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# The importance of markets, politics, and community support: An analysis of the Small Community Air Service Development Program



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## ABSTRACT

Across the U.S., smaller communities face a challenging environment for attracting and retaining commercial air service as a result of airline industry changes. Increasingly, airports and communities in smaller markets are developing air service development programs (ASIPs) to provide incentives to reduce the financial risk to airlines while also marketing the new service to the community. A key source of funds for many of community-based incentive programs is the Small Community Air Service Development Program (SCASDP), which is a discretionary grant program operated by the Department of Transportation that provides funding to communities to supplement their own ASIPs. Despite the growing importance of this tool used by many communities, we know little about the factors that drive the allocation of SCASDP grants by the DOT. Using an analysis of 164 applications to the SCASDP program between 2011 and 2013, we assess the effect of market, political, and economic factors on the DOT's allocation of grants. Our findings suggest the DOT largely relies on the criteria in its published guidelines to allocate SCASDP grants. Specifically, the agency is more likely to approve applications for SCASDP grants when the community has the support of members of Congress who represent the community and the support of businesses and citizens through local match contributions. We also find the DOT allocates grants to communities with letters of support from air carriers and prior experience, either through multiple applications in the past or through an experience air service development consultant, with the application process.

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## 1. Introduction

Across the U.S., smaller communities face a challenging environment for attracting and retaining commercial air service. The Airline Deregulation Act (ADA), passed in 1978, removed many of the restrictions on air carriers on where to fly, when to fly, and what fares to charge for flights. While the ADA led to the growth of the airline industry and improved competition, it also eliminated operating subsidies and flight rights that incentivized air carriers to provide service to small communities with less demand and higher competition from larger airports within a few hours drive. In an early attempt to address these issues, Congress created the Essential Air Service (EAS) program to ensure all communities receiving commercial air service before deregulation would continue to

receive commercial air service in a deregulated market. However, as the costs of the EAS program have increased, Congress and the Department of Transportation (DOT) have reduced the number of eligible communities to focus resources on those with the most difficult air service environments (Özcan, 2014).

Over the past decade, the air service environment for small communities has worsened. Between 2001 and 2014, small hub airports<sup>1</sup> in the United States lost 11% of their available seats while non-hub airports<sup>2</sup> lost 17% (Spitz et al., 2015). The causes of this decline in service are multiple and often interrelated. First, the consolidation of major air carriers has reduced overall system capacity and limited the number of potential airlines that can serve a community. The number of network air carriers has decreased from

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<sup>1</sup> The Federal Aviation Administration (FAA) defines a small hub airport as having 0.05%–0.25% of nationwide annual passenger enplanements.

<sup>2</sup> The Federal Aviation Administration (FAA) defines a non-hub airport as having between 10,000 and 0.05% of nationwide annual passenger enplanements.

ten to six over the past 15 years. The four largest U.S. carriers (Delta, United, Southwest, and American) today provide 80% of the domestic service. Second, following the global recession and volatile fuel price increases in 2008, airlines have shifted from a market-share based business model to a profitability-focused strategy (Wittman and Swelbar, 2013). This has led many airlines to limit their overall system capacity, leading to reductions in service in small communities even when routes are profitable (Kim, 2016). Finally, the 50-seat regional jet, the backbone of small community air service during the early 2000s, is being phased out due to decreased operational efficiency and a shortage of eligible pilots. The lack of an economically viable aircraft to serve smaller markets has limited the potential for profitable air service for several smaller communities (Spitz et al., 2015).

In order to reduce the potential financial risk to air carriers and to demonstrate their interest in additional air service, many small communities and airports have started to provide financial incentives to airlines to continue or start new air service. In order to retain or attract new service, airports often provide waivers for landing fees, terminal rent, ground handling or other fees for 12–24 months. Additionally, airports will also provide marketing assistance to airlines to stimulate the market through advertising or media buys. However, the Federal Aviation Administration (FAA) has restrictions on the incentives airports can offer, including a restriction on providing minimum revenue guarantees (MRGs), a tool designed to reduce the risk to an air carrier for serving a new route by guaranteeing an agreed upon level of revenue, directly to airlines. Therefore, many communities have developed their own incentive programs focused on providing MRGs, guaranteed ticket purchases, or marketing assistance to carriers. Community incentive programs are typically coordinated by a chamber of commerce, economic development corporation (EDC), or convention and visitors bureau (CVB) and are funded by contributions by individual businesses, resorts, or state agencies.<sup>3</sup> As the competition for air service has increased, an incentive arms race has developed between communities as they offer more lucrative packages to airlines.

