RICHMOND INTERNATIONAL AIRPORT
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TRANSPORTATION SUBCOMMITTEE
HOUSE APPROPRIATIONS COMMITTEE
Monday, February 3, 2014, 4PM

Opening Statement:
Good afternoon. I'm Jon E. Mathiasen, AAE, President and CEO of the Capital Region Airport Commission, the owner and operator of Richmond International Airport (RIC). I am here today to give a brief overview of the commercial aviation industry as it relates to Virginia air carrier airports.

Thank You to HAC Transportation Subcommittee and Recognition of DOAV
- Many thanks to Members of the House Appropriations Committee (HAC) Transportation Subcommittee and particularly to Chairman Peace for the opportunity to join you today.
- Additionally, I would like to recognize the Virginia Department of Aviation (DOAV) and its executive director, Randy Burdette, for the department's excellent work in support of Virginia's airports, large and small. Over the course of my career, I have worked with many such entities and DOAV is recognized as a "top flight" operation.

State of the Industry
- While you may read of recent earnings, such has not always been the case. From the start of commercial aviation in the early 20th century to the present day, the industry has yet to net a "lifetime" profit, leading Sir Richard Branson, an aviation entrepreneur, to observe, "If you want to be a Millionaire, start with a billion dollars and launch a new airline."
- The industry has a high bar for entry due to exorbitant capital costs (737-700 = $76MM per Boeing). Once underway, it is labor-intensive, subject to aggressive federal taxation, and at the mercy of fluctuating (between high and unbearable) energy costs.
- Only recently has the industry started acting like other businesses in terms of exercising discipline by matching supply to demand with hopes for a marginal profit.
- It is a changing and fragile industry.
  - In 1978, at the dawn of Deregulation, there were about 20 "name brand" airlines offering domestic service.
  - Today, there are four major networks (American, Delta, United and Southwest) which collectively carry more than 80% of U.S. traffic. Similar consolidation and alignment in happening internationally, as well.
  - In the 35+ years since deregulation, dozens of domestic airlines have gone out of business or merged with other carriers.
  - With consolidation, redundant operations have been eliminated, most obviously via the elimination of hubs in ~~15~~ 16 cities (Cleveland learned on Saturday, February 1, 2014, that it would be de-hubbed by United Airlines by June).

    - The industry can at any time be impacted by energy cost fluctuations, economic upturns or downturns, labor strife, health crises like SARS, acts of terrorism, and declarations of war.
- According to an MIT study released last spring (*Trends and Market Forces Shaping Small Community Air Service in the United States*), domestic departures were reduced by 14.4% from 2007 to 2012, with small airports (defined as everything except large hubs) seeing a 21.3% reduction in departures.
- The same study noted that between 2007 and 2012, 24 U.S. airports (including Pinehurst and Kinston airports in North Carolina, and Bluefield in West Virginia) lost all network carrier service, with “lack of local demand” cited as the #1 reason for service cessation.
- For Virginia air carrier airports, seat capacity changes 2007-2014 (February schedules):
    - Reagan National DCA: -2.1%
    - Washington Dulles IAD: -24.0%
    - Norfolk ORF: -21.9%
    - Newport News PHF: -63.8%
    - Richmond RIC: -15.0%
    - Charlottesville CHO: -8.4%
    - Lynchburg LYH: -15.9%
    - Roanoke ROA: -26.7%
    - Shenandoah Valley SHD: +69.5%
- The in-progress retirement of uneconomical 37-50 seat regional jets in favor of larger 51-76 seat aircraft puts additional pressure on small communities.

The Factors Driving Airline Route Decisions – It’s All about the Numbers

- Current airline planning is based on a number of factors, including:
    - Strategies are focused on revenue and profitability, not market share.
    - Very few markets exist without price competition.
    - Cost of fuel mandates a very conservative approach to growth.
    - Aircraft costs dictate conservative growth; most U.S. deliveries represent replenishment and modernization rather than growth.
    - Airlines seek to leverage frequent traveler programs and alliance strengths.
- Demand based on historical data, newly-demonstrated need, or community growth.
- Demand at a profitable revenue level.
- Business activity and connections to international markets.
- Availability of aircraft and route efficiencies (hub-spoke vs. point-to-point).
- Gaining new service may require the patience of Job. In one instance, receiving one route from one airline, despite widespread community interest and favorable forecasts from some of the brightest minds in the business, took over 15 years to be realized in Richmond.

Available Resources for Route Retention and Development

- To my knowledge, only one state, Kansas, has sustained an incentive program for air service. The majority of funds have been expended to support low-cost service from the state's largest airport, Wichita ICT.
- While airports cannot offer cash incentives for service due to FAA regulations and the existence of Most Favored Nation (MFN) clauses in airline use agreements, they can offer other incentives such as fee waivers and marketing assistance if offered to all carriers and if for a limited period of time, usually 1-2 years.
- Communities, such as economic development authorities or tourism associations, may offer incentives independent of airports. This approach has been used by casinos, ski resorts, and communities/large businesses seeking direct routes to domestic or foreign destinations.
- The USDOT administers two programs, the Small Community Air Service Development Program (SCASDP) and Essential Air Service for small, remote communities.
  - Most Virginia air carrier airports, with the exception of Dulles and Reagan National, meet the "small community" eligibility requirement of SCASDP grant applications.
  - Five Virginia airports have benefitted from SCASDP grants since 2002: Charlottesville, Lynchburg (3 grants), Newport News, Richmond (2), and Shenandoah Valley (2).
  - Program flexibility allows for various uses of grants funds, but marketing assistance and revenue guarantees are among the most common applications.
- The Virginia Department of Aviation offers annual grant funding for Air Service Development (up to $20,000) and Airport Promotion (up to $25,000).
- Community efforts have been the primary focus in Richmond:
  - Involvement by the Greater Richmond Chamber of Commerce to spearhead the *Save Low Fares* educational campaign and other retention efforts.
  - Work group comprised of major airport users, large local businesses, and institutions.
  - Involvement by jurisdictions, local elected officials, and economic development agencies to support the use of all air carriers at RIC.
  - Periodic community meetings.
- We are aware of similar community efforts elsewhere across Virginia.

Final Thoughts

1. My concern with any potential scenario involving state-offered incentives to air carriers is that there is considerable potential for artificial stimulation of service to some airports at the expense of others. Communities, based on airline service analysis, generally get the service they deserve.
2. I am generally opposed to state-offered incentives and adamantly opposed to the same unless they are available to all air carrier airports.
3. A now-retired airline CEO, perhaps the most successful in the history of the industry, known to have a strong disdain for incentives, told me more than once, "Bad marriages end in bad divorces."