

2019 Issue Brief: Air Service Development

Issue: The competition for new international and domestic air service, which provides significant economic impacts to the State, has increased significantly due to investment of neighboring states in partnerships with air carriers while FAA regulations restrict the ability of airports to fund air service development partnerships.



Background:

- ✈ Across the U.S., the competition to foster economic development and talent attraction through international and domestic air service is increasing due to airline consolidation and a shortage of qualified pilots.
- ✈ Given the significant cost of dedicating an aircraft to operate a new route (up to \$60 million annually), air carriers often look for financial incentives to reduce some of the risk in providing service, particularly in unproven markets.
- ✈ While Federal Aviation Administration (FAA) regulations prohibit airports from directly subsidizing air carriers to provide service, many states and communities have partnered to develop air service incentive funds to support new air service, which can provide over \$50 million in economic impacts for an international flight and \$30 million for a new domestic route¹.

Implications for Ohio:

- ✈ Ohio is at a competitive disadvantage in terms of economic and workforce development as its neighbors have invested significant state dollars in attracting air service to enhance their business expansion, export growth, and talent attraction efforts.
- ✈ Indiana is investing \$5.5 million per year for Delta Air Lines service from Indianapolis to Paris while Pennsylvania is investing \$3 million per year for British Airways flights between Pittsburgh and London.

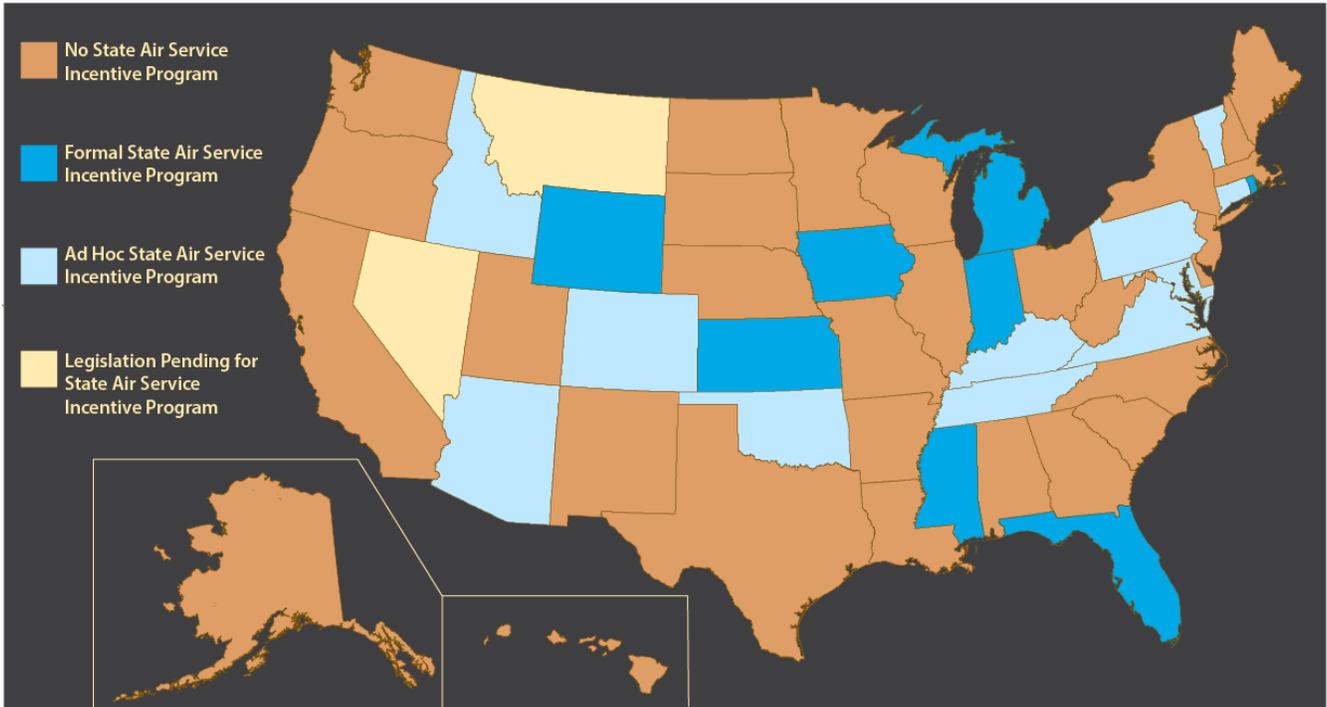
Solutions to Enhance Air Service in Ohio:

