and funding personnel such as airport economic development staff positions or consultants.

We reviewed the grant applications and agreements for all 157 grants awarded from 2002 through 2005. Projects commonly include more than one strategy, such as combining a revenue guarantee with marketing for the air service provided under the grant. Over time, a few trends can be seen in the strategies used by communities. First, while marketing activities have always been heavily used as a strategy, by 2004 marketing had virtually become a universal strategy. All 46 grants—the initial 40 DOT awarded plus the 6 additional grants awarded with reallocated prior year grant funds—included marketing as a component. Second, the number of projects using direct subsidies and travel banks declined by 2004 and remained low in 2005, while the number of projects using revenue guarantees increased after 2002. Revenue guarantees have been the most common form of financial assistance each year of the program. Figure 7 provides a summary of the types of strategies communities have used under the program.

Figure 7: Strategies Included in Grant Projects



Source: GAO analysis of grantee proposals and grant agreements.

Note: DOT awarded 40 grants in 2002, 36 grants in 2003, 46 grants in 2004 (including 6 grants awarded using funds reallocated from prior declined, terminated, or completed projects) and 35 grants in 2005.

Because marketing was such a heavily used strategy, we contacted all 23 airports that had completed their grants by September 30, 2005, to determine what types of marketing they actually did. We found that 22 of the 23 completed grants had included some kind of marketing component to encourage greater use of the airport or the airlines that fly there; the lone exception was a grant which funded a study only. All 22 grantees used newspaper advertising, 21 used radio advertising, and 21 used the Internet—for example, the airport Web site. Television and outdoor

advertising were also common strategies, 17 grantees used television and 18 used outdoor advertising.[13] After these strategies, the most common forms of marketing were airport special events (14 projects), magazine ads (12 projects), and direct mail (11 projects). Other types of marketing, such as frequent flyer promotions, travel agent incentives, or trade show booths, were also used in a few cases.

Participating Airlines Generally Favored Revenue Guarantees

Officials from airlines participating in the Small Community Air Service Development Program said revenue guarantees or other forms of financial subsidies were generally their preferred type of strategy, but they also considered other types of strategies proposed by communities under the program. We contacted each of the airlines associated with the 10 projects completed by January 1, 2005, including Continental Airlines, Delta Air Lines, Horizon Airlines, Rio Grande Air, TransStates Airlines, US Airways, and Westward Airways. Although their comments do not constitute a comprehensive analysis of industry views of the grant program, they provide a useful perspective on how participating airlines view the program. Several airline officials noted that reducing financial risk has become a key factor for airline and airport officials and consultants we interviewed also made this observation. Finally, airline officials said they perform their own due diligence doing market analyses of the airports, the competitive situation, and route finances regardless of what a local study says.

Airlines face challenges when initiating air service to a community. Start-up costs can be significant and include repositioning equipment, renting space, and hiring and training personnel. Also, even if a viable air travel market exists in a community, entering a new market involves changing passengers' existing travel patterns and loyalties, which may take time. Airline officials noted that given the current financial condition of the industry, airlines cannot afford to take a year of losses to build a customer base in a market, as they had in the past. For this reason, airline officials stated that they often could not enter smaller markets without some kind of revenue guarantee, such as that provided by a Small Community Air Service Development Program grant, or other financial support from the community.

[13]Outdoor advertising includes such things as stationary and mobile billboards, and street banners.

Airline officials emphasized that for a project to be of interest to them, the market must be potentially self-sustaining without subsidy or revenue guarantee in the longer term. The grant will eventually end and airlines do not wish to start over in another market, with the accompanying costs and risks. Airline officials also emphasized the importance of local funding to provide marketing for the new service; for some airlines, this was a crucial factor in selecting the community. A related observation by airline officials was that the level of local support and commitment to air service was a key factor in their decision to work with a local community. The Small Community Air Service Development Program has this component of local commitment, which some airline officials saw as important. In addition, some airline officials said that the overall project (grant and local match) must be sufficiently large to gain their interest. Finally, most airline officials were unfavorably disposed toward travel banks citing the difficulty in administering them and their poor track record of success. However, one airline official said they had been involved with successful travel banks and was open to the prospect of trying that strategy again.

All airline officials we talked to had positive views of the Small Community Air Service Development Program. Several officials stated that the program was superior to the Essential Air Service program because it addressed markets that were potentially self-sustaining but were underserved. However, in one case, airline officials said they were concerned about communities using the program to attract low-cost carriers to compete with existing service they were already providing to the community. Office of Aviation Analysis officials noted that higher than average fares is a statutory criterion for priority consideration in the selection of grantees, so introducing a low-cost carrier into a community is an acceptable strategy for a community under the program.

Completed Grants Indicated Mixed Results

We contacted officials of the 23 Small Community Air Service Development Program grant projects that were complete by September 30, 2005, and compared them against the program's goals of improved air service and found that there were mixed results. In general, we found that the airport officials reported almost all the completed projects had some positive effect on air service during the life of the grant, but in some cases the improvements did not remain after the initial grant period, or that the improvements were not self-sustaining. For most completed grants, 19 of the 23, airport officials reported some kind of improvement in service, either in terms of an added carrier, destination, flights, or change in the type of aircraft. Of the 23, 8 reported adding a new carrier, 13 a new

destination, and 13 an increase in the number of flights. In addition, 13 reported that some fares had lowered at the airport during the grant. These service and fare improvements may explain the positive effect on enplanements the airport officials reported—19 grantees reported enplanements rose during the course of the grant. However, the improvements seen during the grant did not always continue afterwards. Fourteen of the 23 grantees reported that the improvements were still in place as of October 1, 2005. Further, there is the question of whether the service or fare improvement is self-sustaining and will continue without additional funding. About half the grantees with completed grants—11 of the 23 grantees—reported that the improvements they experienced as a result of the program were self-sustaining thus far. It should be noted that these outcomes are preliminary. Thirteen of these grants were completed in 2005, and determining whether a particular project is successful may depend on the timeframe used. For example, Westward Airways was able to initially provide service to Scottsbluff, NE, under the grant, but later went out of business.

We also visited 10 airports that had completed grants by January 1, 2005, in order to gain a more detailed understanding of the outcomes of their projects (app. V contains discussion of each of these). Of these, five projects—Charleston, WV; Daytona Beach, FL; Hailey, ID; Lynchburg, VA; and Mobile, AL, were generally successful in achieving their goals and had made self-sustaining improvements to air service at the time of our review.

- Charleston was able to add a new air carrier (Continental) and destination (Houston). However, Continental subsequently reduced the number of daily flights from two to one. Charleston officials said this was a result of a larger strategic allocation of equipment by Continental, and the airline later restored this second flight to Charleston.

- Daytona Beach's objective was to add service to Newark, NJ, which has remained in place after the grant was completed. After the grant was completed, Continental extended its agreement with the airport. DOT officials said that Continental has also expanded its service at the community to additional destinations.

- Hailey successfully added air service to Los Angeles via Horizon Airlines (see fig. 8). Although the service continues, it does not operate all year long due to the seasonal nature of demand to this resort community. After the grant expired, a local resort funded the revenue guarantee to Horizon, indicating that the service was initially not self-sustaining.

However, Horizon now offers the service without a grant guarantee. In addition, the grant helped convince Horizon to add another flight to a new destination, Oakland, CA.

- Lynchburg, VA, was able to upgrade service to Atlanta from 30-seat turboprops to 50-seat regional jets through a revenue guarantee. The new jet service resulted in higher load factors on the larger regional jets than on the smaller turboprops due to increased demand. This service also has continued after the completion of the grant. DOT officials said that the community has also succeeded in negotiating, with its carrier, relative fare parity with the carrier's operations with a nearby airport.

- Mobile, AL, established an innovative program to assume the ground operations, including baggage handling and staffing ticket counters for US Airways, which was about to abandon service to the airport, according to an airline official. US Airways has maintained its operations in Mobile, and the airport has expanded this program, with American Airlines joining the ground operations service.

Figure 8: Horizon Airlines Turboprop Serving Hailey, ID

Source: GAO.

The four projects that did not result in self-sustaining improvements in air service were Fort Smith, AR; Reading, PA; Scottsbluff, NE; and Taos, NM.

- Ft. Smith provides an example of how larger events in the aviation industry can affect the outcome of the grant. Ft. Smith obtained the air service it sought under the grant, however, American Airlines' strategic decision to reduce the number of flights at its St. Louis hub resulted in Ft. Smith losing the service.

- In the case of Reading, PA, the grant may have had a negative effect on air service. The grant established a bus service from Reading Airport to the Philadelphia airport, with the goal of demonstrating that air travel demand existed in Reading and service could be added to the airport. However, the bus service provided competition to the existing air carrier at Reading, which subsequently withdrew its service. The bus service ultimately failed (although a private operator has re-established bus

service without subsidy), and Reading was left for a time without any scheduled air service.

- Scottsbluff, NE, was initially successful in resuming an intrastate air service between Scottsbluff, North Platte, Lincoln, and Omaha via start-up air carrier Westward Airways. This service did not reach the expected level of enplanements and Westward Airways, which was able to begin operations with the help of the grant, ceased operations in July 2005.

- Taos, NM, was not able to achieve sufficient enplanements to make its air service self-sufficient, and Rio Grande Air, the small carrier that provided the service to Taos, went bankrupt.[14]

Finally, it is too early to determine whether the $95,000 grant to Somerset, KY, may be considered a success. The purpose of the grant was to conduct a study, which has been successfully completed. However, the ultimate goal of the program and the grant is to improve or attract air service. Because the community received a second grant in 2005, it will be possible in the future to determine the ultimate outcome of the initial and subsequent grants. Until the results of Somerset's efforts to attract service are known, it is too soon to evaluate this grant.

Some of the 10 grantees we visited identified additional positive and negative indirect effects not anticipated at the time of the grant. For example, one airport cited increased community involvement as a positive outgrowth of the grant—it helped forge ties between the airport and business community that were not there before. In addition, the study performed with grant funding fostered better community understanding of the local airline market. In a few instances, services begun under the grant stimulated other air service not part of the grant such as attracting other new service or improved service by a competing carrier. Conversely, some airport officials were concerned that grants to nearby competing airports could dilute effects of the grant at their airports. An airport official and an industry consultant also expressed concern that the program was no longer producing innovative ideas. Instead, some airports were copying

[14]Taos later regained air service from Westward Airways under a different Small Community Air Service Development Program grant as part of a consortium. However, as noted above, Westward Airways also later ceased operations.

approaches that had been funded in the past as a way to improve their chances of receiving a grant.

Because a large majority of Small Community Air Service Development Project grants are not complete (127 of the 157 grants were ongoing as of September 30, 2005), it is too soon to determine which strategies have performed the best or assess the overall effectiveness of this program to improve air service to small communities. However, in addition to the preliminary results from the projects we studied, comments from DOT officials, airport directors, and airline officials provide some indications of what strategies that had positive results. Airline officials saw projects that provide direct financial benefits to the airline, such as revenue guarantees, as having the greatest chance of success. These officials noted that these types of projects allow the airline to test the real market for air service in a community without enduring the typical financial losses that occur when new air service is introduced. Airline officials also said that marketing efforts were important for success. DOT and some airline officials doubted the effectiveness of travel banks, in part because of the difficulty with administering the program. Finally, one strategy that airport and airline officials found innovative was for airports to take over the airlines' ground station operations, such as ticketing and baggage handling. Only two airports have used this strategy under the program, so it is too early to tell if this model will be more widely adopted.

