

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

House Bill 17 (Delegate Taylor, *et al.*)

Appropriations

Maryland Aviation Administration - Regional Air Service Development Program

This bill establishes the Regional Air Service Development Program within the Maryland Aviation Administration (MAA).

Fiscal Summary

State Effect: The FY 2001 budget includes \$1 million in general funds for the program contingent upon enactment of this bill. General fund and Transportation Trust Fund (TTF) expenditures may not exceed a total of \$2 million in FY 2002 and 2003. Federal fund revenues and expenditures will increase to the extent that federal funds are awarded to the State.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill requires the MAA to implement the Regional Air Service Development Program in fiscal 2001. The MAA is authorized to grant to any person the privilege of operating scheduled regional air service to and from any community in the State that is determined by the MAA to be in need of, and capable of, supporting such air service. If the MAA determines that financial assistance is warranted, it may grant or loan funds to the person operating the air service. Grants associated with this service must be approved by the Board of Public Works.

The MAA is required to develop a strategic plan for regional air service in the State prior to granting any person the privilege to operate such service. The strategic plan must at least identify and consider: (1) the areas of the State most in need of regional air service; (2) the target passenger market in the State; (3) optimal flight and fare schedules to serve the target market in an efficient and cost-effective manner; (4) options for aircraft to be employed; and (5) direct and indirect operating costs and potential revenue sources, including passenger fares and federal, State, and local revenues. The MAA must also recommend to the Secretary of the Maryland Department of Transportation (MDOT) the policies and spending priorities to implement the strategic plan.

The bill requires the Secretary to seek full funding of the program in the department's annual budget request beginning in fiscal 2001 and in each year thereafter. The bill limits State financial assistance to \$1 million in fiscal 2001, \$2 million in fiscal 2002, and \$3 million in fiscal 2003 to support regional air service at a maximum of three airports in each year. The bill requires the program to be funded through: (1) the TTF, to the extent authorized by federal law; (2) federal funds; and (3) to the extent that other funds are not sufficient, an appropriation from the general fund. The bill requires MDOT to seek federal funding under the Air-21 program.

Finally, the MAA is required to submit to the General Assembly by December 1, 2001 a report on the initial results of the program. Additionally, the MAA is required to submit a report to the Governor and the General Assembly by December 1, 2002 that evaluates the effectiveness of and the need for the Regional Air Service Development Program in fostering regional air service in the State and the feasibility of continuing regional service without a State subsidy, and makes recommendations regarding the continued financial support of the program from the general fund. The bill sunsets June 30, 2003.

Current Law: The MAA is required to: (1) encourage, foster, and assist in the development of aeronautics in the State; (2) encourage the establishment of airports, airport facilities, and air navigation facilities; and (3) cooperate with and assist the federal government, any political subdivision, and any other person in the development of aeronautics, and coordinate the aeronautical activities of these entities.

There are no specific provisions governing regional air service.

Background: US Airways currently offers three daily flights from Baltimore Washington International Airport (BWI) to and from Salisbury/Ocean City and offers service from Hagerstown to Pittsburgh. The airline stopped its 30-year service from Hagerstown to BWI in January 1998.

MDOT has issued a Request for Expressions of Interest (EOI) for regional air service between BWI and Cumberland, Hagerstown, and St. Mary's County airports for a three-year period. The MAA advises that these are the routes that will be targeted as a result of the bill. The EOIs will gauge the level of interest from private air carriers.

No other state subsidizes commuter or regional air service. However, the Federal Aviation Administration offers the Essential Air Service Program. The program resulted from airline deregulation and the need to ensure that smaller communities would maintain links to the national transportation system. The program subsidizes air service in 104 communities with subsidies ranging from \$158,000 to \$1,308,000. The total federal budget for the program for federal fiscal 2000 is \$50 million. No Maryland community participates in the program. The closest participant is Beckley, West Virginia, which runs air service to Dulles and Charlotte, subsidized with \$627,500 annually from the program.

Additionally, a new federally funded pilot program, entitled Air-21, was created in 2000. The three-year program is aimed at improving air service to small communities with insufficient air service such as higher than average air fares and limited flight schedules. Assistance can range from subsidization of a community or consortium of communities for obtaining air carrier service; local marketing and promotion assistance; or related economic development assistance. The program is authorized at \$20 million in federal fiscal 2001 and at \$27.5 million for federal fiscal 2002 and 2003 to be distributed to a maximum of 40 communities nationwide.

State Revenues: BWI charges landing fees, enplaned and deplaned passenger fees, and passenger facility fees. To the extent that the bill results in increased air traffic at BWI, TTF revenues could increase. Any such increase is assumed to be minimal.

State Expenditures: The MAA contracted with a consultant to study the issue of regional air service. The study, completed in June 1999, analyzed the feasibility of scheduled air service between BWI and airports in Cumberland, Hagerstown, and St. Mary's County. The study concluded that, with State monetary assistance, three daily trips at each airport, to and from BWI, could be sustained with the current level of demand. Based on surveys, estimated passengers per year would be: 7,234 at Cumberland; 2,681 at Hagerstown; and 5,949 at St. Mary's. The study made the following cost and revenue assumptions:

Direct Costs	\$1,258,000
Indirect Costs	<u>1,352,000</u>
Total Costs	2,610,000
Operating Revenue	<u>792,000</u>
Operating Loss	1,818,000
Profit Allowance	<u>261,000</u>
Required Subsidy	\$2,079,000

The operating revenue is based on a one-way fare of \$50. The profit allowance is 10% of total costs. Operating revenue under this structure is 30% of total costs. Direct costs include: crew costs, fuel, maintenance, and insurance. Indirect costs include: ground handling fees, marketing costs, and administrative costs.

The bill requires that federal funds, the TTF, and finally general funds be used to support regional air service, but limits State funding to \$1 million in fiscal 2001, \$2 million in fiscal 2002, and \$3 million in fiscal 2003. The MAA must choose air service that requires a subsidy within the limits set by the bill. Based on the results of the study, it is assumed that any viable air service would require the full amount authorized by the bill. However, the actual rate of the subsidy would depend on demand for the service, inflation, and the fare set by the carrier.

It is unclear how much federal funding would be available to subsidize the program. Assuming that the State qualifies for Air-21 assistance and assuming the funding would be granted equally across the maximum 40 communities, the State could receive \$500,000 in federal funds.

The MAA could develop a strategic plan as required by the bill with existing resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Transportation (Maryland Aviation Administration), Department of Legislative Services

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