

**Statement of Mark F. Courtney, A.A.E.**  
**Airport Director**  
**Lynchburg Regional Airport**  
**Lynchburg, Virginia**  
**Before the**  
**House Transportation and Infrastructure Subcommittee on Aviation**  
**Regarding the**  
**Small Community Air Service Development Program**  
**April 25, 2007**

Chairman Costello, Ranking Member Petri and members of the House Transportation and Infrastructure Subcommittee on Aviation, on behalf of the City of Lynchburg and the Lynchburg Regional Airport Commission, I would like to thank you for your invitation to appear before your subcommittee to speak on the topic of the Small Community Air Service Development Program. Lynchburg Regional Airport (LYH) has had the opportunity to participate in this program through two separate grants, and today I would like to focus on our experiences and the success of our first grant under this program in 2002.

**Background**

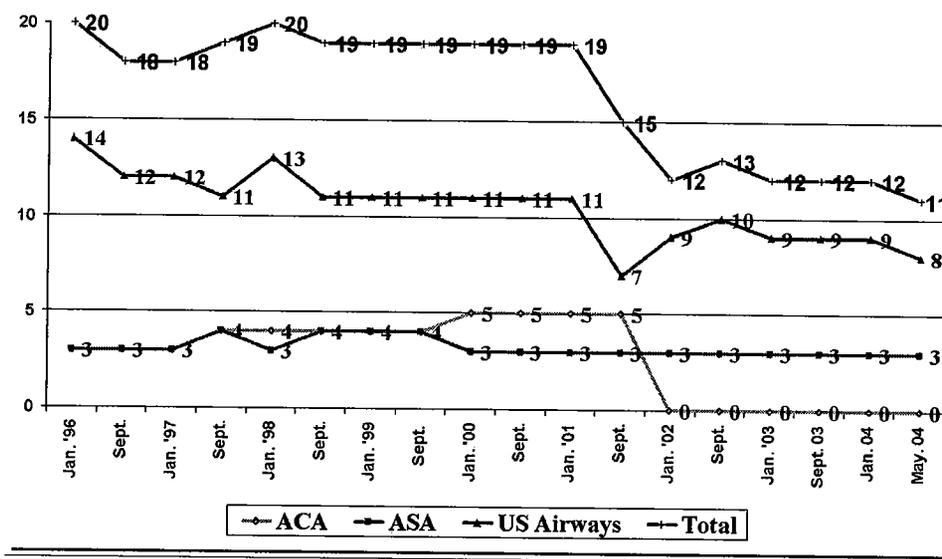
Lynchburg Regional Airport (LYH) is classified as a non-hub airport and is the primary commercial service airport serving a four-county area in central Virginia surrounding Lynchburg, Virginia. With a service area population of 221,000, LYH is currently served by the regional affiliates of two airlines, Delta and US Airways, and today offers a total of seven daily departures to airline hubs in Atlanta and Charlotte.

Lynchburg Regional Airport, like many similar-sized airports, was particularly hard hit by the events September 11, 2001. Prior to September 11, LYH enjoyed daily scheduled airline service by three airlines (Delta, United and US Airways) with a total of 19 daily departures to four different major hub airports. Lynchburg's total passenger traffic during a ten-year period preceding September 11 averaged approximate 180,000 passengers annually, with the local market easily supporting daily airline seat capacity in the 500-seat range.

In the immediate days following September 11, LYH, like most airports throughout the country, experienced a dramatic decline in passenger demand. Then, in the fall of 2001, United Express carrier Atlantic Coast Airlines, one of our three airlines, announced that it would be withdrawing all service from LYH and close its station. But, unlike many larger airports, LYH suffered a disproportionate reduction in airline service and seat capacity as flight schedules were reduced.

When the dust settled, LYH was left with just 12 scheduled airline departures daily, down from 19, while suffering a crippling 38% loss of daily seat capacity compared to September 2000. As a result, by the end of CY 2002, Lynchburg's total passenger traffic had dropped 38% from 2000, the last full year before September 11.

