

Statement of Tom Williams, President of the Meridian Airport Authority, to the Subcommittee on Aviation of the Senate Committee on Commerce, Science and Transportation field hearing: July 27, 2004

My name is Tom Williams and I'm the President of the Meridian Airport Authority. I've run the Meridian Regional Airport since 1986.

While my comments specifically relate to Meridian, I believe our experiences are representative of small airports nationwide. The turbulence of deregulation still affects most of us; however our Small Community Air Service Development Grant has helped us overcome some of these remaining effects.

Key Field was home to the Key Brothers who, in 1935 set the world flight endurance record from our airport by flying 653 hours without landing. Today we are home to the 155 Company G Army Aviation support group, presently flying their Chinook helicopters in Iraq, the 186th Air Refueling Wing, three daily Atlantic Southeast Airlines (ASA) jet flights to Atlanta and 45 based general aviation aircraft.

The Meridian Regional Airport, Key Field, is financially self sufficient. We collect some \$550,000 per year from leases, rents and fees and spend this amount on operations and non-grant eligible capital projects. Remaining capital requirements are funded through the AIP program with matching funds from the State of Mississippi and Passenger Facility Charge. Outside of our Small Community Air Service Grant, we do not have funds for marketing and air service development. The airport is operated with four employees, two are administrative and two are grounds and building maintenance. City of Meridian police provide security while the Mississippi Air National Guard provides our firefighting requirement. We have just completed the purchase of our two fixed base operations, or fuel suppliers on the airport, increasing our staff by 8 folks. We anticipate this new source of revenue to relieve some financial pressure from the Authority and to fund improvements on non-grant eligible hangars and general aviation facilities on the airport, and one day to help our marketing efforts.

Our airlines service a trade area of 11 counties, 7 in Mississippi and 4 in Alabama with 260,000 people.

A distinction should be made between small and rural communities. There are small communities with significant air service who fight daily for non-stop service to, say Washington DC or Chicago. Service to these destinations is a very real need for them to meet passenger needs. Many of these airports have some funds available for marketing. Then there are communities like Meridian, communities I would consider rural, who are happy to have any service and do not have the luxury of being selective about which hub or which airline provides it. Rural communities have limited resources with little or no funds available for marketing commercial air service.

How important is our air service to the economic development of our area? It is critical. We've had commercial air service at Key Field for 75 years. Our business and industry grew up with it. They selected our community based on local air service availability. Our ability to keep this air service is directly related to retaining existing industry and military facilities and attracting new industry.

The problems we experience today are directly related to airline deregulation. There have been several distinct phases in our air service since deregulation.

Deregulation

The Airline Deregulation Act of 1978 as a whole has been good, but there have been unanticipated negative effects that, even with hindsight, could not have been prevented. Major airlines had newfound freedom to redeploy assets on 90 days notice, but there was no established regional airline industry to fill the resulting gaps in small and rural community air service. This led to a severe lack of air service stability in rural communities like Meridian.

Phase I: Instability

Between May, 1979 and August, 1985 in Meridian, Delta Airlines terminated service, Republic airlines dropped to only two daily flights, Sunbelt Airlines began service, Scheduled Skylines began service, Republic Airlines terminated service, Sunbelt Airlines terminated service, Scheduled Skylines terminated service, Republic Express began service and Atlantic Southeast Airlines (ASA) began service. Is it any wonder rural airports lost the confidence of passengers with this six-year lack of stability? Additionally, all of these small carriers flew small, noisy, mostly unpressurized turboprop airplanes. These aircraft were perceived by passengers (who were accustomed to DC-9 jets) as unsafe. Additionally, passengers did not know who served the airport from day to day and fled to larger airports with major airlines and jets.

Phase II: Turboprop Stability

By the end of 1985 the poorly run regional airlines had finally succumbed and the seeds of the successful regional airlines had begun to grow. We now had ASA and Republic Express. Both of these carriers would still be in Meridian 15 years later. We successfully attracted American Eagle service to Nashville, service that was stable until American Airlines closed their Nashville hub in August, 1992. Passengers began to recognize our airlines were stabilized, but the habit of driving to another airport along with the dislike of turboprop aircraft continued to hurt Meridian. Surveys indicated only 50% of our trade area passengers used Meridian's airport. 35% drove to Jackson and 5% to Birmingham. Others drove to New Orleans and Memphis.

My point of this history is that as of 2002 something was still missing. We had great air service for a rural community, but we were leaking half of our passengers. There were obviously obstacles yet to be overcome. We needed more available seats, jet service and we needed to market our service, but we didn't have the money.

Enter the Small Community Air Service Development Grant Pilot Program which got us to Phase III of the Airline Deregulation recovery.

Phase III: Jet Service Returns

2002 Small Community Air Service Development Grant Pilot Program

The applications I reviewed generally seemed to fit three strategies: analyze, subsidize or advertise. Applications ranged from over 450 pages to fewer than 10. I prepared Meridian's application myself two days before the deadline after getting a flavor from other applications available online. My emphasis was on simplicity. Answer the questions, have a clear, simple plan, and be ready to execute that plan. Meridian's application proposed a direct subsidy to ASA for more seats and jet service.

