

Draft Bill LC 377 tentatively sponsored by Senator Mark Blasdel

Summary by Great Falls International Airport

Proposal: increase in 4% tax on rental car contract to 5% generates \$800,000 annually to be used for airline incentives for new Montana air service.

Talking Points:

- Montana Office of Tourism estimates tourism results in \$3.7 billion in commerce each year.
- There is historically a direct correlation between airport boardings and rental car and hotel revenue in Montana's airport communities.
- The Montana Department of Transportation, Aeronautics Division would administer the airline incentive program each year.
- All Montana commercial airports currently support this effort.

Montana State Air Service Enhancement Effort-DRAFT by MT Airport Community

Background: It is generally agreed upon that the expansion of existing air service or addition of new air service to a community has direct economic benefit to that community and to the State of Montana as a whole. Unfortunately, the acquisition of new air service by airports and their corresponding communities has become more challenging as airlines have learned that they can require those seeking new or expanded service to provide an incentive for that service. Airlines view this "incentive" as a sharing of the risk and the expense of starting or expanding service.

Additionally, because of the limited resources of the airlines (aircraft, pilots, available flying time, etc.), airports and communities have become more aggressive and generous in providing incentives in an effort to outbid competing communities for these limited resources. As a result of this competition, a number of states and the Federal Government have created programs to help individual communities fund various incentives.

While there can be many types of incentives, the two most common are marketing assistance and minimum revenue guarantees. Marketing assistance can take many forms but its primary purpose is to advertise the new or expanded service to help ensure its success. Minimum revenue guarantees are designed to ensure that the new or expanded route is profitable for the air carrier. Typically, with the revenue guarantee the community will guarantee that a minimum amount of revenue (profit) will be generated by the new service thus insuring that it is immediately profitable. Other less common types of incentives may include travel banks (placing money in escrow to guarantee the purchase of minimum number of tickets), subsidizing ground handling and fuel discounts.

Proposal: Recognizing this new dynamic in air service development, the Montana airports/communities with commercial air service are proposing the following:

- The State of Montana develop a state based Air Service Development Program.
- This program would be similar in structure to the federal Small Community Air Service Development program.
- State air service development program funds could be used as a standalone incentive program; however, priority will be given to proposals that combine state funds with other local and federal programs as determined by the administering agency.

- The State of Montana provides approximately \$800,000 annually (dependent on collections) to fund the air service development program. The source of this funding would be as follows:
 - The 4% tax on a rental car contract would be increase to 5%. This 1% increase would generate approximately \$800,000 annually which would be dedicated to funding this program
- All communities with commercial air service (including Essential Air Service communities) would be eligible to apply to the state program. However, the EAS communities would be limited to uses that would not jeopardize their eligibility in the federal EAS program.
- Specific uses of the state air service development funds would include the following:
 - Minimum revenue guarantee for communities with air service other than EAS service.
 - Marketing by any community with commercial air service for the support of expanded existing or proposed new air service. However, it would be acceptable for EAS markets to market their existing EAS service.
 - While priority would be given to minimum revenue guarantees and to marketing efforts, other uses as determined by the administering agency may be acceptable. These uses may include subsidizing the cost of ground handling, fuel subsidies, true market studies, leakage studies, etc.
- The maximum amount that could be awarded to a community/airport in a single grant would be \$500,000.
- A community/airport would only be allowed to receive one grant at a time. That community would not be eligible to apply for a new grant until an existing grant is closed out.
- Communities/airports applying to the program would be required to provide a minimum match as follows:
 - For a grant up to \$100,000 the minimum match required would be 10%. Local share = \$10,000 (for a maximum of grant of \$100,000).
 - For a grant of \$100,001 - \$200,000, the match is \$10,000 plus 20% on amounts over \$100,000. Local share = \$30,000 (for a maximum grant of \$200,000).

- For a grant of \$200,001 - \$300,000 the match is \$30,000 plus 30% on amounts over \$200,000. **Local share = \$60,000 (for a maximum grant of \$300,000).**
 - For a grant of \$300,001 - \$400,000 the match is \$60,000 plus 40% on amounts over \$300,000. **Local share = \$100,000 (for a maximum grant of \$400,000).**
 - For a grant of \$400,001 - \$500,000 the match is \$100,000 plus 50% on amounts over \$400,000 up to the maximum \$500,000 grant amount. **Local share = \$150,000 (for a maximum grant of \$500,000).**
- **The Department of Transportation, Aeronautics Division would administer the program.**
 - **The process to apply for and receive a portion of the available funds will be a competitive process. Things to be considered during the selection would include:**
 - **air fares in a given community that are higher than the average air fares for all United States communities;**
 - **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;**
 - **a specific plan and time table for using the grant funds in a timely manner to be provided by the community applying for the grant funds**
 - **Any grant funds not consumed in the period of 3 years would be required to be returned to the grant program. All unused funds from a successful application would be returned to the program.**
 - **Time extensions beyond the 3 year limit above would be considered on a case by case basis by the administering agency.**
 - **Funds to be set aside for this program would not be allowed to grow beyond \$3,000,000. Should the funds grow to that level, excess funds would flow back to the originating account.**
 - **The air service development program would sunset after 6 years unless reauthorized by the legislature.**