



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 30th day of June, 2016

In the Matter of the

**SMALL COMMUNITY AIR SERVICE
DEVELOPMENT PROGRAM**

DOCKET DOT-OST-2016-0037

under 49 U.S.C. § 41743 *et seq.*

ORDER AWARDING GRANTS

Summary

By this Order, the U.S. Department of Transportation (the Department) awards nine grants under the Small Community Air Service Development Program (Small Community Program) benefitting communities in seven states to assist with the implementation of the air service initiatives proposed in their grant applications. The communities, the amount of funding awarded to the communities, and brief descriptions of the projects are listed in the Appendix to this Order. Award recipients must affirm their grant awards by entering into grant agreements, obligating the funds, with the Department. Award recipients may not seek to be reimbursed funds under the Small Community Program until they affirm their grant awards.

Background

The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), Pub. L. No. 106-181 (2000), established a new pilot program, to be administered by the Department of Transportation, designed to help smaller communities enhance their air service and address issues related to high air fares.¹ AIR-21 authorized the Small Community Program through FY 2003. Vision 100-Century of Aviation Reauthorization Act, Pub. L. No. 108-176 (2003), amended the program, reauthorized it through FY 2008, and eliminated the “pilot” status of the program. The FAA Modernization and Reform Act of 2012 (FAA 2012), Pub. L. No. 112-95 (2012) reauthorized the program. Appropriations are provided for this program for

¹ See Orders 2002-6-14 and 2003-9-14 for a complete description of the history of the Small Community Program.

award selection in FY 2016 pursuant to FAA 2012, the Consolidated Appropriations Act, 2016 (Pub. L. No. 114-113), and the Airport and Airway Extension Act of 2016 (Pub. L. No. 114-141). The Department has up to \$5.15 million available for FY 2016 grant awards to carry out this program.

When selecting applicants to participate in the Small Community Program, the Department is statutorily required, under 49 U.S.C. §41743, as amended by Pub. L. No. 114-113, to apply the following eligibility criteria:

1. (a) The airport serving the community or consortium is not larger than a small hub airport, according to FAA hub classifications effective on the date of service of our Order soliciting proposals in this proceeding (Order 2016-3-32), or
(b) As of calendar year 1997, the airport serving the community or consortium was not larger than a small hub airport;
2. The airport has insufficient air carrier service or unreasonably high air fares;
3. The airport presents characteristics, such as geographic diversity or unique circumstances that demonstrate the need for, and feasibility of, the Small Community Program;
4. An applicant may not receive an additional grant to support the same project;² and
5. An applicant may not receive an additional grant prior to the completion of its previous grant.³

The statute further provides that no more than four communities or consortia of communities, or a combination thereof, from the same state may be selected to participate in the program in any fiscal year, and no more than 40 communities or consortia of communities, or a combination thereof, may be selected to participate in the program in each year for which the funds are appropriated.

In addition, the law directs the Department to give priority to those communities or consortia of communities⁴ where: (a) air fares are higher than the average air fares for all communities; (b) a portion of the cost of the activity contemplated by the community is provided from local, non-airport revenue sources; (c) a public-private partnership has been or will be established to facilitate air carrier service to the public; (d) improved service will bring the material benefits of scheduled air transportation to a broad section of the traveling public, including businesses, educational institutions, and other enterprises whose access to the national air transportation system is limited; (e) the funds will be used in a timely manner;⁵ and (f) multiple communities cooperate to submit a regional or multistate application to consolidate air service into one regional airport.⁶

² However, as stated in our Order Soliciting Small Community Grant Proposals (Order 2016-3-32), previous grant recipients could submit grant proposals and seek funds for new projects. See Order 2016-3-32, p. 4-5, for a discussion on same projects.

³ 49 U.S.C. § 41743(c).

⁴ A consortium of communities is defined as a single entity. 49 U.S.C. § 41743.

⁵ 49 U.S.C. § 41743(c)(5)(E).

⁶ 49 U.S.C. § 41743(c)(5)(F).

