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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to participate in this hearing on "Air Service to Small and Rural Communities." It is an honor for me to be here.

My name is Dan Mann. I am the Executive Director of the Columbia Metropolitan Airport, a small hub airport located in West Columbia, South Carolina. I am pleased to testify today about the air service challenges facing small and non-hub airports.

Airports today are confronting a wide variety of issues. As airlines continue to consolidate, fuel prices remain high, and the economy adjusts to a new normal, it has become more imperative than ever for airports to make fiscally sound decisions. Those airports that understand the challenges before them and operate efficiently have the best chance of finding success in the marketplace, as long as they are not stifled by excessive Federal Government restrictions. If Federal restrictions on the use of local airport revenues were relaxed, airports could better serve their communities and the travelling public.

This is particularly true for the small and non-hub airports that compose a majority of the nation's primary commercial airports. By the FAA's definition, over 85% of the nation's 389 primary commercial airports are small and non-hub facilities. These airports often serve as a major economic driver for their communities, supporting millions of jobs that create billions in payroll dollars. As an industry, airports produce $1.2 trillion in economic benefit.

Today, I am pleased to share my story with this body and to testify that small and non-hub airports can still be competitive and viable. However, this is only true when decisions are made that are in the best long term interest of the airport and when airports are free from regulatory constraints and empowered to make those decisions.

THE COLUMBIA METROPOLITAN AIRPORT EXAMPLE

Columbia Metropolitan Airport (CAE) sits in South Carolina's Capital City of Columbia. As the state capital, Columbia is home to the University of South Carolina, and multiple military installations including Fort Jackson, which is the largest Army training base in the U.S. In

addition, Columbia boasts a number of major companies including SCANA, Michelin, Amazon, Aflac, Komatsu and Nephron Pharmaceuticals.

Between 2000 and 2010, the city's population increased from 536,691 to 767,598 which correlates to a 43% growth. From an airline perspective, Columbia maintained a stable economy throughout the recession.

Yet despite these strengths, Columbia was impacted by the same challenges as other airports: declines in air service, fewer airlines, fewer non-stop destinations, fewer seats, higher fares, and a decrease in passengers. After a peak of 728,000 enplaned passengers in 2005, airline seat capacity from the Airport was reduced by 34% between 2005 and 2010 and enplanements dropped 32% to 492,000.

I became the Executive Director in February 2010 and was immediately faced with the challenge of addressing the downward trends impacting the Airport. Additionally, only days after my arrival, Southwest announced they would start service to Greenville-Spartanburg Airport and Charleston International Airport. Both airports are within a 1 ½ hour drive of Columbia.

Southwest's decision was influenced by many factors, but two factors were key. The first was Columbia Metropolitan Airport's operating costs; the Airport's cost per enplanement (CPE) exceeded $12.00, well over the national average of $7.95. The second was the community's willingness to drive to competing airports for air service, as was demonstrated by the 50% leakage to Charlotte, North Carolina which sits another 1.5 hours away from CAE. As the 6th largest airport in the country, Charlotte grew 62% between 2000 and 2010. The growth in service options and decreased fares from Charlotte, combined with the competition from Southwest, put additional pressure on the CAE market.

Addressing the Challenges: Clearly, there was no legislative or regulatory solution for excessive airport cost and consumer choices. In an increasingly competitive environment, both regionally and nationally, CAE was not well positioned to take advantage of the limited opportunities available. In fact, we were increasingly vulnerable to airports with lower costs.

In early 2010, I spoke with all of our incumbent airlines, and the message was very clear. CPE needed to be below $10.00 in order to slow the rate of air service reductions or consider capacity increases in select markets. The task of lowering cost per passenger when the number of passengers is decreasing is monumentally difficult.

The first step was to benchmark CAE's cost to 20 similarly sized small hub airports which clearly outlined areas of concern. CAE's debt was $155 per passenger versus the $95 per passenger average. Our Full Time Equivalent (FTE) count was the highest of the 20 airports and 60% higher than average. And, our cost per passenger was second highest of those surveyed.

Over the next two years, I began the process of streamlining the organization and creating a more competitive airport. Between 2010 and 2012, we reduced staff by 46%, saving $1.7 million annually. We reduced debt to $122 per passenger and lowered CPE from $12.02 to $9.17 in 2013.

Although getting our cost in line was of vital importance to the airlines, community engagement was equally important, as any capacity increases would be short-term if we were unable to modify the community's trend of driving to competing airports—primarily Charlotte. Columbia Metropolitan Airport committed resources to a public relations/marketing campaign to engage our business community and inform the public of their role in ensuring that their local airport remained viable and competitive. Our strategy applied the dual approach of utilizing both traditional media avenues and grassroots methods of emphasizing to our community the convenience and ease of air travel that Columbia Metropolitan Airport is able to offer. We recruited community leaders as ambassadors for our advertisements and put a focus on customer service and engagement with our guests.

With improved costs and communication, we were able to make a business case to our incumbent airlines for increased capacity and competitive fares. Delta added capacity to Atlanta and United added service to Newark. 2012 resulted in the first enplanement increase in six years, and 2013 surpassed 2012.

Stabilization: Today, the airport is serviced by the three remaining legacy airline carriers; American, Delta and United. It offers non-stop flights to 10 destinations across the country; Atlanta, Charlotte, Chicago, Dallas, Detroit, Houston, Philadelphia, New York (LGA) and Washington, DC (IAD, DCA).