Most Airport Directors Indicated That Their Grant Projects Were Effective or That It Was Too Soon to Tell

Most grantee airport directors we surveyed indicated that their projects were at least partially successful or that it is too early to make an assessment. As shown in table 4, 60 of 120 airport directors that responded said that their grant was effective or very effective in increasing passenger traffic. About 46 percent (54 of 118) of airport directors said that their grant was effective or very effective in improving service quality. However, in both instances, almost as many airport directors said that they had no basis to judge effectiveness or that the question was not applicable. In addition, 38 of 118 airport directors answered that their grant had been effective or very effective in reducing high fares. A majority, 63 airport directors, said that this issue was not applicable or they had no basis to judge.

Table 4: Airport Directors' Views on Success of Grant Projects

	Very effective or effective	As effective as ineffective	Very effective or ineffective	NA or No basis to judge	Total responses
Increasing passenger traffic	60	7	1	52	**120**
Improving air service quality	54	11	2	51	**118**
Resolving fare issues	38	9	8	63	**118**

Source: GAO survey of grantee airport directors.

Some of the airport directors responding to our survey also said that they thought the funds used for marketing had been effective. For example, one airport director said that the small airport he directs does not have a marketing budget and that the grant funds provided for marketing were more than the airport's total annual operating budget. The marketing funds therefore, brought public awareness the airport would not otherwise have been able to obtain. Another airport director said that he believed the marketing program conducted as part of the airport's grant resulted in an 11 percent annual increase in enplanements.

Usefulness of Air Service Development Zone Designation Is Not Clear

AIR-21 requires that each year DOT designate an Air Service Development Zone as part of the Small Community Air Service Development Program. The act specifies that DOT shall work with the community or consortium on means to attract business to the area surrounding the airport, to develop land use options for the area, and provide data working with the Department of Commerce and other agencies. DOT sees this designation as providing an opportunity for the selected community to work with its grant award to stimulate economic development, increase use of the airport's facilities, and create a productive relationship between the community and the federal government to achieve these goals. DOT has designated one airport each year of the program as an Air Service Development Zone—Augusta, GA (2002); Dothan, AL (2003); Waterloo, IA (2004); and Hibbing, MN (2005). Airports may apply for the designation by indicating their interest and providing supporting information on their grant applications. Airport officials said there are no special reporting requirements nor any additional funding for airports designated Air Service Development Zones.

Airport and local officials at the three locations designated in 2002 through 2004 said they did not know the criteria for being selected as an Air Service Development Zone or they were unclear on why their airports were selected. Upon selection, all three airports met with DOT staff to further

clarify what the program entails. Officials from one airport said that DOT suggested the airport come up with ideas for how to use the designation, which could serve as a model for other communities. Another airport official told us that DOT offered to introduce the airport to other federal agencies as part of the designation. However another official said that other federal agencies, including FAA, do not "recognize" the designation as providing any special status for the airport. DOT officials said all of the requirements of other agencies, including DOT agencies, still apply to the airport and community. According to one local official, this makes the designation ineffective in fostering economic development.

All three communities told us that the Air Service Development Zone designation has neither positive nor negative effects on the airport, because it has done nothing to either help or hurt them. The officials from all three airports noted that receiving the designation initially provided some positive local publicity for the airport, but that was the only effect they could name. Community and airport officials told us that any actual economic development that has been created at or near the airport would have occurred without the Air Service Development Zone designation.

Conclusions

Our review of completed Small Community Air Service Development Program grants to date found that they had a mixed record of meeting program goals. The projects we reviewed included both instances where grantees were able to develop self-sustained air service and cases where this was not achieved. However, given that relatively few Small Community Air Service Development Program projects have been completed thus far (23 completed grants of the 157 awarded grants, or about 15 percent, as of September 30, 2005), it was too early for us to assess the overall effectiveness of the grants in improving air service to small communities. Examining the effectiveness of this program when more projects are complete would allow the evaluation of whether additional or improved air service was not only obtained but whether it continues after the grant support has expired. This may be particularly important since our work on the limited number of completed projects found that only about half of the grantees reported that the improvements were self-sustaining after the grant was complete. In addition, our prior work on the Essential Air Service program found that once incentives are removed, additional air service may be difficult to maintain. Over the next year, an additional 58 projects are scheduled to expire and examining the results from completed grants at that time may provide a clearer picture of the value of this program. Any improved service achieved from this program could then be weighed

against the cost to achieve those gains. This information will be important as the Congress considers the reauthorization of this program in 2008.

We also found that the Air Service Development Zone concept has had no identifiable effect at any of the three locations designated from 2002 through 2004. The officials at the 3 designated airports remained unclear about what they were supposed to do once designated a development zone. DOT sees this designation as providing an opportunity for the selected community to work with its grant award to stimulate economic development, increase use of the airport's facilities, and create a productive relationship between the community and the federal government to achieve these goals. DOT officials said they are available to help the designees, if they are asked. However, DOT has not developed guidance or a conceptual model for what an Air Service Development Zone should be or what it should accomplish. Without this guidance, DOT advice or direction is limited and the designees may or may not pursue any air service development zone activities.

Recommendations for Executive Action

To ensure the effectiveness of the Small Community Air Service Development Program, we are making the following two recommendations to the Secretary of Transportation:

- The Secretary should conduct an evaluation of the Small Community Air Service Development Program in advance of the program's reauthorization in 2008. Such an evaluation should occur after additional grant projects are complete and include a determination of the extent to which the program is meeting its intended purpose of improving air service to small communities.

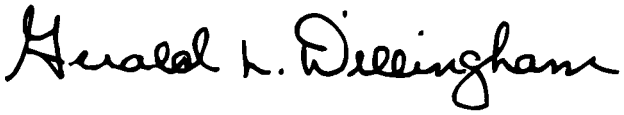
- The Secretary should clarify what support and services it will provide to communities that are designated as Air Service Development Zones.

Agency Comments and Our Evaluation

We provided copies of a draft of this report to the Department of Transportation for its review and comment. We received oral comments from DOT officials including the Associate Director, Office of Aviation Analysis. The officials told us that, in general, they concurred with the report's findings and agreed to consider the recommendations as they go forward with the program. DOT also provided clarifying and technical comments, which we incorporated into this report as appropriate.

We are sending copies of this report to appropriate congressional committees and the Secretary of Transportation. We will make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions regarding the contents of this report, please contact me at (202) 512-2834 or dillinghamg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals who made major contributions to this report are listed in appendix VI.



Gerald L. Dillingham
Director, Physical Infrastructure Issues

List of Congressional Addressees

The Honorable Thad Cochran
Chairman
The Honorable Robert C. Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable Jerry Lewis
Chairman
The Honorable David Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

The Honorable Peter A. DeFazio
House of Representatives

Objectives, Scope, and Methodology

To determine how the Department of Transportation (DOT) has implemented the Small Community Air Service Development Grant Program, we obtained and reviewed legislation authorizing and funding the program as well as related orders and guidelines. We interviewed DOT officials regarding their grant review and selection process as well as the procedures they use to oversee and monitor grant implementation. We reviewed grant proposals and award information and information about how DOT used grant criteria to review grant applications and award grants. We reviewed program controls to understand DOT's program oversight and monitoring. We also reviewed quarterly reports and final reports grantees submitted. We obtained and reviewed DOT financial data from the Office of the Secretary and from the Federal Aviation Administration. Based on our understanding of the data through discussions with knowledgeable agency officials, as well as checks for obvious errors in accuracy and completeness, we determined that the data were sufficiently reliable for our purposes.

To determine what strategies have been used and what results have been obtained, we reviewed the grant applications and agreements for all 157 grants awarded from 2002 through 2005. We classified the types of strategies carried out within the program and summarized the types of activities funded.

In addition, we conducted site visits at each of the 10 grantees that had completed their projects as of December 31, 2004. This included Charleston, WV; Daytona Beach, FL; Fort Smith, AR; Hailey, ID; Lynchburg, VA; Mobile, AL; Reading, PA; Scottsbluff, NE; Somerset, KY; and Taos, NM. We interviewed airlines associated with these completed grants to obtain information on air service trends at small community airports and the Small Community Air Service Development Program. Airlines interviewed include American Eagle Airlines, Continental Airlines, Delta Air Lines, TransStates Airlines, US Airways, Horizon Airlines, Rio Grande Air, and Westward Airways. We contacted 13 additional airports that completed their grants by September 30, 2005, to obtain basic information on the outcome of their grant. We also interviewed selected aviation consultants that had prepared grant applications to obtain information on air service trends at small community airports and the Small Community Air Service Development Program. Aviation consultants interviewed include Wilbur Smith Associates, Vesta Rae and Associates, and Intervistas.

In addition, we conducted two Web-based surveys. We sent surveys to the 146 airport directors involved in the 122 grants awarded by DOT from 2002

through 2004. We sent a different survey to the 116 airport directors who applied for but did not receive a grant. For both surveys, we sent the survey to the airport directors or managers who were knowledgeable about the grant that was received or, in the case of the nongrantees, were knowledgeable about the grant proposal. To determine the airports that were included in the grant award, we reviewed the grant applications, information on the grants from DOT, and information from the grantees. To determine the airport directors who applied for but did not receive a grant, we reviewed the grant proposal documents from the DOT docket and information on the applications from DOT. We did not include airports smaller than a nonhub airport (as defined in 1997) in the nongrantee survey because they did not have scheduled commercial service.

Each survey asked a combination of questions that allowed for open-ended and closed-ended responses. The survey to airports that received the grant included questions about (1) the intended goals of the project, (2) project elements, (3) assessments of DOT's implementation of the grant program, (4) results obtained under the project, and (5) recent trends that have affected air service at the airport. The survey to airports that did not receive the grant included questions about (1) the intended goals of the project, (2) project elements, (3) assessments of DOT's implementation of the grant program, and (4) recent trends that have affected air service at the airport.

For both surveys, a GAO survey specialist designed the questionnaires in conjunction with other GAO staff knowledgeable about the grant program. In addition, we pretested the grantee questionnaire with three communities that had received fiscal year 2002 grants. We also had two aviation experts review the grantee questionnaire and provide comments. We pretested the nongrantee questionnaire with three other communities that had applied for, but did not receive, grants for each of the fiscal year 2002 through 2004 periods. During the pretests for each questionnaire, we asked whether the questions were understandable and if the information was feasible to collect. We refined each of the questionnaires as appropriate.

Both surveys were conducted using self-administered electronic questionnaires posted to the World Wide Web. For the grantee survey, we sent email notifications to 146 airport managers and directors beginning on March 2, 2005. We then sent each potential respondent a unique password and username on March 8, 2005, by email to ensure that only members of the target population could participate in the survey. To encourage respondents to complete the questionnaire, we sent an email message to

prompt each nonrespondent each week after the initial email message for approximately 3 weeks. We closed the survey on April 18, 2005. Because of the location and nature of the two grants awarded to the Aleutians East Borough islands in Alaska, we did not send surveys to each airport included in the grants. Instead, we asked that the legal sponsor of the grants complete a single survey for each of the two grants awarded. For those questions in the survey that specifically pertain to the airports involved in the grants, we asked that the sponsor respond for any of the airports in that grant for that specific grant year. We received 121 completed surveys, a response rate of 83 percent. To view our survey and airport directors' responses, go to www.gao.gov/cgi-bin/getrpt?GAO-06-101SP.