The Department is authorized to award grants to communities that seek to provide assistance to:

- An air carrier to subsidize service to and from an underserved airport for a period not to exceed three years;
- An underserved airport to obtain service to and from the underserved airport; and/or
- An underserved airport to implement such other measures to improve air service both in terms of the cost of such service to consumers and the availability of such service, including improving air service through marketing and promotion of air service and enhanced utilization of airport facilities.⁷

On March 28, 2016, the Department issued an Order Soliciting Small Community Grant Proposals (Solicitation Order) from communities interested in receiving grant funding this year, and requested that such proposals be filed no later than May 2, 2016 (Order 2016-3-32). The Solicitation Order required each applicant to submit a completed Standard Form 424 and a Summary Information schedule to www.grants.gov. Communities were requested to provide information that would help in the consideration of their grant requests, including details about their existing air services, historical air services, current air service needs and deficiencies, a full description of the community's proposal, plans for implementation, funding requirements, and plans for monitoring the success of the project, including modifying or discontinuing funding if the project is not meeting expectations.

Drawing on the Department's learnings and experience from previous years, the Solicitation Order discussed various issues relating to project types and the grant application process, including the sources of local funding, the consideration of in-kind contribution, the use of grant funds, and the eligibility to participate by past grant recipients and communities now receiving subsidized air service under the Essential Air Service (EAS) program. The Solicitation Order further emphasized that communities would be expected to meet the financial-contribution commitments that they include in their proposals.

Subsequent to the issuance of Order 2016-3-32, The Department was able to recover \$150,000 in funds remaining after closeout of prior years' SCASDP projects. In light of this recovery, the Department issued a Notice stating our intent to combine these funds with the total funding available for the FY2016 grant awards announced in Order 2016-3-32, bringing the total available for grant awards in FY 2016 to be up to \$5.15 million.⁸

2016 Grant Applications

In response to the Solicitation Order, the Department received 36 total grant applications from communities in 24 states. Collectively, these communities sought more than \$18.5 million in Federal assistance to support new and ongoing air service development projects. Of the 36

⁷ 49 U.S.C. § 41743(d).

⁸ See Notice dated June 29, 2016, in this Docket. In this Notice, we also stated that the inclusion of this additional funding would not alter any other provisions of Order 2016-3-32; specifically, that funds would be available only for grant awards to qualified applicants who filed by the May, 2, 2016, 5:00 PM EDT deadline set forth in Order 2016-3-32, and that no additional applications could be filed in this Docket as a result of the Notice.

applications, five applications were from communities with small-hub airports and three were from communities now receiving subsidized air service under the Department's EAS program. Three of the 36 applications did not meet the basic eligibility criteria for participation outlined above and were determined ineligible in whole or in part for consideration. Of these applications, two were found ineligible because the applicant sought additional funding for the same, or essentially the same, project that was funded in a previous grant. The other was found ineligible due to missing the stated deadline to submit applications as outlined in the Solicitation Order.

As in previous years, this year's eligible applications included proposals for feasibility studies, new or expanded service initiatives, marketing, and assorted combinations thereof. These applicants provided information on historical and current air service and air fare issues facing their communities, the economic benefits of air service, proposed initiatives to remedy air service or air fare problems, and arguments in support of their proposals. Nearly all the communities pledged local cash and/or in-kind contributions from local, state, airport, or private sources to complement their requests for Federal assistance.

The large majority of applicants specified the need to attract new and/or additional air services to their communities. Similar to previous years, a majority of applicants also proposed to implement their projects using revenue guarantees or subsidies, together with a variety of marketing and promotional initiatives. A critical component of most proposals was funding to support community-based marketing and promotional initiatives to stimulate demand and community awareness of local airport services. These efforts are directed at publicizing not only the availability of air services, but also the convenience of using the local airport compared to more congested air service hubs or other larger airports in the region. Many applicants argued that certain industry changes – including network rationalization due to air carrier consolidation, phase-outs of smaller regional jets due to higher operating costs, and a pilot shortage constraining the ability of air carriers to enter new markets – made the need for Federal assistance that would help the communities compete for new services and retain current services more critical.