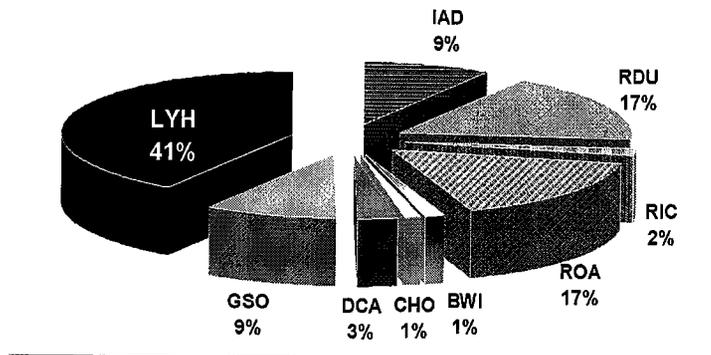
### 1996 – 2004 Daily Departures



### Air Travelers' Turn to Other Airports

As air travel demand began to recover from the immediate impacts of September 11, in 2002 LYH faced a situation whereby seat capacity and flight frequency was unable to accommodate local air travel demand. The result was an increase in the number of local air travelers who opted to drive to other near-by airports to accommodate their travel needs. In fact, in 2002 LYH went from historical market capture rates (percentage of our own passengers we attract) in the 65% range to just 41%. Nearly six out of 10 of our local air travelers were driving to other airports for their flying needs.

### Passenger Ticket Lift Survey September 2002



## **LYH and the 2002 SCASD Pilot Program**

When Congress made funding available in 2002 for the previously-authorized Small Community Air Service Development Program (SCASDP), a significant opportunity was created for LYH and other similar-sized airports. With the airlines showing little interest in expanding service at smaller airports, the possibility of obtaining federal grants under this program was immediately recognized as a way for LYH to successfully attract the interest of airlines through the added benefit of incentives.

Consequently, in April 2002 the City of Lynchburg, on behalf of LYH, submitted a comprehensive proposal to the U.S. Department of Transportation for a \$500,000 SCASDP grant to recapture some of our lost airline service. Major elements of the proposal were:

- To upgrade existing airline service from turbo-prop to regional jet aircraft with a minimum frequency of three roundtrips per day;
- To add seat capacity to address underserved market needs;
- To attempt to obtain fare relief in order to re-capture passenger traffic lost to other airports;
- To limit the program to incumbent carriers only in order to make the upgrades as low cost to the airlines as possible (i.e. eliminates station start-up costs);
- To integrate into the program the assistance of a local public/private partnership. In cooperation with the Lynchburg Chamber of Commerce, the “Air Service Development Partnership” would be utilized to solicit financial matching funds and build business community support of the effort.

*Use of a Revenue Guarantee* - The proposed program mainly relied upon a “revenue guarantee” methodology as its core financial incentive to the targeted airlines, and featured the following:

- A one-year duration to provide quick results and be consistent with the intent of the SCASD program;
- The \$500,000 SCASDP grant would be earmarked for the revenue guarantee, with an additional \$100,000 in local (non-airport) matching funds to be used to market and promote the upgraded service;

## **Grant Award and Negotiations**

In June of 2002, Lynchburg was one of 40 communities that were selected as part of the first year's pilot program. Lynchburg subsequently went under grant in September of 2002, and immediately began to implement our program.

Proposals were made to both Delta Airlines and US Airways during that fall, with Delta committing to participate in the program by upgrading to three Canadair Regional Jets (CRJs) in December 2002. Delta announced the new CRJ service in March 2003, a formal agreement was signed by all parties and approved by the DOT in April. The new service then began May 4, 2003 for a one-year period under a revenue guarantee arrangement.

***Revenue Guarantee Structure*** – The revenue guarantee was designed to provide a revenue offset to the airline in order to compensate it for losses normally incurred during the market development period. Due to the pent-up demand that was present at LYH, the \$500,000 in revenue guarantees to the airline was expected to be necessary for only a one-year period, after which the CRJ service would be expected to be profitable on a sustaining basis.

