Statement of Mark F. Courtney, A.A.E.
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Lynchburg Regional Airport
Lynchburg, Virginia
Before the
Senate Commerce Committee's Aviation Subcommittee
Regarding the
Small Community Air Service Development Program
July 17, 2007

Chairman Rockefeller, Ranking Member Lott and members of the Senate Commerce Committee's Aviation Subcommittee, 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 with this program.

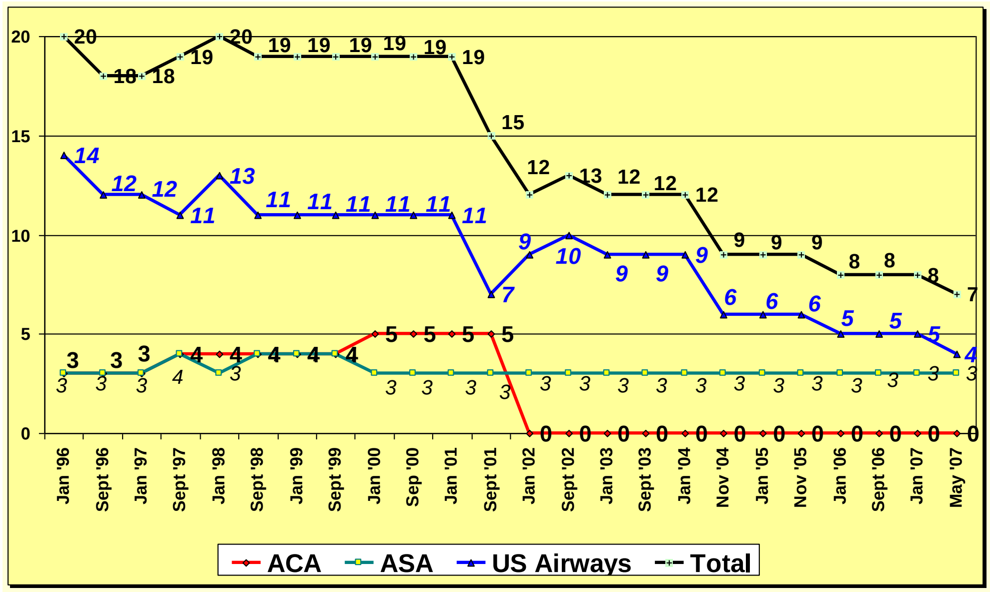
Background

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 approximately 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.

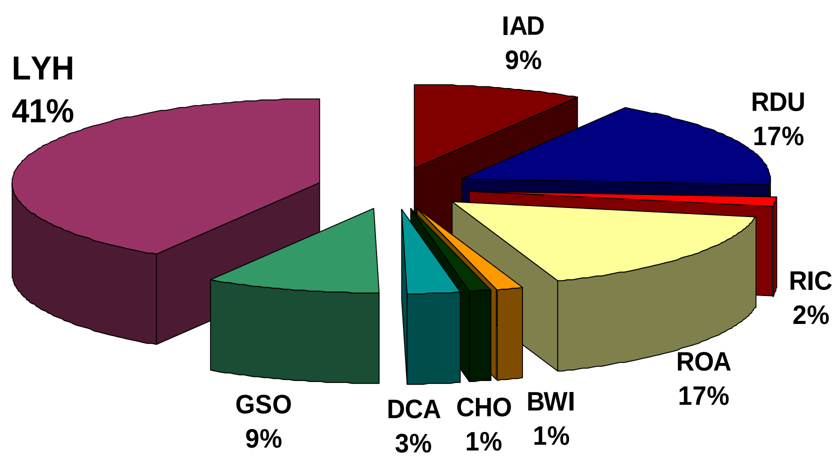
1996-May 2007 Daily Departures



Air Travelers Turn to Other Airports

Suddenly, LYH was left with just 12 scheduled airline departures daily, down from 19, while suffering a 38% loss of daily seat capacity compared to September 2000. 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, reaching a point that the number of local air travelers driving to other airports reached nearly 60%. As a result, by the end of CY 2001, Lynchburg's total passenger traffic had dropped 42% from the prior year.