2016 Grant Awards

The Small Community Program is unique in that it encourages and affords communities the opportunity to develop their own solutions to their air service problems based on their particular needs and circumstances. By providing communities the opportunity to develop and implement air service projects tailored to their individual needs, the program aims to maximize the potential for success in the communities' endeavors. Since the program's inception, the Department has sought to maximize the number of participating communities, promote geographic diversity of the selections, and support a variety of solutions to the problems identified by applicants in order to provide a wide range of approaches for dealing with the challenges faced by similarly-situated communities.

With these considerations in mind, we are selecting nine grant proposals with the objective of entering into grant agreements with the communities identified in the Appendix to this Order. Award recipients must enter into grant agreements with the Department before the recipients may seek to be reimbursed expenses under their Small Community Program projects. In

addition, grant recipients are subject to all grant conditions and assurances required by Federal law, regulations, and executive orders.⁹ The Department's grant agreements will be transmitted to the selected communities subsequent to the issuance of this Order.

The proposals we selected meet the purpose of the statute, and provide opportunities to test a variety of approaches to improving small community air service in many regions of the country. The attached Appendix provides a brief description of each project and the amount of funding each community requested. As an overview, all of the awards are being made to communities proposing revenue guarantees, or revenue guarantees with marketing support, as a means to attract new service or to restore lost service.

The selected communities are: Bullhead City, AZ; Inyokern, CA; Stockton, CA; Hailey, ID; Billings, MT; Missoula, MT; Santa Fe, NM; Amarillo, TX; and Port Angeles, WA.

All of the selected communities are contributing financial resources to their respective grant projects and have provided a letter of support from an interested air carrier. In addition, all of the selected communities have pledged in-kind contributions in further support of their air service initiatives. The local contributions reflect a commitment that is important to the potential success of the proposed initiatives. Moreover, nearly all of the communities have (1) established robust public-private partnerships to enhance community participation and facilitate access to air services, and (2) provided a specific plan and timetable for using their grant funds in a timely manner.

Air Service Development Zone

The statute directs the Department to designate an airport in one community awarded a grant under this program as an "Air Service Development Zone" (ASDZ), and to work with the community or consortium on means to attract business to the area surrounding the airport, to develop land-use options for the area, and to provide data, working with the Department of Commerce and other Federal agencies. 49 U.S.C. 41743(h). The Department did not receive any applications requesting ASDZ designation.

Grant Agreements

As noted above, the Department will execute grant agreements with each recipient. The Department stated in the Solicitation Order that communities must establish milestones to monitor the progress of the proposed projects to determine whether amendments are necessary or whether the grant agreement should be terminated. As done in the past, milestones and progress reporting requirements will be included in the grant agreements. Federal funds under this grant program are disbursed on a reimbursable basis, with the communities expending funds for the grant project and then seeking reimbursement. In seeking reimbursements, grant recipients must provide invoices or other evidence of the expenditure, details about the expenditure and how it relates to the grant project, and evidence of payment. In addition, the legal sponsor is required to certify that each invoice is relevant to the authorized grant project and has been paid.

⁹ See <http://www.transportation.gov/policy/aviation-policy/small-community-rural-air-service/SCASDP> for applicable conditions and assurances.

Communities will be required to comply fully with the terms of their proposals and the grant agreements.

ACCORDINGLY,

1. We select the communities listed in the Appendix to receive grant awards under the Small Community Air Service Development Program as described in this Order;
2. Grant recipients shall be subject to all grant conditions and assurances that will be attached to and incorporated in the grant agreements (also available at <http://www.transportation.gov/policy/aviation-policy/small-community-rural-air-service/SCASDP>). In addition, to the extent that the grant agreement permits expenditure of the awarded Small Community Program funds in any manner that would not be permitted for funds received as part of Federal Aviation Administration's Airport Improvement Program (AIP), such permission is strictly limited to the expenditure of the Small Community Program funds awarded under the grant agreement. Nothing in the grant agreement negates the recipient's obligations to fully comply with FAA Order 5100.38D and all applicable federal law;
3. Each award recipient must affirm this award by entering into a grant agreement with the Department. Award recipients may not seek to be reimbursed under the Small Community Program until they affirm their grant awards; and
4. A copy of this Order will be served on the legal sponsor for each of the communities awarded grants.