The nongrantee surveys were also conducted using self-administered electronic questionnaires posted to the World Wide Web. For this survey, we sent email notifications to 116 airport managers and directors beginning on April 12, 2005. We then sent each potential respondent a unique password and username on April 14, 2005, by email to ensure that only members of the target population could participate in the survey. To encourage respondents to complete the questionnaire, we sent an email message to prompt each nonrespondent each week after the initial email message for approximately 3 weeks. We closed the survey on May 18, 2005. There was an application from two airports in Hawaii. Because both airports had the same airport director, we sent him only one survey. We received 83 completed surveys, a response rate of 72 percent. We removed *two* airport directors from the respondent list because their airports were included in a proposal submitted by a representative of the state DOT without the airports' knowledge. Therefore, the airport directors did not have sufficient information to complete the survey. To view our survey and airport directors' responses, go to www.gao.gov/cgi-bin/getrpt?GAO-06-101SP.

Because these were not sample surveys, there are no sampling errors. However, the practical difficulties of conducting any survey may introduce errors, commonly referred to as nonsampling errors. For example, difficulties in how a particular question is interpreted, in the sources of information that are available to respondents, or in how the data are entered into a database or were analyzed, can introduce unwanted variability into the survey results. We took steps in the development of the questionnaires, data collection, and the data analysis to minimize these nonsampling errors. For example, social science survey specialists designed the questionnaires in collaboration with GAO staff with subject matter expertise. Then, as mentioned earlier, the draft questionnaire was pretested with appropriate officials to ensure that the questions were

relevant, clearly stated, and easy to comprehend. When the data were analyzed, a second, independent analyst checked all computer programs. Since these were Web-based surveys, respondents entered their answers directly into the electronic questionnaires. This eliminated the need to have the data keyed into a database thus removing an additional source of error.

We also called a random sample of 20 small hub and nonhub airport directors or managers as categorized in 1997. We selected our sample from a total of 206 small and nonhub airports we determined had never applied for a grant. We called the 20 airport directors to ask them why they had not applied. The sample was stratified by FAA region and airport size. While we did not attempt to project these results to all airports that did not apply for grants, the sample provided some useful observations on the types of reasons airports had for not applying.

To determine how passenger traffic and air service have changed at the nation's small community airports, we conducted a literature review of aviation trends, focusing on studies that describe overall trends at small community airports (small hubs and nonhubs) in terms of the number of scheduled flights and destinations, available seats on scheduled flights, and scheduled flights by aircraft type. We narrowed our criteria to analyses contained in published studies and reports in the past 5 years. We reviewed each of the studies meeting our criteria and determined that the studies were methodologically sound.

As an additional assessment of the reliability of the studies' findings, we considered the reliability of the underlying data that were used in the studies and reports. Where noted in the study, we considered the steps that the study authors took to determine if the data used in their analyses were sufficiently reliable for their purposes. For example, much of the published data are from DOT's Office of the Inspector General who periodically reports to the Congress on small community air service. The Inspector General's reports on aviation trends relied on data from various sources. The data that we cited primarily came from the Federal Aviation Administration's Flight Schedule Data System, which derives from the Official Airline Guide Schedules Database. While the Inspector General did not systematically audit or validate the databases they used in their report, they conducted trend analyses and sporadic checks of the data to assess reasonableness and comprehensiveness. When their judgmental sampling identified anomalies or apparent limitations in the data, they discussed these irregularities with managers responsible for maintaining the data.

Additionally, we made use of BACK Aviation Solutions, a private contractor that uses the Official Airline Guide Schedules Database and the Federal Aviation Administration Aerospace Forecasts, which is based on the Department of Transportation's Bureau of Transportation Statistics data on passenger traffic and fleet type. We recently issued a report and assessed the reliability of BACK's and DOT's data.[1] Based on (1) reviews of documentation from BACK Aviation Solutions and DOT about their data and the systems that produced them and (2) interviews with knowledgeable agency and company officials, we found the information to be sufficiently reliable for these types of analyses. On the basis of our review of the methodologies cited in the studies, together with the authors' statements concerning steps they took to assess the reliability of the underlying data along with our previous data reliability assessments of BACK Aviation Solutions and DOT databases, we concluded that the studies' analyses were sufficiently reliable for our purposes.

We performed our work from September 2004 through October 2005 in accordance with generally accepted government auditing standards.

[1]GAO, *Transatlantic Aviation: Effects of Easing Restrictions on U.S.-European Markets*, GAO-04-835 (Washington, D.C.: July 21, 2004).

Factors Affecting Air Service to Small Communities

Air service to nonhub airports has generally declined in recent years, as measured by the number of departure flights. Nonhubs have had an overall decrease in departures since July 2000. While all airports showed a decrease in service from July 2001 to July 2003 scheduled departures at small, medium, and large hub airports have increased since 2003. By July 2005, scheduled departures at small, medium, and large hub airports largely rebounded, with departures from large and small hubs exceeding the July 2000 number. However, the decline of service at nonhub airports continued, with 17 percent fewer departure flights serving these airports in July 2005 compared with July 2000.

Many factors may help explain why some small communities face relatively limited air service.[1] First, many network carriers have cut service to small communities while carriers face financial difficulties and restructure their operations. Regional carriers now operate at small communities where network carriers have withdrawn. Second, regional carriers are phasing out turboprops in favor of regional jets, which has had a negative effect on small communities that have not generated the passenger levels needed to support regional jet service. Third, the "Commuter Rule" that FAA enacted in 1997 might have also had an effect. This rule was intended to bring small commuter aircraft operated under the same safety standards as larger aircraft.[2] This change created challenges for small communities because it is more difficult to economically operate smaller aircraft such as 19-seat turboprops under the new safety requirements. In addition, the Aviation and Transportation Security Act instituted the same security requirements for the screening of passengers for smaller airports as it did for larger airports, creating a "hassle factor" for passengers.[3] Fourth, low cost carriers have emerged in the deregulated environment, but these airlines have generally avoided small communities, leading to the phenomenon of "leakage"—that is, passengers choosing to drive to a larger airport instead of the small community airport. According to industry consultants, low cost carriers are now looking at medium-sized markets to expand, which could result in further reduction of air service at small community airports.

[1]In this instance, we define small communities as those served by small hubs and nonhubs. A small hub enplanes 0.05 to 0.249 percent of total U.S. domestic enplanements and a nonhub less than 0.05 percent of total U.S. domestic enplanements.

[2]Code of Federal Regulations Title 14 Part 121 (14 CFR Part 121) details certification requirements for aircraft that operate scheduled service with 10 or more seats. The Commuter Rule was instituted with 62 Fed. Reg. 32412, June 13, 1997.

[3]Aviation and Transportation Security Act, Section 110 of P.L. 107-71, 115 Stat. 597 (2001).

Network Carrier Restructuring and Downsizing Negatively Affect Service to Small Communities

The financial condition of network carriers has negatively affected service to small communities, especially those served by nonhubs.[4] We have reported that in response to the economic downturn begun in early 2001 and the events of September 11, 2001, many network carriers have been undertaking major restructuring and downsizing of their operations.[5] A regional airline association official noted that as part of restructuring, network carriers have transferred routes to regional carriers or reduced air service to certain communities.[6] According to an industry association, network carriers have also discontinued some service at major hubs, which can, in turn, reduce service to small communities. Flights to small communities have been cut because they are often considered to be less profitable than other routes.

Aircraft Changes at Small Communities Pose Challenges

According to aviation consultants, turboprops have been the primary source of airline service to small communities, and in particular nonhubs, because turboprops have been the most economically viable for small communities. However, turboprop use is declining. According to one aviation consultancy, from 1995 to 2005, the number of nonstop routes served by turboprops declined 54 percent. According to the FAA Aerospace Forecast Fiscal Years 2005-2016, the trend is for further decline.[7] By 2016, FAA expects that 10-40 seat turboprop aircraft will represent 13.3 percent of the fleet, down from 22.8 percent in 2004.

According to FAA, the primary reason for the decline in turboprops has been the rise of the use of regional jets at small community airports. According to the DOT Office of the Inspector General, the number of

[4]A network carrier operates a significant portion of their flights using at least one hub where connections are made for flights on a spoke system.

[5]GAO, *Commercial Aviation: Factors Affecting Efforts to Improve Service at Small Community Airports*, GAO-03-330 (Washington, D.C.: Jan.17, 2003).

[6]Regional carriers provide service from small cities primarily using regional jets to support the network carriers' hub and spoke systems.

[7]FAA Aerospace Forecasts Fiscal Years 2005-2006. U.S. Department of Transportation, Federal Aviation Administration, March 2005.

regional jet flights at nonhubs has increased 199 percent from July 2000 to July 2005.[8] In comparison, flights by other types of aircraft have declined—by 29 percent for large jets, 39 percent for turboprops, and 17 percent for piston aircraft. The increased use of regional jets at small communities is in line with national trends at larger airports. The FAA Aerospace Forecast Fiscal Years 2005-2016 states that jet departures by regional air carriers accounted for 65.8 percent of industry departures in 2004 compared with just 0.2 percent in 1991.

According to an aviation consultant, increased use of regional jets, which tend to have 50 seats or more, makes it more difficult for small communities to fill the aircraft. Thus, according to an aviation consultant, regional jets have not been a direct substitution for turboprops on routes; rather, regional jets may fly to denser passenger markets where they can profitably operate. Another trend that might negatively affect service to small communities is that some airlines have been procuring more 70 and 90 seat aircraft. According to the FAA Aerospace Forecast Fiscal Years 2005-2016, because the larger aircraft allow for longer flight lengths, new markets may be tapped for point-to-point service that will by-pass congested hub airports. We have reported in the past that small communities may have particular difficulty attracting regional jet service because their passenger demand could not support it.[9]

In addition, an aviation consultant and industry airline association official both stated that scope clauses in labor agreements between regional and network carriers can constrain regional airlines in the aircraft size, routes, and airports served.[10] For example, the aviation consultant said clause requirements that jets be used on certain routes have led to the retirement of turboprops even where turboprop service had been profitable.

[8]Aviation Industry Performance: Trends in Demand and Capacity, Aviation System Performance, Airline Finances and Service to Small Airports. U.S. Department of Transportation, Office of the Inspector General.

[9]GAO Aviation Competition: *Commercial Aviation Regional Jet Service Yet to Reach Many Small Communities*, GAO-01-344 (Washington, D.C.: Feb. 14, 2001).

[10]Network air carriers have contracts with regional carriers to provide service. Within these contracts are scope clauses, which place restrictions on regional carrier operations.

The "Commuter Rule" Has Contributed to Loss of Air Service to Some Small Communities

In 1997, the FAA enacted the "Commuter Rule" that called for "one level of safety" among all commercial aircraft and placed stringent safety standards on regional carriers. The intent was to bring aircraft that have 10 to 30 seats and operate scheduled service under the same safety standards as network carriers that operate with larger aircraft. The additional costs required to meet the increased safety standards made some smaller aircraft uneconomical to operate. According to industry association officials and an aviation consultant, the safety upgrades have contributed to eliminating the 19-seat plane because of the increased operating costs. According to the FAA Aerospace Forecast Fiscal Years 2005-2016, in 1998, 1 year after the implementation of the Commuter Rule, the number of city pairs serviced by the regional or commuter carriers fell to its lowest level of the decade. Although the trend reversed in 1999 as more regional jets entered the fleet, the number of short-haul markets under 200 miles continued to decline. Furthermore, between 2001 and 2004, 456 city pairs in the 0-199 mile range and 248 in the 200-499 mile range lost nonstop regional or commuter service. Taking into account city pairs that gained service, the overall result was a net loss of 184 city pairs in the 0-199 mile range and 90 in the 200-499 mile range. FAA told us that part of this decline may be due to the Commuter Rule.[11]

Small community airports are required to meet the same security standards as larger airports, which can be costly for small community airports and create a "hassle factor" for passengers. According to an aviation consultant, with the rise in increased security measures at airports, many in the traveling public have opted to drive or take trains or buses to travel in the post 9/11 era. Consumers believe that with the increased time it takes to pass through security, they would be better off using another method of transportation to go to their final destination.