Originating Airport Survey – September 2002



LYH and the 2002 SCASD Pilot Program

In 2002 LYH received its first grant under the Small Community Air Service Development Program (SCASDP) in the amount of $500,000 that, when combined with $100,000 in local funds, made possible a revenue guarantee to utilize as an airline incentive to upgrade our existing turbo-prop aircraft to regional jets. Delta Airlines subsequently accepted our proposal and new service began May 4, 2003 for a one-year period under a revenue guarantee arrangement.

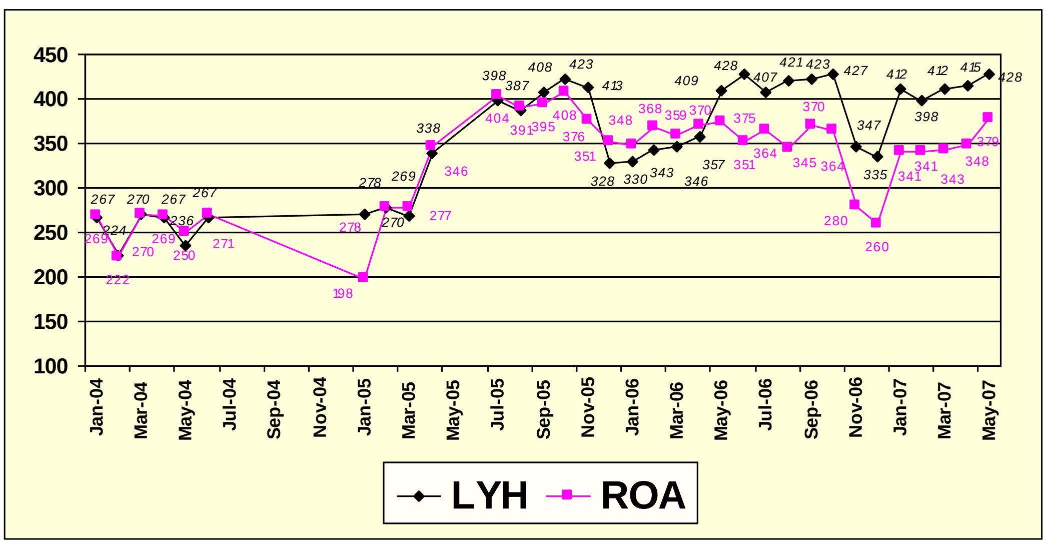
With the introduction of the new jet service and Delta's agreement to offer a new, more competitive pricing structure, Delta's passenger load factors at LYH jumped from 49% in August 2003 to nearly 64% by October. Even more encouraging, Delta's passenger revenues actually went up under the new pricing 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.

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 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.