By:

JENNY T. ROSENBERG
Acting Assistant Secretary for
Aviation and International Affairs

(SEAL)

*An electronic version of this document is available
at <http://www.regulations.gov>*

Appendix

Appendix Order 2016-6-21			
State	Community	Federal Amount Awarded	Project Description
Arizona	Bullhead City	\$750,000	The funding will be used for a revenue guarantee and marketing for new scheduled non-stop service to Denver, CO. The community seeks to meet the needs of its tourism and business industries for improved connectivity, as well as to provide better community access to the national air transportation system.
California	Inyokern	\$450,000	The funding will be used for a revenue guarantee, start-up costs and an associated marketing program to recruit and support Mokulele Airlines to re-introduce commercial air service into the community. The community seeks to alleviate the effects of the November, 2013 termination of scheduled service between Inyokern and Los Angeles, CA. The community states that replacement service to Los Angeles by Mokulele will address its need of convenient connections to major markets, in particular to its biggest market of Washington, D.C.
California	Stockton	\$650,000	The funding will be used for a revenue guarantee, marketing, and fee waivers to recruit, initiate and support new daily service between Stockton Metropolitan Airport and Los Angeles, CA, targeting SkyWest Airlines. The community seeks service beyond the point-to-point services it currently has; in particular what it views as much-needed access to a major hub. The community states that the availability of Los Angeles service will have a major and positive impact on its economy.
Idaho	Hailey	\$500,000	The funding will be used for a revenue guarantee and associated marketing program to recruit and support new non-stop service to Portland, OR, using Alaska Airlines. The community seeks to reverse reductions in air service over the past decade, to provide better access to the tourism industry in Sun Valley, and to meet what it states is unmet demand for Portland service.
Montana	Billings	\$750,000	The funding will be used for a revenue guarantee and marketing program for new non-stop air service to Dallas/Ft. Worth, TX, targeting American Airlines. The community states that it is isolated and has experienced service reductions, and seeks to address these issues with its proposed new service which, it states, will benefit local businesses and industries, and in particular the oil and gas industry.

Appendix		Order 2016-6-21	
State	Community	Federal Amount Awarded	Project Description
Montana	Missoula	\$600,000	The funding will be used for a revenue guarantee and marketing program for new service from Missoula International Airport to the southern United States, specifically targeting the North Texas region. In light of its isolation and dependence on air transportation, the community seeks to address what it sees as a lack of adequate service to the southern United States with its proposal. The community notes that Missoula-Texas passenger numbers have increased greatly in recent years, and that additional service is needed to meet this demand.
New Mexico	Santa Fe	\$500,000	The funding will be used for a revenue guarantee and marketing support to initiate service to a westbound hub to replace service to Los Angeles, CA, which was lost in 2015. The community seeks service to remedy the loss of this western hub, and the resulting negative impact on its economy (which relies heavily on tourism), with new Phoenix, AZ, service, operated by American Airlines.
Texas	Amarillo	\$750,000	The funding will be used for a revenue guarantee to secure twice-daily regional jet service between Amarillo and Phoenix, AZ, using American Airlines/SkyWest Airlines. The community seeks this service to alleviate the current need of many of its travelers to backhaul over Dallas/Ft. Worth, TX, in order to reach destinations in the western United States.
Washington	Port Angeles	\$200,000	The funding will be used for a revenue guarantee for new scheduled air service between Port Angeles and Seattle, WA. The community seeks to restart air service in the city-pair market that was terminated in 2014, forcing travelers to make the journey by road/ferry, or by a longer road trip. The community states that restored air service is necessary for the continued development of the area's economy.