Increase in Low Cost Carrier Service May Also Contribute to Reduced Service at Small Community Airports

Low-cost carriers such as Southwest and JetBlue, provide point-to-point service in dense population markets with limited access to low fares, and in recent years this model has been relatively successful. According to the FAA Aerospace Forecast Fiscal Years 2005-2016, since 2000, network carriers have reduced their domestic capacity by 14.3 percent, while low cost carriers have increased capacity by 40.5 percent.

[11]The other major factor affecting service in short-haul markets that FAA noted was that regional jet aircraft can more economically operate in denser passenger markets.

Low-cost carriers generally avoid nonhub airports where demand for their point-to-point service is insufficient to make it economically feasible to serve with their fleets of larger aircraft. According to the Department of Transportation Office of the Inspector General, low-cost carriers scheduled service to only 5 of the more than 500 nonhub airports in July 2005, representing approximately 2 percent of the total available passenger seats at these airports. An aviation consultant stated that only the six large network carriers pay attention to small community air service.

Low-cost carriers provide a challenge to small communities. Neighboring larger airports that have low cost carrier service are attracting passengers from smaller airports, a phenomenon called leakage. We have reported this as a critical factor determining a community's demand for air service.[12] During interviews with aviation consultants and during an industry conference, this issue was noted as one of the most significant challenges to bringing and maintaining air service at small community airports.

According to aviation consultants, some low-cost carriers may begin flying from medium density airports. Such a strategy might increase the impact of leakage, as more small community passengers become closer to airports where low cost service is provided. Some potential small community airport passengers may elect to drive to airports served by a low cost carrier to access lower fares. Service at the smallest community airports might thus be further reduced.

[12]GAO-03-330.

DOT Additional Selection Factors

Service-related Factors	
1	How many carriers are serving the community?
2	How many destinations are served?
3	What is the frequency of flights?
4	What size aircraft service the community?
5	Has the level of service been increasing or decreasing over the past 3 years?
6	Have enplanements been increasing or decreasing over the past 3 years?
7	Is the Metropolitan Statistical Area population increasing or decreasing?
8	Is the per-capita income increasing or decreasing?
9	Are the number of businesses in the area increasing or decreasing?
10	What is the proximity to larger air service centers?
11	What is the quality of road access to other air service centers?
12	Does the community lack service in identified top Origin & Destination markets?
13	Is the proposal designed to provide: • First air service, • Second carrier service, • New destinations, • Larger aircraft, or • More frequencies?
14	If this is an air service project, has the community selected a carrier that is willing and committed to serve?
15	If this is an air service project, does the community have a targeted carrier that would serve?
Project-related Factors	
1	Do demographic indicators and the business environment support the project?
2	Does the community have a demonstrated track record of implementing air service development projects?
3	Does the project address the stated problem?
4	Does the community have a firm plan for promoting the service?
5	Does the community have a definitive plan for monitoring, modifying, and terminating the project if necessary?
6	Does the community have a plan for continued support of the project if self-sufficiency or completion is not attained after the grant expires?
7	If mainly a marketing proposal, does the community have a firm implementation plan in place?
8	Is the applicant a participating consortium?
9	Is the project innovative?
10	Does the project have unique geographical traits or other considerations?

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11	Is the amount of funding requested reasonable compared with the total amount of funding available?
12	Is the local contribution reasonable compared with the amount requested?
13	Can the project be completed during the funding period requested?
14	Is the applicant a small hub now?
15	Is the applicant a large nonhub now?
16	Is the applicant a small nonhub now?
17	Is the applicant currently subsidized through the Essential Air Service program?
18	Is the project for marketing only?
19	Is the project a study only?
20	Does the project involve intermodal services?
21	Is the project primarily a carrier incentive?
22	Is the project primarily air fare focused?
23	Does the project involve a low-fare service provider?
24	Does the proposal shift costs from the local or state level to the federal level?
25	Does the proposal show that proximity to other service would detract from it?
26	Is the applicant close to a past grant recipient?

Status of Grants Awarded, 2002 through 2005

2002 Grant Year

	Location	Grant amount	Reimbursed as of September 30, 2005	Status as of September 30, 2005
1	Abilene, TX	$85,010	$85,010	Completed
2	Akron/Canton, OH[a]	950,000	731,588	Completed
3	Aleutians East Borough, AK	240,000	191,134	Ongoing
4	Asheville, NC	500,000	500,000	Completed
5	Augusta, GA[a]	759,004	112,743	Terminated
6	Baker City, OR[a]	300,000	0	Terminated
7	Beaumont/Port Arthur, TX	500,000	163,512	Ongoing
8	Bellingham, WA	301,500	153,997	Ongoing
9	Binghamton, NY	500,000	500,000	Completed
10	Bismarck, ND	1,557,500	166,000	Ongoing
11	Brainerd, St. Cloud, MN	1,000,000	250,602	Ongoing
12	Bristol/Kingsport/Johnson City, TN	615,000	224,513	Ongoing
13	Cape Girardeau, MO	500,000	0	Ongoing
14	Casper, Gillette, WY[a]	500,000	120,722	Terminated
15	Charleston, WV[a]	500,000	499,443	Completed
16	Chico, CA	44,000	0	Ongoing
17	Daytona Beach, FL[a]	743,333	737,834	Completed
18	Fort Smith, AR	108,520	105,704	Completed
19	Fort Wayne, IN	398,000	398,000	Completed
20	Hailey, ID	600,000	600,000	Completed
21	Lake Charles, LA	500,000	119,545	Completed
22	Lake Havasu City, AZ	403,478	316,412	Ongoing
23	Lamar, CO	250,000	182,342	Ongoing
24	Lynchburg, VA	500,000	499,997	Completed
25	Manhattan, KS	388,350	154,406	Ongoing
26	Marion, IL	212,694	189,236	Ongoing
27	Mason City, IA[a]	600,000	16,359	Terminated
28	Meridian, MS	500,000	500,000	Completed
29	Moab, UT	250,000	212,246	Ongoing
30	Mobile, AL	456,137	456,099	Completed
31	Paducah, KY	304,000	150,144	Ongoing
32	Presque Isle, ME	500,000	450,119	Ongoing
33	Rapid City, SD (1)	1,400,000	1,399,295	Completed

(Continued From Previous Page)

2002 Grant Year

	Location	Grant amount	Reimbursed as of September 30, 2005	Status as of September 30, 2005
34	Reading, PA[a]	470,000	363,662	Completed
35	Rhinelander, WI[a]	500,000	262,463	Completed
36	Santa Maria, CA[a]	217,530	203,279	Completed
37	Scottsbluff, NE	950,000	950,000	Completed
38	Somerset, KY	95,000	85,335	Completed
39	Taos/Ruidoso, NM[a]	500,000	404,120	Completed
40	Telluride, CO	300,000	25,057	Ongoing
	Total reimbursed		**$12,480,920**	
	Amoun reallocated in 2004		**$1,529,901**	
	Amount DOT recovered in 2005		**$2,588,358**	
	Total	**$19,999,056**	**$16,599,179**	

Source: GAO analysis of DOT data.

[a]DOT has recovered all or portions of the grant awarded to the grantee.

2003 Grant Year

	Location	Grant amount	Reimbursed as of September 30, 2005	Status as of September 30, 2005
1	Aguadilla, PR	$626,700	$0	Ongoing
2	Aleutians East Borough, AK	70,000	7,636	Ongoing
3	AZ Consortium, AZ	1,500,000	0	Ongoing
4	Bakersfield, CA	982,513	706,151	Ongoing
5	Bangor, ME	310,000	62,086	Ongoing
6	Charleston, SC[a]	1,000,000	0	Terminated
7	Cut Bank, MT	90,000	74,381	Ongoing
8	Dickinson, ND	750,000	660,504	Ongoing
9	Dothan, AL	200,000	59,110	Ongoing
10	Dubuque, IA	610,000	579,571	Ongoing
11	Duluth, MN	1,000,000	853,615	Ongoing
12	Elmira, NY	200,000	0	Ongoing
13	Erie, PA	500,000	381,689	Ongoing
14	Fresno, CA	1,000,000	0	Ongoing
15	Friday Harbor, WA	350,000	181,980	Ongoing

(Continued From Previous Page)

2003 Grant Year

	Location	Grant amount	Reimbursed as of September 30, 2005	Status as of September 30, 2005
16	Gainesville, FL	660,000	17,750	Ongoing
17	Grand Island, NE	380,000	0	Ongoing
18	Greenville, MS[a]	400,000	0	Terminated
19	Gunnison, CO	200,000	183,390	Ongoing
20	Joplin, MO	500,000	0	Ongoing
21	Knoxville, TN[a]	500,000	0	Terminated
22	Laredo, TX	400,000	129,350	Ongoing
23	Lewiston-Nez Perce, ID	675,000	114,460	Ongoing
24	Mountain Home (Baxter), AR	574,875	0	Ongoing
25	Muskegon, MI[a]	500,000	469,155	Completed
26	NC Consortium, NC	1,200,000	106,131	Ongoing
27	Owensboro, KY	500,000	388,044	Ongoing
28	Parkersburg, WV/Marietta, OH	500,000	84,733	Ongoing
29	Pierre, SD	150,000	41,978	Ongoing
30	Redmond, OR	515,000	34,461	Ongoing
31	Savannah, GA	523,495	386,525	Ongoing
32	Shreveport, LA	500,000	0	Ongoing
33	Staunton, VA	100,000	74,749	Ongoing
34	Taos Consortium, NM	1,400,000	557,398	Ongoing
35	Tupelo, MS	475,000	78,007	Ongoing
36	Victoria, TX	20,000	19,416	Completed
	Total reimbursed		**$6,252,273**	
	Amount reallocated in 2004		**$400,000**	
	Amount DOT recovered in 2005		**$1,930,845**	
	Total	**$19,862,583**	**$8,583,118**	

Source: GAO analysis of DOT data.

[a]DOT has recovered all or portions of the grant awarded to the grantee.