Then and Now

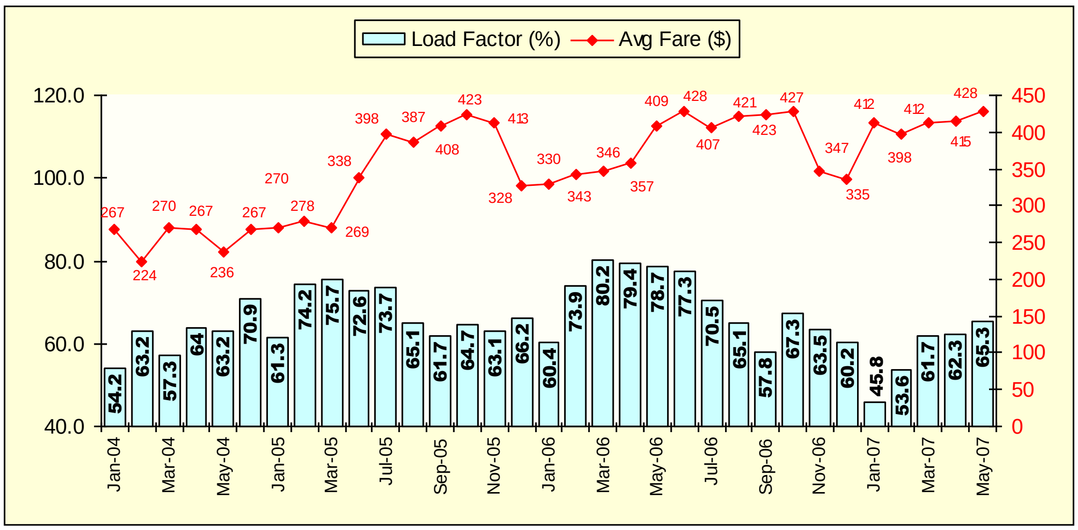
Of course, a lot has happened since then and much has changed in the airline operating environment. With multiple legacy airline bankruptcies in the intervening years, further reductions in both flights and seat capacity have become the norm. But as our new service continued to perform well, the response wasn't to increase service, but to increase fares. In fact, from an average roundtrip leisure fare of $270 in January 2005, LYH's average published fares to our most popular destinations have increased an alarming 58%.

Lowest Average Published Fare – Delta
(Top 26 Destinations)



And, despite passenger traffic levels that remain amazingly stable, fares have continued to escalate, while service has diminished. In our case, over the last couple of years, it seems that every time that we have seen our load factors improve, the airlines have responded not by increasing service, but by increasing fares. Compared to the same month last year, our lowest leisure fares are up 30%, and just last week Delta Connection announced that it was eliminating one of its three daily RJ flights in September. When combined with an earlier flight reduction by US Airways, by September LYH will have lost over 19% of our daily seat capacity just since the beginning of this year. In fact, our September seat count will represent the lowest number of airline seats offered at this airport in decades. And yet, through all this, our passenger enplanements year-to-date are off just 4.3% compared to the same period last year.

Comparison Delta LYH Load Factors to Average Fares



Lynchburg's 2006 SCASD Program Grant

With the past success of our 2002 grant, LYH was once again successful in being awarded a similar, but smaller, grant in 2006 to be used to help attract a third carrier back to the airport, as well as the return of a northern connecting hub city. With nearly a year behind us under the new grant, we continue to struggle to gain an airline commitment. With regional airline fleets continuing to face pressure, high fuel prices and hub and air traffic capacity issues placing limitations on flights, our current $405,000 incentive package has failed to get much attention from an airline. While we are hopeful that we will eventually be successful, current airline economics and fleet trends seem to be conspiring against small non-hub airports like LYH.

Conclusion

Without a doubt, the current airline operating environment has made service to smaller communities even more problematic, with the airlines showing little interest in our pleas for better air service and more competitive airfares. The airlines' revolving door of raising fares every time our load factors improve has created a "Catch 22" that keeps us from performing to our potential, and provides an ongoing excuse to reduce service levels further.

The Small Community Air Service Development Program is clearly needed and represents one source smaller airports have to provide airline incentives that would otherwise not be possible. But it also seems apparent that higher grant amounts have become necessary in order to gain the attention of an airline. In our case, cash incentives that can be offered to offset a new airline's start-up costs during the *first six-months or so* seem to be the most effective, if the incentive is high enough. This becomes even more compelling when you consider that the mainline carriers are controlling more and more of the regional fleet seat capacity directly. The days of independent, code-sharing regional partners who make the service and scheduling decisions themselves appear to be all but gone.

When looked at in the context of five years ago, it is clear that for LYH our FY 2002 grant 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.

More recently, however, it has become clear that recent changes in the domestic airline industry have created even greater challenges for small communities like Lynchburg. For smaller non-hub airports that have viable, self-sustaining air travel markets, it seems that airline deregulation hasn't worked in a long time, and I fear that it is just getting worse. I would encourage Congress to continue programs such as this that have a proven record, and to focus on more attractive financial incentives for those non-hub airports that have the greatest monetary need and the greatest chance of success.