***Marketing & Promotion Elements*** – The marketing and advertising components featured a multi-media approach that was funded with \$100,000 that was provided by the local Air Service Development Partnership and area businesses. The media mix was balanced, incorporating television at 36%; radio at 27%; billboards at 20%; and print at 14%. The media message focused on creating a strong visual image of the new jet service through extensive photos of the CRJ, and initially utilized the slogan “Lynchburg’s Joined the Jet Set.”

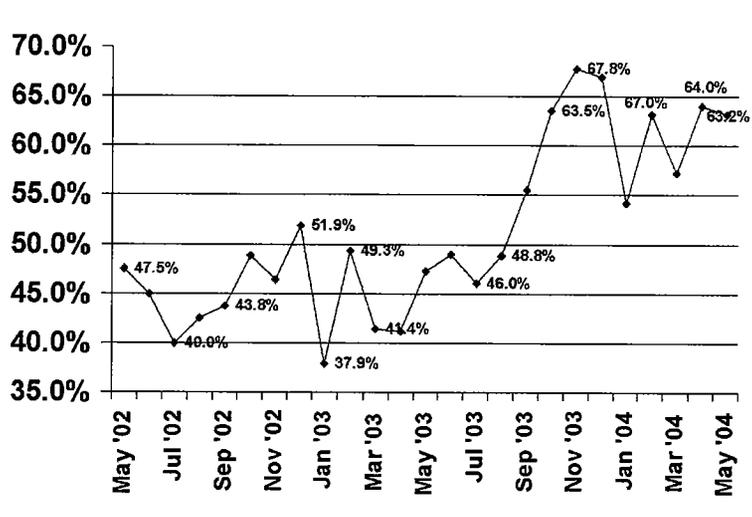
***Airfare Element*** – While the initial agreement with Delta did not include specific references to any adjustment in existing Delta airfares at LYH, after the first two months of the upgraded service it was recognized that passengers load factors were not increasing as expected. Consequently, during discussions with Delta planning officials over the summer of 2003, airport officials contended that the primary reason for this lack of growth was due to Delta’s published fare disparities between Lynchburg and near-by Roanoke (60 miles away). As a result, Delta agreed to introduce a “sister city” fare pricing program with Roanoke, which in essence made Lynchburg’s and Roanoke’s published fares the same. In conjunction with this, the airport also introduced a new slogan for the upgraded service, “Check Lynchburg First,” to encourage those air travelers who were previously driving to Roanoke to check Lynchburg’s new competitive airfares.

## **The Results**

Following the introduction of a new, more competitive pricing structure, Delta’s passenger load factors at LYH almost immediately began to improve, jumping from 49% in August 2003 to nearly 64% by October. Even more encouraging, Delta’s passenger

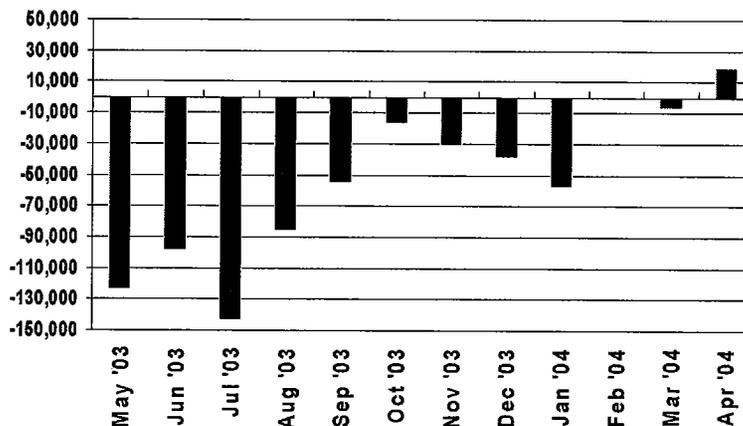
revenues actually went up under the new pricing structure, despite the slight decrease in airfares. Overall, Delta's passenger traffic went from 2,111 total passengers in April 2002, the month before the new CRJ service started, to 4,735 by October 2003.