2004 Grant Year

	Location	Grant amount	Reimbursed as of September 30, 2005	Status as of September 30, 2005
1	Albany, GA	$500,000	$0	Ongoing
2	Alpena, MI	583,046	11,802	Ongoing
3	Beckley/Lewisburg, WV	300,000	0	Ongoing
4	Bloomington, IL	850,000	0	Ongoing
5	Butte, MT	360,000	0	Ongoing
6	Champaign-Urbana, IL	200,000	0	Ongoing
7	Charlottesville, VA	270,000	73,814	Ongoing
8	Chattanooga, TN	750,000	6,343	Ongoing
9	Clarksburg/Morgantown, WV **(reallocation)**	372,286	0	Ongoing
10	Columbus, MS	260,000	81,738	Ongoing
11	Del Rio, TX	318,750	168,320	Ongoing
12	Dubois, PA	400,000	6,177	Ongoing
13	Eau Claire, WI	500,000	0	Ongoing
14	Elko, NV	222,000	222,000	Completed
15	Evansville/South Bend, IN	1,000,000	0	Ongoing
16	Farmington, NM	650,000	0	Ongoing
17	Hot Springs, AR **(reallocation)**	195,000	14,515	Ongoing
18	Huntsville, AL	479,950	353,392	Ongoing
19	Kalamazoo, MI	500,000	0	Ongoing
20	Lafayette, LA	240,000	0	Ongoing
21	Latrobe, PA	600,000	0	Ongoing
22	Lebanon, NH	500,000	0	Ongoing
23	Lincoln, NE	1,200,000	0	Ongoing
24	Logan City, UT	530,000	12,101	Ongoing
25	Marquette, MI	700,000	0	Ongoing
26	McCook/North Platte, NE	275,000	24,730	Ongoing
27	New Haven, CT	250,000	88,949	Ongoing
28	Pocatello, ID	75,000	16,297	Ongoing
29	Redding/Arcata, CA	500,000	0	Ongoing
30	Richmond, VA	950,000	0	Ongoing
31	Rutland, VT **(reallocation)**	240,000	0	Ongoing
32	Salem, OR	500,000	0	Ongoing
33	Santa Rosa, CA	635,000	31,088	Ongoing

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2004 Grant Year

	Location	Grant amount	Reimbursed as of September 30, 2005	Status as of September 30, 2005
34	Sarasota, FL	1,500,000	900,000	Ongoing
35	Sioux City, IA	609,800	52,353	Ongoing
36	Sioux Falls, SD	350,000	52,686	Ongoing
37	Steamboat Springs, CO	500,000	0	Ongoing
38	Sumter, SC	50,000	0	Ongoing
39	Syracuse, NY **(reallocation)**	480,000	15,946	Ongoing
40	Tyler, TX	90,000	6,592	Ongoing
41	Visalia, CA **(reallocation)**	200,000	0	Ongoing
42	Walla Walla, WA	250,000	0	Ongoing
43	Waterloo, IA	550,000	31,834	Ongoing
44	Wilkes-Barre/Scranton, PA	625,000	55,757	Ongoing
45	Worcester, MA **(reallocation)**	442,615	0	Ongoing
46	Youngstown, OH	250,000	0	Ongoing
	Total	**$21,803,447**	**$2,226,435**	

Source: GAO analysis of DOT data.

Note: Program funds from 2002 and 2003 were reallocated to six cities in 2004.

2005 Grant Year		
	Location	**Grant amount**
1	Aberdeen, SD	$450,000
2	Alexandria, LA	500,000
3	Bradford, PA	220,000
4	CA Consortium, CA	245,020
5	Cedar City, UT	155,000
6	Durango, CO	750,000
7	Fargo, ND	675,000
8	Florence, SC	500,000
9	Great Falls, MT	220,000
10	Greenville, NC	450,000
11	Gulfport/Biloxi, MS	750,000
12	Hancock/Houghton, MI	516,000
13	Hibbing, MN	485,000
14	Huntington, WV	500,000
15	Idaho Falls, ID	500,000
16	Ithaca, NY	500,000
17	Jacksonville, NC	500,000
18	Killeen, TX	280,000
19	Knox County, ME	555,000
20	Lawton/Ft. Sill, OK	570,000
21	Macon, GA	507,691
22	Marathon, FL	750,000
23	Marshall, MN	480,000
24	Massena, NY	400,000
25	Modesto, CA	550,000
26	Monterey, CA	500,000
27	Montgomery, AL	600,000
28	Oregon/Washington Consortium, OR/WA	180,570
29	Rockford, IL	1,000,000
30	Ruidoso, NM	600,000
31	Somerset, KY	950,000
32	Stewart (Newburgh), NY	250,000
33	Vernal, UT	40,000
34	Williamsport, PA	500,000

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2005 Grant Year

	Location	Grant amount
35	Wyoming Consortium, WY	800,000
	Total	**$17,429,281**

Source: GAO analysis of DOT data.

Summary of 10 Completed Small Community Air Service Development Program Grants

This appendix provides information on the Small Community Air Service Development Grants that were completed as of December 31, 2004. For each grant, information is provided on the background of the application, the project funded by the grant, and the results achieved by the grant. The 10 completed grants are:

- Charleston, West Virginia
- Daytona Beach, Florida
- Fort Smith, Arkansas
- Hailey, Idaho
- Lynchburg, Virginia
- Mobile, Alabama
- Reading, Pennsylvania
- Scottsbluff, Nebraska
- Somerset, Kentucky
- Taos, New Mexico

Charleston, West Virginia

At the time of the grant application, Charleston was served by five major airlines that had scheduled flights to 10 destinations. The application noted that despite this level of service, there was poor service to communities in the southwestern United States, Mexico, Central and South America. The application also noted that there were large numbers of local public and private firms, as well as academic entities that needed service to the Houston metro area.

In 2002, Charleston proposed that the grant would be used to obtain new regional jet service between Charleston's Yeager Airport and Houston, Texas' Intercontinental Airport. The application stated that this new service from Continental Airlines would have benefits for Charleston and West Virginia, including:

- serving a major origin and destination market for Charleston;

- enhancing connectivity for the region, saving consumers considerable time when connecting from points throughout the Southwestern United States;
- opening same-carrier service to the important industrial centers of northern Mexico;
- giving West Virginia consumers an additional carrier choice; and
- enabling businesses to save employee time by eliminating connecting time for traveling to and from Houston.

Charleston desired two weekday nonstop round trips to Houston, plus two round trips on the weekend using 37-seat or regional jets. Charleston would require Continental to offer fares reasonably consistent with those charged on a per mile basis on other routes of similar length and with the same aircraft.

Project Funded by Grant

On June 26, 2002, Charleston was awarded a $500,000 Small Community Air Service Development Pilot grant to facilitate acquiring service to Houston. The community provided an additional $100,000 local match. Charleston allocated $500,000 as a revenue guarantee to reduce the risk of losses for Continental in the early months of the new service. The community also allocated $20,000 for expenses necessary to meet with the new carrier and to provide basic advertising and marketing support for the new service.

Grant Outcome

On October 1, 2002, Continental started new nonstop service from Charleston to Houston. Initially, the service provided two flights daily, with the exception of Saturday when one daily departure was provided. In January 2004, the service was reduced to one flight daily. Airport officials told us the reduction in the number of flights was a result of aircraft fleet utilization issues at Continental. However, according to an airport official, Continental subsequently resumed the second daily flight.

The community stated in their final project report to DOT that the airport experienced an increase in enplanements and a reduction in passenger leakage as a result of the Charleston to Houston service. Additionally, as shown in table 5, the airport has experienced a 31.8 percent overall increase in enplanements in October 2004 versus October 2002 when the service first started. In 2004, the airport set a record for enplanements with 291,300 and experienced a 15.6 percent increase in overall enplanements versus 2002. An airport official told us enplanement levels continue to rise as the airport continues to expand its catchment area, and that service levels at the airport are comparable to communities that are double the size of the airport.[1] In 2002, there were 11 carriers representing five major airlines serving the airport, and in 2004 there were 12 carriers serving the market.

Table 5: Charleston, WV Passenger Enplanement Report for October 2002 through October 2004, and Overall Yearly Totals for 2002-2004

	2002	Percent change from 2001	2003	Percent change from 2002	2004	Percent change from 2003
October	22,366[a]	18.4%	21,710	-2.93%	29,474	35.8%
Totals	**251,942**	**4.1%**	**242,485**	**-3.85%**	**291,300**	**20.1%**

Source: Charleston, WV (Yeager Airport).

[a]Denotes when new Continental service went into effect.

One local official told us that the success of the new Charleston to Houston service had a secondary effect in obtaining an additional airline as well. In July 2004, Independence Air started serving the Charleston market. The official told us that the success of the Houston service, and the fact that Charleston had not experienced a drop in enplanements, showed Independence Air that Charleston could continue to handle additional service from another airline.

[1]An airport's catchment area is the potential geographic area for drawing passengers. The geographic size of a catchment area varies from airport to airport depending on such factors as how close an airport is to other airports and whether the airport is served by a low-fare airline (and, therefore, attractive to passengers from farther distances).

Daytona Beach, Florida

At the time of the grant application, Delta Air Lines and Continental Connection Carrier, Gulfstream were the only two carriers serving Daytona Beach. Delta provided daily service to Atlanta, Georgia, and Saturday service to Cincinnati, Ohio. Continental Connection provided 14 weekly nonstop flights to Tampa, Florida. However, the community in its grant application told DOT that the airport could handle an increase in scheduled commercial airline service, particularly to New York. The airport stated that they had a market area of 1,383,000 people, that the community had 8.5 million visitors to the area in 2000, and that more than 325,000 of these visitors were from New York. Additionally, the grant application told DOT that the New York area provided the strongest pattern of in-migration to Volusia County/Daytona Beach, among all states, excluding Florida. Thus, the community in its grant application stated that it needed direct service to the New York area. According to the grant application, Daytona Beach used to have service to New York, but as of September 11, 2001, the service was discontinued despite having an 81 percent average load factor (percentage of occupied seats on flights) for the last 12 months of service.

According to Daytona Beach's grant application, air service had suffered in the community due to the large amount of traffic leakage to nearby airports. Daytona estimated that 50 percent to 60 percent of their leakage was to either Orlando (65 miles) or Jacksonville (90 miles). Community officials in the grant application said that this high traffic leakage was a direct result of a lack of competitive air service, inadequate seat inventory, and resulting fare differentials at Daytona Beach International Airport. At the time of the grant application, Orlando had approximately 354 daily departures and Jacksonville had 220 daily departures. Daytona at the same time had an average of 7 daily departures.

According to the grant application, higher fares flying out of Daytona versus the nearby airports of Orlando and Jacksonville contributed to this leakage. Daytona Beach officials told DOT that on average, their airport's fares were 13 percent higher to the same cities than Orlando, and 15 percent higher than Jacksonville when purchased 21 days in advance. The community noted in the grant application that weaker load factors and additional seats at Orlando and Jacksonville have led to higher fares in Daytona. In order to increase this air service, Daytona Beach stated in their grant application that it desired twice daily regional jet service to New York area's Newark Airport. The new service provided by Continental Airlines was scheduled to begin on December 14, 2002.

Project Funded by Grant

On June 26, 2002, Daytona/Volusia County was awarded a $743,333 Small Community Air Service Development Program grant. The local community provided an additional $165,000 for a total project cost of $908,333. The community allocated $743,333 to Continental Airlines for a revenue guarantee for the initial 12-month ramp-up period. The community's goal was to make this service self-sufficient in the second year. Additionally, the community provided $165,000 for advertising and marketing for Continental's new service. Components of the marketing program included: newsprint advertising, newsletter advertising, Web site promotions, media press releases, radio advertising, ribbon cutting ceremonies, and magazine advertising in both Daytona Beach and New York areas.

Grant Outcome

On December 12, 2002, Continental Airlines began service between Daytona Beach and Newark Airport. Continental operated two daily trips utilizing 50 seat regional jets. The revenue guarantee between Daytona Beach and Continental for service to Newark lasted 1 year until December 11, 2003. Table 6 shows the quarterly passenger totals for this service.

Table 6: Quarterly Passenger Totals between Daytona Beach and Newark

Period	1st Quarter 2003	2nd Quarter 2003	3rd Quarter 2003	4th Quarter 2003	Totals
Passengers	12,545	14,480	13,663	10,491	**54,247**
Load Factor	73%	81%	78%	79%	**78%**

Source: Daytona Beach International Airport.

Note: 4th Quarter Totals Ended December 11, 2003, when the revenue guarantee between Continental and Daytona Beach ended.

A local official told us that the project has been a success. The Daytona Beach to Newark service continued to operate as of September 30, 2005. In addition, following the completion of the revenue guarantee, Continental extended its agreement 2 years with the airport to provide service between Daytona Beach and Newark. The agreement expires in December 2005, but a local official expects the agreement to be renewed with Continental to continue providing this service.