Reducing airport debt and lowering costs to the airlines has led to a stable demand for air service from CAE that remains consistent from month to month and year to year. However, our ability to respond to future market challenges remains constrained by antiquated FAA Revenue Use Policy.

FEDERAL CONSTRAINTS ON AIR SERVICE INCENTIVES

Having described the Columbia experience, I would like to turn to the issue of federal constraints on airport initiatives for improving air service. The FAA's Revenue Use Policy states that "Direct subsidy of air carrier operations" is prohibited. The Policy further stipulates that "any fee waiver or discount must be offered to all users of the airport, and provided to all users that are willing to provide the same type and level of new services consistent with the promotional offering." Furthermore, the FAA does not allow an airport to use any of its own revenue for the airline revenue guarantees or similar initiatives to develop additional air service for the community it serves.

These restrictions make it difficult for small and non-hub airports to generate competition within their markets. Air service is *the* fundamental purpose of air carrier airports, and the stimulation of competition is key to an airport's growth and success in meeting the needs of business and leisure travelers alike. Under the present regulatory regime, airports are limited in the types of incentives they can provide, and are forced to provide incentives to all carriers or else forgo the use of incentives. If the FAA were to allow airports to offer targeted incentives, including airline relocation costs, to attract only the type of service desired by the airport, small airports would be afforded much better leverage to compete for the service the community wants and needs.

In its Air Service Incentives Guidebook, the FAA has indicated that an outside body, such as a local Chamber of Commerce, can provide an incentive – or even a subsidy – to a single carrier with non-airport revenue. However, this option falls short of meeting airports' need to promote competition. Moreover, it can be unproductive if the airport cannot be involved in the decision to select routes and other provisions of the incentive due to a provision in the Guidebook that states that airports may not be involved in "negotiating, implementing, or monitoring the program in any manner," nor are airports able to keep track of the funds.

In an even more egregious form of government over-reach, the Guidebook states that airports themselves are not even permitted to be a member of a Chamber of Commerce that considers an airline subsidy – even if the airport does not vote on whether to approve the subsidy. This leaves the professional business of air service development to non-professionals who, despite their best intentions, lack the industry knowledge and resources to make sound decisions regarding which airlines and air service opportunities will best suit the community.

Small Community Air Service Development (SCASD) Program: I believe that another benefit of expanding airports' options for utilizing their revenues would be to reduce the need for federal money to go towards programs such as the Small Community Air Service Development (SCASD) Program. In fact, this program was developed because airports were so constrained by the revenue use policy.

The SCASD program is an excellent resource to airports, and it is most effective when used to support sound initiatives with the potential for being self-sustaining. Unfortunately, as a government-issued source of funds, the grant may also lead to riskier, short-term actions from airports, which would otherwise make decisions based on longer term benefits if they were using their own resources. In short, airports need to be given the freedom to put in place sustainable initiatives, instead of having federal funds support efforts that only provide benefits for a short time.

I share this insight based on my own personal experiences with the SCASD program. I have been the recipient of SCASD grants on two occasions: one grant in Casper, Wyoming and one in Cedar Rapids, Iowa.

The first grant in Wyoming was used to purchase an aircraft and lease it to an airline. The program was supported locally and resulted in regional jet service to Minneapolis-Saint Paul International Airport (MSP). The aircraft was sold and the proceeds were returned to the U.S. DOT. However, local support for the MSP service continued and the route remained intact until the merger of Delta and Northwest.

The second grant was used for marketing new non-stop service from Eastern Iowa Airport (CID) to LaGuardia International Airport (LGA). Unfortunately, local demand was insufficient to sustain the service, and the grant funds were exhausted. I submit that, had local revenue been used in this case, the community would have had a greater sense of ownership over the success of the service -- and taken effective steps to promote and sustain it -- or the service would have

never launched in the first place. The risk would have been solely on the local community, but due to FAA regulations the only option for providing this incentive was the SCASD grant.

In both cases, success and/or failure was defined by demand, as should be the case. While the SCASD grant provided much needed funding for both initiatives, it provided only short-term, one-time cash, whereas local control of airport revenue would provide more prudent decision-making that is likely to lead to more sustainable service.

CONCLUSION

Mr. Chairman, the challenges currently facing small airports are great and regulatory constraints magnify those challenges. The solutions must come from airports on a local level, and the regulatory bodies can assist by granting flexibility and more local control.

This is particularly true for small airports, as they are being most affected by changes in the industry. Consider the fact that, between 2007 and 2012, the country's 29 largest airports lost 8.8% of their flights, while smaller airports lost an average of 21.3%. Mergers, bankruptcies and consolidations have left only four remaining primary airlines—American, Delta, United and Southwest. Spirit, Frontier, Alaska and Jet Blue have much smaller route systems and are not likely to serve small communities. Allegiant is willing to serve small markets; however, it does not meet the needs of the business traveler, who is key in driving economic development in the communities in which they live and work.

As the airline industry continues to contract, small airports and their communities must recognize that what we're facing is the new reality of the industry. Sound business decisions will have to be made on the part of the airports in order for us to effectively navigate these realities and compete in a new environment. Regulatory bodies can help those airports making strides to be competitive by giving them flexibility to improve air service to their community through greater airport control of their own revenues.

Once those airports that are working to operate efficiently, generate customer demand and support willing airline partners are empowered with the means to self-fund incentives and mitigate risks, I firmly believe the industry will see the growth and expansion required to keep small airports viable in their communities.