**Delta Load Factor Statistics**



By the winter of 2004, it was evident that the new service was a complete success, and that it was exceeding expectations. In fact, under the formula for the revenue guarantee, in February 2004 total revenues actually exceeded the target under the agreement for the first time. By April, we were exceeded the revenue target by approximately \$20,000 and received confirmation from Delta officials that they deemed the program a success and would be continuing the service after it expired in May 2004.

**Delta Revenue Guarantee/Target Revenue Comparison 2003-2004**



## **Keys to Success for Lynchburg**

Without a doubt, there were many interrelated components of Lynchburg's market environment that helped to make this initial program a success. In many ways, it was almost a textbook case of applying a Quality Service Index (QSI) formula to evaluate air service. By far the most important, however, was simply the fact that our region was left so underserved by the airlines after the dramatic reductions in the aftermath of September 11. Further contributing to that pent-up demand was the fact that we also had the advantage of starting with a high yield revenue base made possible by stable business travel demand. Other contributing factors included:

- The new CRJ service represented the return of jet service to LYH for the first time in over 10 years;
- The introduction of airfare pricing parity with near-by Roanoke Regional Airport was a key ingredient to re-capturing lost local traffic back to LYH, and gave us a strong advertising angle to target those lost passengers; and,
- An improving local economic environment further contributed to the growth of passenger traffic and an even stronger increase in airline revenues due to increased business travel demand.

## **Current Developments**

Although Lynchburg's 2002 SCASD program grant was by all accounts a complete success, LYH has nonetheless been somewhat of a victim of that success.

While passenger traffic continued to record healthy increases in 2004 and 2005, passenger growth began to level off in 2006, resulting in a slight decline for the full calendar year. Today, air service frequency has declined slightly to just seven daily departures, although the size the aircraft has increased resulting in relatively stable, if not stagnant, seat capacity.

By far, the biggest frustration we face today is the abandonment of the "sister city" program by Delta since June of last year. Although mostly a response to fare increases instituted by US Airways over a year and a half ago, increasing business passenger demand in our local market enabled both carriers to begin raising leisure fares, culminating in average \$60 leisure fare disparity with Roanoke. Consequently, we have seen our leakage to Roanoke increase significantly in recent months, while struggling to maintain passenger levels despite strong revenue performance by the airlines.

To help interject competition into our market, as well as to obtain nonstop service to a northern connecting hub since losing Washington Dulles and Pittsburgh service, in April 2006 the City of Lynchburg submitted a proposal to the U.S. DOT for another SCASDP

grant for \$250,000. Structured similarly to our 2002 grant, this proposal was for a revenue offset to be used primarily to attract service to Washington Dulles as a northern connecting hub. In September 2006, LYH was selected to receive a grant for that year, and since then have been pursuing a United Express carrier without success.

Today, the airline environment and industry economics continue to make quality, competitively priced airline service allusive for small commercial service airports like LYH. Despite the availability of grants under the SCASDP, however, attracting the attention of airlines to serve our smaller airports has become even more challenging.

### **Conclusion**

When looked at in the context of five years ago, it is clear that for LYH this program was a complete success. The program was instituted at a very opportune time for our airport, and the timing for execution of our proposal was perfect. At the time of the grant offer, the airport was significantly underserved, which was compounded by inordinately high airfares.

The implementation of a revenue guarantee program was exactly the best way to address our particular program at the time in that it provided compensation to the airline during the critical market development phase of new service introduction. The result was a steady decrease in revenue guarantee payments to the airline, culminating at the end of the program in revenues that exceeded goals.

Clearly, for situations like those faced by LYH, this program was highly effective and an excellent use of tax dollars. I would encourage Congress to continue programs such as this that have a record of success, and to focus on those airports that have the greatest needs in this area (non-hubs), but among those only airports with the greatest chance of success.