We received the grant in September 2002 and began discussing solutions with ASA. ASA was a bit skeptical because we were the first community to come to the table with Small Community Air Service Development Grant (Small Community Grant) funds...but a \$640,000 budget grabbed their attention. In early January, ASA agreed to jet service, but rather than a cash subsidy, they preferred our buying ground support equipment for the new jet, renovating their airport ticket office area and a heavy marketing campaign promoting the jet service. I asked the Department of Transportation for a grant amendment allowing these expenditures and quickly got it. Our marketing campaign began in March and Jet service began May 4, 2003.

We look at our relationship with our airline tenants as a partnership. If they do well, our community does well. ASA gave us three jet flights per day to Atlanta. Our first flight left at 9am. Our last flight arrived at 515 pm. This was a terrible schedule and accounts for our poor passenger boardings over the first five months of jet service.

By the end of June we were begging ASA to change our flight schedule to include an early morning departure and a late night arrival. When we promised a Small Community Grant marketing campaign to promote the new schedule ASA listened and gave us a proper schedule beginning October 1, 2003. Other airports with this identical schedule problem did not get relief for another three months. The Small Community Grant made ASA listen and respond. ASA was beginning to use Meridian as an example to other communities who wanted changes in their air service.

January and February are slow months for air traffic. I proposed a fare sale to ASA, supported by heavy marketing from the airport. The marketing, supported by the Small Community Grant got us the fare sale for February and March. February traffic was up 50 percent and March traffic was up 69 percent.

Thanks to our Small Community Grant, we have met the local demand for jet service. Our passengers are filling the seats and again we need to add seats to our market. January through June Meridian traffic increased 45 percent over the same months last year. Our parking revenue, evidence of local support for our air service, is up 59 percent. Our Small Community Grant caused ASA to take Meridian seriously and has allowed us to increase awareness in our home market. These two functions have changed our future.

Today we are working on a fourth flight to Atlanta. We have again proposed significant marketing support and ASA is listening. We hope they will commit to this new service in the next few months.

I visited Terri Bingham and Bill Bertram in 2003 and was shocked to find that deep within the DOT building there were only about 4 people who administered this program nationwide on a daily basis. I was further shocked to find they are not stereotypical bureaucrats. They cared about Meridian. They shared ideas from other communities to help us be successful. Sure they had strict demands that our pay applications be precise and completely documented. But when it came to asking for amendments to our grant to allow us to change direction to achieve our goals, these changes were granted quickly. I came to feel they were cheering for our program. When Bill Bertram moved to another program, his replacement, Grady Stone, was just as conscientious, thorough and helpful as Bill. As a taxpayer I am delighted at the efficiency of the program. As a user I am equally delighted with the function of the program.

What will we do when our grant expires? For one thing, we will apply for another grant for a new strategy. This grant has allowed us to become competitive with Jet service and awareness within our trade area of our service. It has allowed us to grow our market by adding available seats and returning jet service to Meridian. Our future projects will be to obtain service to another hub and to decrease fares.

The Small Community Air Service Development Grant Pilot Program works. It's a laboratory for innovation. Administration within the DOT's headquarters is efficient, responsive and appropriate. I encourage the following changes to improve the Small Community Air Service Development Grant:

1. Expand the program to include more communities. Each year there are about 180 applications. Assuming not all of these are valid applications, expand the program to include up to 150 communities at any one time. Remove the limit of 40 grants per year and no more than four successful applications per year per state.
2. Expand the program to include more funding. 150 airports averaging \$250,000 per year is \$37,500,000. This amount should be appropriated annually. The aviation trust fund stands to be reimbursed for this expenditure with tax revenue on ticket purchases by new travelers who now fly rather than drive because they have new or improved air service in their small or rural community.
3. Two years is not enough time for most efforts as airlines just don't move very quickly. I encourage this to be extended to three years per grant.
4. Continue the current application process, flexible grant match and administration within the DOT.

These changes are affordable and will help small and rural communities across America.

Bottom line: the Small Community Air Service Development Grant has allowed this rural community to overcome the negative effects of deregulation, without re-regulation.

Mr. Chairman, this concludes my prepared remarks, and I would be happy to answer any questions that you and your colleagues have. Thank you.

ADDENDUM ONE

Statement of Tom Williams, President of the Meridian Airport Authority, to the Subcommittee on Aviation of the Senate Committee on Commerce, Science and Transportation field hearing: July 27, 2004

A problem facing rural airports is terminal building construction. We are building toward a new terminal in Meridian with the new airline parking apron and building design complete. Next year we will continue to spend our entitlement funds on access roads and site preparation. Our dilemma is that we cannot get the FAA to give us discretionary money for a terminal building, and rural airport entitlement funds are not enough. In the next 18 months we'll have 4 million dollars of infrastructure and design but no building. Tupelo is in a similar situation with their terminal expansion. Today the only solution is a congressional earmark. It is not right to require a congressional earmark to solve a common problem at airports nationwide. Simply put, there are three things that will help rural airports with this dilemma:

First, and most important, require the FAA to dedicate discretionary funding to rural airports building new terminal buildings. It is legal for FAA to fund terminal buildings with discretionary grants now, but terminal buildings are not a high-enough priority to ever be funded. Give each rural airport the opportunity to build a new terminal with discretionary funds on an infrequent basis.

Second, allow rural airports to fund administrative space with AIP funds. This administrative space could cost \$200,000 in today's dollars, too much for a rural airport to fund.

Finally, allow rural airports to fund paid parking with AIP funds. Our parking lot does not produce enough revenue to retire its debt, but does produce \$25,000 per year to fund operation of the airport.