In addition, according to a community official, passenger traffic has risen 30 percent at the airport in the last 2 years since the grant. The airport now has service to Cleveland, Ohio, and seasonal commuter service to Tampa, Florida. Also, Delta has increased its service to 12 flights per day and has

brought in larger aircraft to serve those flights. In their final report to DOT, one community official told DOT that the service expansion would not have been possible without the DOT grant. An airline official told us that the grant was successful because even with the grant completed, Daytona Beach still has service to the New York area.

Fort Smith, Arkansas

At the time of the grant application, Fort Smith was served by eight daily round-trips via American Eagle Airline to Dallas/Ft. Worth, Texas, and three daily round-trips by Northwest Airlink to Memphis, Tennessee. Airport officials noted in their grant application that they had inadequate service to the North and East at the time of the grant application. Furthermore, the grant application told DOT that business travelers in the region noted that excessive backtracking was a reason they did not use the Fort Smith airport for travel to markets in the North and East.

According to an airport official, the airport suffers traffic leakage to other airports. Fort Smith loses passengers primarily to Tulsa, Oklahoma (118 miles), Oklahoma City, Oklahoma (183 miles), and to a lesser extent, Little Rock, Arkansas (159 miles). A local official estimated this leakage to be approximately 46,000 enplanements per year.

To overcome this lack of service to the North and the East, Fort Smith proposed to obtain service to St. Louis, Missouri, or Chicago, Illinois. The community previously had service to St. Louis, but problems in the service resulted in its cancellation in 1999. The community believed that this lost service led business travelers in the area to use alternate airports to provide service to markets in the North and East. Thus, the community believed that initiation of service to St. Louis or Chicago would help answer this untapped demand. Additionally, the grant application stated that officials at Fort Smith needed to overcome other challenges to improve the airport, including:

- the general lack of understanding of the airline industry within the business community had created unrealistic expectations;
- business travelers were not fully considering the productivity losses sustained due to the use of other airports;
- the terrorist attacks of September 11, 2001, and the weak economy, had created uncertainty among potential travelers; and

- a general community perception that local air service was limited and available fares were high.

Project Funded by Grant

The June 26, 2002, grant agreement provided Fort Smith $108,520 and the local community provided $20,000. The application stated that the town would (1) develop an aggressive marketing campaign to illustrate advantages of flying from Fort Smith and associated productivity savings, (2) conduct market research and prepare professional presentations to prospective airlines and (3) utilize a public/private partnership to demonstrate market demand and community support for new service. Fort Smith allocated the grant funding in the following manner:

- Business Traveler Campaign-$51,700
- Leisure Traveler Campaign-$38,200
- Brochures and Direct Mail-$8,620
- Airline Presentations-$15,000
- Special Events-$10,000
- Promotional Materials-$5,000

Grant Outcome

On October 7, 2002, American Connection began providing three daily round trips from Fort Smith to St. Louis. The service was initially provided with Jetstream 41 turboprop aircraft. Table 7 provides quarterly enplanements for this service. American Connection posted its strongest monthly performance with 1,144 enplanements in June 2003.

Table 7: American Connection's Quarterly Enplanement Numbers Fort Smith to St. Louis

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Totals
2002				2,641	**2,641**
2003	2,484	2,543	3,829	1,310	**10,166**

Source: Fort Smith Airport Commission.

Note: The American Connection service did not begin until the 4th quarter of 2002. The service ended 1 month into the 4th quarter of 2003.

At the end of the third quarter in July 2003, American Airlines announced its plans to downsize its St. Louis hub. Daily departures out of St. Louis were reduced from 417 to 207 on November 1, 2003. Additionally, 26 feeder cities, including Fort Smith, lost service to St. Louis as of November 1. An airline official stated that had American not downsized St. Louis, the service from Fort Smith to St. Louis would have continued if passenger levels remained the same.

According to Fort Smith's quarterly reports to DOT, an indirect benefit that Fort Smith has seen since the grant application is that American Airlines and Northwest Airlink have transitioned from turboprop service to a regional jet service. According to airport officials, passenger loads are high and the airport continues to gain seats they lost from the termination of the St. Louis service. Additionally, as shown in table 8, the community has seen an overall increase in passenger numbers from 2002 to 2004.

Table 8: Quarterly Enplanements for Fort Smith, Arkansas 2002-2004

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Totals
2002	18,500	23,393	22,382	23,669	**87,944**
2003	19,737	23,839	24,004	22,913	**90,493**
2004	19,990	23,977	24,337	24,624	**92,928**

Source: Fort Smith Airport Commission.

Fort Smith officials stated that the money spent on marketing and studies helped their cause despite losing service to St. Louis. An official told us that the studies were helpful because they showed prospective airlines that they could fly profitably from Fort Smith. The official told us that due to the flight reductions at Chicago and St. Louis, the studies are important because local officials are now looking to acquire service to Detroit, Michigan via Northwest Airlines. Airport officials told us that Detroit can serve as an alternative to Chicago and St. Louis. A local official told us that Detroit will provide Fort Smith travelers access to the northeastern part of the country as well as Europe and Japan. Local officials told us that the studies performed under the grant put the airport in a position to talk with airlines about potential service to Detroit.

Hailey, Idaho

At the time of grant application, Hailey's Friedman Memorial Airport had scheduled commercial air service to Seattle/Tacoma, Washington, and Salt

Lake City, Utah. Seattle service was provided by de Havilland Dash 8 (37-seat) and Salt Lake service was provided by Embraer 120 (30 seat aircraft). Hailey's application stated that it was a resort destination community with an economy dependent on tourism. It stated that Los Angeles, California, was the area's number one market. The purpose of the grant request was to:

- provide air service improvements to stimulate air travel and reduce travel expense between Sun Valley[2] and Los Angeles;
- stimulate local economic activity by improving air service between Sun Valley and Los Angeles;
- improve air access from the Sun Valley region to key destinations in the western United States; and
- improve air service to a rural region whose airport, Friedman Memorial Field, is significantly restricted by high altitude and mountainous terrain.

The grant application told DOT that the airport's location does not allow for certain aircraft to be able to land at Friedman Memorial Airport. Elevation of the airport (5,300 ft.) and the length of its runway (6,600 ft.) present a challenge for the airport. The high altitude and short runway restrict the types of aircraft that can utilize the airport. During winter months, flights are sometimes diverted due to low visibility conditions. During the summer, flights are weight-restricted due to the higher density altitude caused by warmer temperatures. A community official told us that this difficult operating environment is a factor hampering air service.

Additionally, the grant application told DOT that the airport experiences leakage. Other airports used by potential Friedman passengers include Boise (154 miles), Magic Valley/Twin Falls (64 miles), Pocatello (150 miles), and Idaho Falls Regional Airport, Idaho (140 miles). Additionally, a local official told us that the expense of flying into Hailey is also a challenge.

In order to increase its air service, the community proposed new service to Los Angeles. Horizon Airlines would provide daily round trip service from

[2]Friedman Memorial Airport is a nonhub airport located in Hailey, ID. The Airport serves the Sun Valley/Wood River Valley resort community and surrounding areas.

Friedman Memorial Airport in Hailey to Los Angeles on 70-seat turboprops.

Project Funded by Grant

The June 26, 2002, grant agreement provided the City of Hailey $600,000. The community provided a local match of $271,743. The community allocated $644,344 of their money to cover a revenue shortfall for Horizon Airlines for a 12 month ramp up period. The community estimated that it would take up to 12 months for passenger projections to reach full maturity. An airport official told us that the grant allowed the airline to overcome the initial risk of operating a new route by providing a subsidy for the first year.

Additionally, Hailey allocated $175,000 for marketing, including direct sales, direct mail, print advertising, internet marketing, and radio advertising. Marketing would be targeted to people living in the Los Angeles area that may be interested in visiting nearby Sun Valley and residents in the Sun Valley area that may be interested in travel to Los Angeles for business or personal reasons.

Grant Outcome

On December 15, 2002, Horizon Air commenced scheduled service from Hailey to Los Angeles via Horizon Air with one daily round trip until December 17, 2003. In the community's final project report to DOT, it told DOT that the recreational nature of Hailey and the nearby Sun Valley market generated more traffic in the first and third quarters, versus the second and fourth quarters. The two higher seasons where more traffic occurred were in the winter and the summer months, which are peak tourist seasons in the area. In their final report to DOT, the community told DOT that Hailey's projections for the first year had been 27,366 origin and destination passengers, which would lead to a 53.6 percent load factor. As shown in table 9, their actual passenger totals were 19,335 passengers and a 41.5 percent load factor.

Table 9: Horizon Air's Hailey to Los Angeles Passenger Totals with Revenue Guarantee

Period	12/15/02-12/31/02	1st Quarter 2003	2nd Quarter 2003	3rd Quarter 2003	4th Quarter 2003	Totals
Passengers	1,373	5,388	3,568	6,902	2,104	**19,335**
Load Factor	63%	46%	29%	54%	28%	**41%**

Source: Hailey, ID Final Report to DOT.

A local official in the final project report told DOT that the 70-seat de Havilland Dash 8-400Q is a large aircraft for the market, thus resulting in lower load factors. The official told DOT that the flight Horizon Airlines provides would be best served by a 50-seat aircraft. According to Hailey officials, there are no 50 seat regional jets that have the capability to serve the market, given the airport's current limitations.

In 2004, upon completion of the Small Community Air Service Development Program grant, Horizon Airlines stopped providing year round service to Hailey. Instead, the community contracted with Horizon to provide seasonal service between Hailey and Los Angeles. Additionally, with the grant completed, a local Hailey company provided Horizon Airlines a revenue guarantee to continue to fly the service into Hailey. The company official told us that the grant provided the company justification to promote air service in the community. The official's goal is to make the service between Los Angeles and Hailey self-sufficient in 5 years so a revenue guarantee is no longer needed. In addition, a local official told us that the grant helped start new air service provided by Horizon Airlines between Oakland, California, and Hailey.

A local official told us that the grant has reduced passenger leakage to Boise and Twin Falls, Idaho. However, a local official told us that one problem that the community still encounters is that flights are diverted to Twin Falls due to weather. An airport official told us that if a new instrument landing system were introduced, up to 30 percent of the flights that are now diverted could land in Hailey. Currently, under Hailey's agreement with Horizon Airlines, the community pays for the costs of busing passengers from Twin Falls to Hailey when planes are diverted due to weather. An airline official told us that the grant definitely succeeded and met their expectations for being able to provide service between Hailey and Los Angeles for part of the year.

Lynchburg, Virginia

At the time of the grant application, Lynchburg had service to Atlanta, Georgia; Charlotte, North Carolina; and Philadelphia and Pittsburgh, Pennsylvania. The Atlanta service was provided by Atlantic Southeast Airlines/Delta Connection, and the Charlotte, Philadelphia, and Pittsburgh service was provided by US Airways/Air Midwest/Shuttle America. According to the April 19, 2002, grant application, Lynchburg had recently lost service from United Express/Atlantic Coast to Washington's Dulles Airport. Furthermore, the community had experienced a recent overall decline in service at the time of the grant application. From April 1999 to

April 2002 the community had lost 580 weekly departing seats and 23 weekly departing flights.

According to the grant application, to fill its air service deficiency and recapture lost traffic, Lynchburg proposed an upgrade to small jet service from turboprop for service to Atlanta and Pittsburgh. Additionally, the community wanted an upgrade to a larger turboprop for service to Charlotte. According to the grant application, the objectives of the application were to:

- Establish additional service that will meet the needs of the region.
- Capture passengers from the service area that use other airports due to insufficient services.
- Build additional ridership at the airport as a result of offering service options that are competitive with those found at communities of comparable size.
- Strengthen the economic base of the region.
- Enhance levels of air service in Lynchburg.