In addition to local sources of money, the federal government has provided funds to communities to assist in attracting new air service to small communities. The Small Community Air Service Development Program (SCASDP) is a program of the U.S. DOT that provides funds to airports and communities to supplement existing community incentive or marketing programs. The Small Community Air Service Development Program (SCASDP) began as a pilot program in 2000, authorized under the *Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21)*, P.L. 106-181. Since 2002, the first year the program was appropriated, SCASDP has provided 384 grants totaling over \$175 million to assist small communities across the United States. As the demand for air service incentives has increased, so too has the competition for SCASDP grants. While over the program's 15-year history, 32% of applicants received grants, in 2015 only 20.75% of applicants received grants due to significant cuts in funding for the program. Specifically, appropriations for the program have decreased from \$20 million in 2002 to just over \$5 million in 2016. As communities continue to vie for increasingly scarce resources, an important question remains unanswered: what are the factors that influence the DOT's decision to allocate SCASDP grants to particular communities?

To address this question, we use a novel dataset of all applications to the SCASDP program from 2011 to 2013 in addition to data from the Bureau of Transportation Statistics on airfares and flight

activity. Our findings, derived from a logistical regression analysis, suggest DOT largely follows its published criteria by awarding grants more often to communities with a support letter from an airline and higher local match percentages. However, we also find DOT is more likely to award grants to communities with multiple letters from members of Congress and applications from communities who were denied in the past and use a consultant to assemble their application. The findings of this study provide insights into the factors that drive decision-making inside the “black box” of federal agencies. The paper proceeds with a review of the literature on the history and programmatic requirements of SCASDP, examinations of the efficacy of SCASDP, and air service development incentive programs. Next, we outline the data and method we use to determine the factors that lead to SCASDP awards. Finally, we present our empirical results and the implications for airport and community officials for future applications for SCASDP grants.

## 2. Air service incentives and SCASDP

### 2.1. Air service incentive programs

Airports in many small communities serve as a conduit for residents and businesses to the global transportation network while often serving as a major economic hub for continued growth and development in the region (Brueckner, 2003; Green, 2007; Button et al., 2010; Mukkala and Tervo, 2013; Tittle et al., 2013). In 2016, small and non-hub airports contributed \$121 billion in economic output supporting 1.1 million jobs (InterVISTAS, 2017). Additionally, flights to small and non-hub airports account for 30–45% of departures at large and medium hub airports such as Charlotte (CLT), Dallas/Fort Worth (DFW), and Atlanta (ATL). Therefore, loss or decline of service in smaller communities has serious economic consequences not only for small and non-hubs, but also for larger hubs reliant on connecting traffic. The economic and transportation access benefits of air service coupled with the constrained capacity of the airline industry has led to a fierce competition among smaller communities to retain and attract service.

As the competition for air service in small communities has increased due to industry consolidation, upgauging, and other factors, many airports and communities have attempted to make their markets more attractive to air carriers by offering financial incentives to reduce the potential financial risk to air carriers and to demonstrate community support for new air service. Air service incentive programs (ASIPs) are suites of tools designed to induce an airline to retain, initiate, or expand service at an airport. Incentives may take the form of monetary payments, fee waivers, in-kind contributions or other benefits given to an airline in exchange for the targeted air service. Within the U.S., incentive programs can be broken down into two categories: airport-administered programs, which are subject to FAA guidance and restrictions, or community incentive programs, which have no FAA limitations (Federal Aviation Administration, 2010).<sup>4</sup> Therefore, incentives may be offered directly by an airport, by the surrounding community, or by both.

The goal of ASIPs is to reduce an airline's financial risk of serving a community with a small or unproven market by directly

<sup>3</sup> The FAA prohibits airports from coordinating or being part of the decision-making process for community incentive programs.

<sup>4</sup> The FAA also requires airport incentives to be non-discriminatory. Also, airports can offer fee waivers or marketing assistance to new entrant carriers for 12 months and to both new entrants and incumbent carriers for 24 months. Airports cannot use airport revenue to directly subsidize air carriers or offer minimum revenue guarantees. Finally, airports cannot target their incentive programs to specific carriers, types of carriers (e.g. low cost carriers), or for certain aircraft types (upgauging).

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