- ✈ Develop a \$15 million state air service development grant fund to support new international and domestic air service as well as increased capacity on existing routes. State incentive grants would be leveraged with matching funds from economic development organizations, chambers of commerce, and communities, who would provide risk abatement funds to air carriers.



FAQ's

- 1. What economic benefits will the State see from this investment?** Around the country, it has been shown that new international and domestic air service provides significant economic benefits and tax revenues to states. An analysis of a new British Airways flight from Pittsburgh to London estimated the flight would generate \$57 million in economic impact and 560 jobsⁱⁱ. A statewide study of the State of Wyoming's \$21.5 million air service incentive program found increased air service resulted in an economic impact of over \$523 million, or \$24 for every \$1 invested by the State. In addition, new air service supported by incentives from 2004-2015 resulted in tax revenues of \$30.8 million, over \$9 million more than the state's \$21.5 million investment.
- 2. Isn't this really considered a local issue and why should the State get involved?** As Ohio competes with not only other states but other countries for economic and workforce development, air service is a crucial decision-making factor for businesses and talent in deciding where to locate. A recent study ranked ease of access to the international destinations as the 5th most important factor in attracting talent to a State or regionⁱⁱⁱ. Additionally, a study found 70% of expanding companies identified air connectivity as an important factor in their decision-making process and often ranks as one of the Top 5 considerations^{iv}. This is particularly true for businesses who have complex supply chains, many of whom are naturally drawn to Ohio for its market access and ground logistics advantages.
- 3. Why can't the airports use incentives to compete for new air service?** The FAA significantly restricts what an airport can do to attract air service. While airport can offer incentives such as waiving landing fees or providing marketing support, they are prohibited from directly subsidizing air carrier to provide new service. Therefore, communities must form partnerships between state government, local government, and the private sector to develop incentive programs for new air service.
- 4. How do we determine how to divide incentive funds among the scheduled service commercial airports (Akron, Cleveland, Columbus, Dayton, Toledo, and Youngstown)?** Due to the stringent restrictions imposed by the FAA, airports cannot participate in the determination of where air service development funds would be allocated by the State. The State could develop an oversight board or engage an air service development firm to develop an overall strategy and set of investment guidelines for the allocation of grants.
- 5. Are other states investing in air service?** A recent analysis found 19 states either have an air service incentive program or have providing incentive funds on an ad-hoc basis to support new domestic or international air service^v. Two additional states, Montana and Nevada, have pending legislation to create new air service incentive programs. In many cases, states partner with local communities and the private sector to leverage matching funds to increase the scale of the incentive package.



6. Is it possible an air carrier still might not add new service with incentives on the table? Unfortunately, as aircraft are mobile assets that can serve destinations around the globe, air carriers retain much of the leverage in negotiations for air service. However, incentives are one tool that can be used to foster a long-term relationship to build sustainable domestic and international air service in the State of Ohio.

ⁱ Wyoming Aeronautics Department. 2016 Air Service Return on Investment Analysis. <http://www.dot.state.wy.us/files/live/sites/wydot/files/shared/Aeronautics/Air%20Service/Reports/Wyoming%20ASEP%20ROI%20Analysis.pdf>

ⁱⁱ <https://triblive.com/local/allegheeny/13901591-74/nonstop-flight-from-pittsburgh-to-london-starting-april-2>

ⁱⁱⁱ http://www.ubc.net/sites/default/files/talentattractionmanagement_handbook_tendensor.pdf

^{iv} <https://siteselection.com/issues/2014/mar/airport-cities.cfm>

^v Analysis of State Air Service Incentive Funds. Center for Regional Development, Bowling Green State University.