Lynchburg noted in its grant application that it had higher airfares relative to other nearby airports in the region such as Newport News, Roanoke, and Charlottesville, Virginia. For example, in a study the community found that fares between Lynchburg and Los Angeles are 19.7 percent greater than from Roanoke (55 miles), 227.8 percent greater than Newport News (213 miles), and 23.9 percent greater from Charlottesville (66 miles) based on 3-day advance purchase business fares. Overall, in the community's grant application, only one market (Chicago O'Hare) in the five sample locations provided had a community that exceeded fares offered at Lynchburg.

In addition, the grant application stated that the airport suffered a great deal of passenger leakage to nearby airports. In the application, the community noted that a recent study concluded that 38.4 percent of the traffic generated by the population residing within Lynchburg's catchment area travel to other airports was due to lower fares and wider availability of air service. It was estimated that 9 percent of the traffic was leaking to Roanoke (55 miles) and 13 percent to Raleigh/Durham, North Carolina (180 miles), to utilize low fare air service. Six other nearby airports also accounted for approximately 17 percent leakage out of the community,

according to the application. The community told DOT in its application that some of this leakage could not be recaptured due to low fare service at Raleigh/Durham. However, the community also told DOT that much of the lost traffic was due to consumer preference for larger and more comfortable aircraft.

Project Funded by Grant

The June 26, 2002, grant agreement provided Lynchburg $500,000, while the local community provided $100,000 in matching funds for a total of $600,000. Lynchburg allocated $475,000 of the program for a 12-month revenue guarantee for Delta upgrading to small jet aircraft (32 seats or greater). The remaining $125,000 was used for advertising and marketing for the airport's newly upgraded service. This sum included payments for consulting services to negotiate with the target carrier and marketing efforts after the recruitment to the benefit of both the new carrier and incumbents as well.

Grant Outcome

Lynchburg Airport and Delta negotiated a revenue guarantee to upgrade their Lynchburg to Atlanta service from 30-seat turboprops to 40-seat regional jets beginning on May 4, 2003. The service provides three roundtrips a day between Lynchburg and Atlanta, and helped increase Delta's passenger capacity in this market by 25 percent. Additionally, on May 2, 2004, US Airways upgraded its Lynchburg to Charlotte service from 19 seat turboprops to 37-seat Dash-8 turboprops. This upgrade in service was provided without a revenue guarantee from Lynchburg. In a quarterly progress report to DOT, an airport official told DOT that US Airways had upgraded its service partly due to the success of the new Delta jet service. The Charlotte service provides the airport six daily departures. In total, upgraded US Airways and Delta flights provided Lynchburg with nine daily departures and 342 passenger seats.

Lynchburg has, however, lost air service from US Airways to Pittsburgh and Philadelphia since the 2002 grant application. An airport official told us that the service was lost due to the economic problems facing major airlines, a general unwillingness for people to fly after September 11, and US Airways reducing its operations in Philadelphia.

Despite this loss in service, Lynchburg's enplanements have risen since 2002. (See table 10.) Additionally, total passenger traffic has increased from 100,274 in 2002 to 120,174 in 2004. The airport in their final project report to the DOT credits this increase in traffic to the upgrade in jet service, lowering of fares at the airport, and increased service at the airport.

Table 10: Quarterly Enplaned Passengers for Lynchburg, Virginia for 2002-2004

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Totals
2002	11,132	13,820	12,263	12,676	**49,891**
2003	9,984	11,367	12,194	14,649	**48,194**
2004	12,434	16,012	15,278	16,763	**60,487**

Source: Lynchburg, VA, Airport.

An airport official told us that the program was a success because it resulted in an additional three sustainable jet flights daily. Additionally, Delta Air Lines on April 5, 2004, deemed the upgraded jet service a success and agreed to continue providing the service without a revenue guarantee after the Small Community Air Service Development Program revenue guarantee ended in May 2004.

Furthermore, the community's final report to DOT noted that the airport has seen an increase in enplanements and a decrease in leakage. The community told DOT that this has occurred due to the upgrade in jet service and a lowering of fares at the airport. The community still has the same amount of weekly departures as before the grant, but the upgrade in jet service has led to more available passenger seats for the community than in January 2002. Despite this increase in passenger seats, airlines at Lynchburg airlines' load factors have risen since the 2002 grant application.

Mobile, Alabama

At the time of the grant application, Mobile was served by Delta Air Lines, US Airways Express, Continental Express, and Northwest Airlink. These four airlines provided Mobile service to Atlanta, Georgia; Dallas/Fort Worth, Texas; Charlotte, North Carolina; Houston, Texas; and Memphis, Tennessee. In previous years, however, Mobile had experienced a decline in air service. Between 1996 and 2002, six airlines cancelled service on seven routes. According to the grant application, since September 2001, the community had lost service to Chicago, Illinois; Cincinnati, Ohio; Birmingham, Alabama; and Washington, D.C. Furthermore, since July 2001, the community has gone from 28 daily departures to 20, and has declined from 10 nonstop cities to 5.

According to the grant application, fares had been a long-standing problem for Mobile. Mobile stated that it had paid up to 40 percent higher average fares than counterparts since 1995. These higher fares had led Mobile passengers to drive to nearby airports such as Pensacola, Florida (60 miles), Gulfport, Mississippi (70 miles), and New Orleans, Louisiana (150 miles) to access lower fares or direct service.

To obtain additional service, Mobile proposed to develop an airport-airline business model to enable more profitable air service at the airport. Under the model, Mobile Airport Authority would own and operate the airline ground stations, charging the airline on a per turn (one arrival and subsequent departure) basis for its use of equipment and staff. The airline station staff would be airport employees, and the airport would provide all the equipment required to handle ground operations. An airport official told us that the community believed that this initiative would help airlines with their high start up costs in a market. If several airlines serve the airport, the program can reduce cost and inefficiency by not having to duplicate staff, equipment, and operations. In addition to developing the airport-airline business model, the goals of the grant according to the grant application were to:

- recruit new service from US Airways Express; additional frequencies to Charlotte and new service to selected US Airways cities; and

- recruit nonstop service to target cities of New York, Orlando, Chicago, and Birmingham.

At the time of the application, the Mobile Airport Authority had already established the new airport-airline program for US Airways. Responding to an announcement that US Airways would completely withdraw from Mobile after September 11, 2001, the Airport Authority hired 10 former station employees and took over handling ground operations for US Airways. In turn, US Airways maintained one local employee and kept open some service. The goal of the program was to use the business model to prevent other airlines from pulling out of the market or to recruit carriers into the market.

Project Funded by Grant

The June 26, 2002, grant agreement provided Mobile $456,137 for the airport-airline business model, and the city of Mobile contributed $20,000 toward the project for a total of $476,137. The grant allowed Mobile to allocate $144,645 to purchase appropriate ground handling and office equipment to continue to operate the existing station. The equipment they

were utilizing at the time for US Airways was on loan from a previous tenant. In addition, $311,492 of the program was allocated as funding for direct operating expenses for personnel, supplies, and maintenance for the existing station for 1 year of operation. The remaining $20,000 was allocated toward marketing support for any new service that participated in the new airport-airline program.

Grant Outcome

Mobile successfully retained US Airways service to Charlotte. An airline official told us before the grant that the Mobile to Charlotte service was not performing as well as expected, and that the airline was planning to leave the market. The airline official told us that much of the problem was due to US Airways staff not being used efficiently. This was due to US Airways having a limited number of flights, which led to high ground station costs per flight. The airline official told us that the Small Community Air Service Development Program grant for US Airways was enough of a cost savings to keep them in the market.

Currently, there are eight Airport Authority staff allocated to the program. The staff is put through a training program sponsored and paid for by US Airways, with the exception of lodging and food which is paid for by the airport. One airport official told us that they were not sure how much they were saving US Airways, but US Airways continues to provide Mobile air service. After the training takes place, the staffing initiative is administered and funded by the airport. There are no local taxes or funding supporting the program.

Additionally, Mobile officials told us that station cost program was successful in securing new service from American Airlines. On April 11, 2005, Mobile announced that American Airlines would operate two daily round-trip flights between Mobile and Dallas/Ft. Worth, Texas, beginning June 9, 2005, using 44-seat Embraer ERJ-140 jets. An airport official told us that Mobile's station cost program was the reason for American's decision. The airport official convinced American that Mobile was prepared to take over ground station costs until the airline made a profit with its new service.

US Airways and American Airlines are the only airlines in Mobile to utilize the airport's station cost offer so far. Airport officials told us that they have offered the ground station program to other air carriers serving Mobile, but none of the carriers expressed interest in the program. An airport official told us that the program would not work as well for incumbent airlines because ground staff would likely lose their jobs. If other carriers chose to

participate, the Authority would probably not need to hire all airline staff. The authority would economize the operations with the staff that they already have employed and increase staff as needed. However, an airport official told us that it would work well for airlines like US Airways that are planning to pull out of the market, and for smaller carriers coming into the market where the start-up costs are prohibitive.

Reading, Pennsylvania

At the time of the grant application, Reading was served by US Airways with two daily flights to Philadelphia, Pennsylvania, and four daily flights to Pittsburgh, Pennsylvania. The community noted that lack of other air service and the fares at the airport caused 91 percent of Reading's ticketed passengers to leak to nearby airports. Additionally, at the time of the grant application, the airport enplanement numbers were half of the volume generated in 1989.

In the community's grant application, Reading indicated that they have attempted to have talks with US Airways regarding service improvements and with additional carriers about providing service to Reading. The community told DOT that they had discussions with US Airways to return service to pre-September 11 levels. Additionally, they had discussions with Delta Air Lines for new service to Atlanta, Georgia, or Cincinnati, Ohio; Air Tran for service to Atlanta, Georgia, and Florida; and Northwest Airlink for service to Detroit, Michigan.

Reading's 2002 application desired to (1) implement a marketing campaign to raise awareness of flying from Reading, (2) retain a marketing and air service consultant to develop and manage the airport's local advertising campaign, and (3) develop the Reading Connection to provide regularly scheduled bus service to Philadelphia to demonstrate the demand for air service that has been reduced.

Project Funded by Grant

The June 26, 2002, grant agreement provided Reading $470,000 for the total project and Reading added a local match of $30,000. Reading allocated $300,000 to subsidize the Reading Connection bus service, $50,000 towards general airport advertising, $50,000 for consultant services, and $70,000 toward advertising and promotion of new carrier services at the airport.

The Reading Connection was a bus service between Reading and Philadelphia that was intended to demonstrate demand to airlines that there was a need for increased air service at Reading. General airport advertising included radio promotions, print advertising, press releases,

direct mail pieces, email newsletters, and website development. The consultant services were used to retain a marketing and air service development consultant to manage the airport's local advertising, public relations, and community outreach programs. The advertising and promotion component would be used to aggressively market a new carrier's entrance into the Reading market. Elements of the program included: billboards, radio, print, direct mail, and community receptions.

Grant Outcome

Reading Airport lost all commercial air service as of September 2004. The community lost service to Philadelphia and Pittsburgh via US Airways and was unable to recruit new additional service. A local official told us that US Airways stopped serving Reading because they felt the bus service would be in direct competition with the airline. Additionally, the official told us that Reading's proximity to nearby airports in Philadelphia, Allentown, and Harrisburg, Pennsylvania, made Reading a low priority for air service in Pennsylvania.

According to a local official, the Reading Connection's bus service operated until the subsidy provided by Small Community Air Service Development Program was completed.[3] After the grant, the service could not be sustained on its own, and the service ended. However, a local entrepreneur has since started the service again without subsidy and provides five round trips daily between Reading and Philadelphia. According to a local official, although the grant did not work the first time, the name recognition that the original grant provided has led to the demand for the bus service now.

Scottsbluff, Nebraska

At the time of the grant application, Scottsbluff was served by Great Lakes Airlines with three daily round trip flights to Denver, Colorado. The community told DOT that for travelers that travel to Lincoln or Omaha, Nebraska the connections and fares were poor through Denver. A local official told us that the 450 miles from Scottsbluff to Omaha could be driven faster than flying to Denver and waiting several hours for a connecting flight to Omaha.

Additionally, a local official told us that people in western Nebraska feel separated from the rest of the state. In the grant application, the

[3]Reading did not ask DOT for the final $106,000 of the grant and did not file a final report. In September 2005 DOT informed Reading that it had de-obligated the funds.

community noted that the lack of intrastate service hinders government entities, businesses, educational institutions, and individuals traveling for personal reasons. Thus, Scottsbluff in its 2002 grant application proposed to support the development of an intra-state air service, provided by Westward Airways, linking eastern and western Nebraska. Scottsbluff previously had similar intra-state service, but operations ceased in November 1995 when the carrier declared bankruptcy. This previous service had been provided under the Essential Air Service program. An airport official told us that there is no direct competition for the Westward Airways intra-state service.

Project Funded by Grant

The June 26, 2002, grant agreement provided Scottsbluff $950,000 for the project, and the local community provided $750,000 in funding for a total of $1,700,000. Westward Airways in conjunction with Scottsbluff provided the intra-state service. The grant allocated $867,893 to be used to fund pre-operating expenses. These expenses included all the costs the company anticipated during the 6 month pre-operating period. Examples of these expenses include administrative and flight operations personnel wages and benefits, personnel training, professional fees, facility rent and insurance, and aircraft acquisition. The remaining $832,107 was allocated to fulfill the company's working capital requirement. Working capital requirements included funds for cash flow operations and forecasted growth phases.

Grant Outcome

Westward Airways commenced their Nebraska intra-state service in June 2004 and ceased operations in July 2005. The service consisted of two daily weekday roundtrips that stop in Scottsbluff, North Platte, Lincoln, and Omaha, Nebraska. All Westward Airways flights in Nebraska were conducted on the Pilatus PC-12 aircraft, a pressurized aircraft capable of 300 miles per hour cruising speeds at altitudes up to 30,000 feet. As shown in table 11, Scottsbluff service had 234 passengers in April 2005.

Table 11: Scottsbluff Total Enplanements June 2004-April 2005

	June 2004	July 2004	Aug. 2004	Sept. 2004	Oct. 2004	Nov. 2004	Dec. 2004	Jan. 2005	Feb. 2005	Mar. 2005	Apr. 2005
Scottsbluff Total Passenger Enplanements	1041	997	1151	1145	1248	1108	1099	852	791	945	891
Westward Airways Scottsbluff Passenger Enplanements	149	130	143	166	205	173	177	138	152	215	234

Source: Scottsbluff County, Nebraska.

Note: Westward Airways started service in Scottsbluff, Nebraska on June 1, 2004.

Westward Airways intra-state service added 10 weekly flights from Scottsbluff, increasing the airport's weekly departures from 18 to 28. The community in its final report to the DOT stated that the program increased enplanements and reduced passenger leakage at the airport. However, the final project report said that initial passenger enplanements were not as robust as expected. It noted that the market had taken longer to develop because travelers are extremely price sensitive. In July 2005 Westward Airways had financial difficulties and ceased operations.

Figure 9: Westward Airways Pilatus PC-12 Aircraft

Source: GAO.

Somerset, Kentucky

At the time of the grant application, Somerset did not have commercial air service. Passengers in the region travel to Lexington, Kentucky (80 miles), Louisville, Kentucky (130 miles), and Cincinnati, Ohio (150 miles) to utilize commercial air service. According to the grant application, because Somerset is not located on the interstate highway system, access to these nearby commercial airports is more difficult.

The community told DOT in the grant application that the lack of commercial air service in the region limits the community's ability to attract additional industry and recreational travelers. In the grant application, Somerset noted that the nearest airport at Lexington offered only a modest amount of nonstop service at a relatively high average fare. Thus, the community noted that an air traveler wanting to go to or from the Somerset region was faced with the alternative of driving a considerable distance and paying high prices for air travel. The community noted that these factors tended to constrain air travel demand and the economic development of the Somerset region.

As a result, Somerset in association with the counties of Casey, McCreary, Pulaski, Russell, and Wayne proposed to conduct a feasibility study to determine the potential for commercial air service for the Somerset-Pulaski County Airport. If feasible, the study would also identify a mechanism to implement an appropriate level of service. The objectives of the application included:

- identifying the level of demand under different operating scenarios-operators, equipment, frequencies, destinations, and fares;
- preparing materials for presentation to potential carriers; and
- contacting potential carriers to determine implementation needs.

Project Funded by Grant

The grant provided Somerset with $95,000 and the community provided a local contribution of $18,000. The grant was used to complete a feasibility study for commercial air services in the region and also provided the community with funds to solicit potential airlines. Specifically the study goals were to look at (1) potential travel demand for the airport, (2) development of proposed operating scenarios, (3) economics of operating scenarios, (4) identification of potential operators, and (5) development of Somerset-Pulaski County air service marketing plan.

According to the grant application, the potential demand projections would allow Somerset to estimate demand if air service was available to the region. The development of proposed operating scenarios would help determine possible service options, scheduling, and selection of appropriate aircraft. The economics of operating scenarios would determine potential operating scenarios of location and aircraft and rank them accordingly based on their economic potential. Identification of potential operators would place emphasis on air carriers with the

appropriate equipment to serve the Somerset market. Lastly, a marketing plan would be developed to include identifying future budgetary needs.

Grant Outcome

Somerset developed an air service development plan study to document the air service needs of the community. A local official told us that the community learned from the development plan that they can support new air service. The community is currently attempting to attract commuter air service to help with tourism, to attain more industry, and for better jobs. According to the local official the air service development plan has led to initial talks with airlines with regard to providing service to Somerset.[4]

Community officials told us that they predict people using the airport would be interested in saving time and money by flying out of Somerset. The community's feasibility study found that 30 percent of businesses in the Somerset area stated that good air transportation access is important or very important for business expansion. For recreation, one local official told us that the community attracts six to seven million tourists per year, and that the number could increase if commercial air service were provided.

Community officials told us that they believe that given the drive time and costs, such as gas and parking fees at other airports, passengers will utilize Somerset's airport. However, one local official told us that to see the new service succeed the community must support it and market it extensively. For example, this official suggested that local businesses could tell their employees to fly the routes served by Somerset to keep the load factors high.

Furthermore, community leaders told us that the study has had indirect benefits as well. The study has spurred spin-off improvements at the airport and community, including new lights at the airport, a new Instrument Landing System and a new inter-modal transportation park. Additionally, the community is in the process of building a new $2 million terminal at the airport, and are adding $1.5 million in airport infrastructure.

[4]In 2005, DOT awarded Somerset a second grant for a revenue guarantee to support air service between Somerset and Cincinnati.

Taos, New Mexico

Taos had scheduled commercial air service at the time of the grant application via Rio Grande Air to Albuquerque, New Mexico. The service, provided on 9-seat Cessna Caravans, began in August 1999 with scheduled service between Taos, Los Alamos, and Albuquerque, New Mexico. In January 2000, the state helped supplement this service when they awarded a grant of $100,000 which was matched by the Town of Taos, the Village of Taos Ski Valley, and the county of Los Alamos. In October 2001, the state awarded a grant of $190,000 to help fund service between Taos, Ruidoso, and Albuquerque, New Mexico. Taos provided $25,000 in matching funds, the Village of Taos ski valley provided $25,000, and Ruidoso provided $150,000. In 2002, Taos and Ruidoso jointly applied for a Small Community Air Service Development Program grant. The primary objective of the grant was to fund Rio Grande's service to Albuquerque. Ruidoso eventually decided to withdraw from the grant due to their desire to obtain service to El Paso, Texas.

According to an airport official, the elevation of the Taos airport (7,091 ft.) and the length of the runway (5,800 ft.) pose landing problems for aircraft: the runway is too short and narrow to land many types of airplanes. He told us that if the runway situation improved they would try to get larger aircraft to serve Taos. At the time of the grant application, the community noted that there is a reluctance of some travelers to fly on small aircraft that serve Taos. Along with reluctance to fly small aircraft, the application noted that capturing local passengers that drive to Albuquerque is a problem. The community noted in its grant application that many travelers and travel agents in other markets were not aware of Rio Grande Air. Additionally, the community described the air service at the time of the grant application provided by Rio Grande as fragile due to its relative newness.

The goals of the grant application were to:

- fortify Taos' air service,
- expand advertising and promotion to solidify support for the service,
- create a self sustaining air service for Taos' mountain resort communities, and
- provide a link to new air service through ground transportation connections and other communities of the Taos/Enchanted Circle region.

The application sought funds to continue service by Rio Grande Air to Albuquerque at the time of the grant. At the time of the grant application, the service was only 2 years old and the community considered it fragile.

Project Funded by Grant

The June 26, 2002, grant agreement provided Taos with $500,000. The Town of Taos, Taos Ski Valley Incorporated, and Taos Aviation Services provided $200,000. The State of New Mexico provided another $200,000 in state funding for the project, bringing the overall project total to $900,000.

The application allocated $634,423 of the program's cost to cover a revenue guarantee for Rio Grande Airways during the initial phases of service. In addition, the application allocated the Town of Taos $265,577 for advertising and promotion of the continuing service. The advertising and promotion component includes billboards, newspapers, magazines, television, and radio advertisements. The advertising and promotion program was used to target the drive market visitor, business travelers, and in-state tourists.

Grant Outcome

Rio Grande continued to provide service to Albuquerque until June 2004. At that time, the service was discontinued because the airline went bankrupt. An airline official from Rio Grande Airline told us that the support from the community had not sustained after the Small Community Air Service Development Program funding was completed. He also told us that there were many setbacks that the grant could not control, such as a tremendous drought in the region leading to a weak ski season, a major forest fire that caused a drop in enplanements and a drop in the overall economy after September 11. Additionally, the Rio Grande official told us that the airline needed more planes to improve their economies of scale to support itself. The official also told us that an airline cannot succeed if all the overhead costs have to be applied to just two aircraft, since the aircraft become too expensive to operate.

However, the Rio Grande official told us that the service, when operating, helped build enplanements and a steady growth in passengers for Taos. An airport official told us that the project was a success because the community had a taste of air service and that there is now a demand for service from Taos to Albuquerque. Table 12 shows the passenger traffic for Rio Grande Airways from the 2002 grant application year through May 2004.

Table 12: Rio Grande Airways Total Passengers (Arrivals and Departures) from Taos from 2002 Grant Application to 2004 Termination of Service

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2002	1,429	1,169	1,432	1,283
2003	1,494	1,242	1,768	1,653
2004	1,974	1,046		

Source: Taos Airport.

Notes: Taos agreed to the Small Community Air Service grant in June 2002.

Includes total passengers through May 2004, the service was terminated in June 2004.

In 2003, Taos and a consortium of New Mexico communities received another Small Community Air Service Development grant. The grant provided intrastate service for Gallup, Taos, and Las Cruces, New Mexico. The new service began in December 2004 and was provided by Westward Airways. However the service was discontinued in July 2005 when Westward Airways filed for bankruptcy.

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