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**QUESTIONS REGARDING THE SMALL COMMUNITY AIR SERVICE
DEVELOPMENT PILOT PROGRAM
DOCKET OST-2002-11590 - 13**

The Law

Q. How many communities can participate in the program?

A. The law provides that up to 40 communities can participate in the program at any one time, although no more than four communities or consortia can be from any one state.

Q. Because of the four-community limit per state, is the number of communities that can comprise a consortium limited to a maximum of four communities?

A. No, the law does not limit the number of communities that can participate in a consortium. A consortium would constitute a single entity for counting against the four-community limit per state.

Q. What communities are eligible to participate?

A. The law provides specific criteria to be eligible for participation: Only airports serving communities or consortia that were classified as not larger than a small hub based on CY 1997 enplanements at the airport can participate. A small hub is defined as an airport that has at least 0.05% but less than 0.25% of the annual passenger boardings in the United States. In addition, those airports must have had insufficient air service or unreasonably high airfares.

Q. Is the program limited to the 50 U.S. states or are U.S. territories and possessions also eligible?

A. The law does not limit the program to the 50 U.S. states. There would be no reason that U.S. territories and possessions would not also be eligible, provided that they were not larger than a small hub based on 1997 enplanements, as set forth in the statute.

Q. Are communities that have air service one hour away by highway eligible?

A. If the community/airport otherwise meets the criteria in the statute, it would not automatically be disqualified from participating in the program. However, if the air service that is one hour away is low-fare air service, then that factor would have to be taken into consideration in evaluating the effect of the community/airport's proposal and the feasibility of its proposal. We will be mindful of what the typical highway distances and driving times are for airports nationwide.

Q. The law speaks in terms of "insufficient" air service. Are communities with no current air service eligible?

A. The law does not preclude communities that currently have no air service from participating in the program, provided, of course, that they meet the other criteria set forth in the law. Communities now participating in the Essential Air Service program are also eligible.

Q. In the context of the eligibility requirements, is a small hub or small airport any airport that is not bigger than a small hub?

A. Yes. The size criterion in the law is based on the definitions of small hub based on enplanements in 1997. Thus, if the community/airport in 1997 was characterized as a small hub or smaller, then the community/airport has satisfied the size criterion to be eligible for a grant.

Q. What can the grant funds be used for?

A. The statute provides that grant monies can be used to (1) provide subsidy for service to and from an underserved airport, although use of the funds for this purpose is limited to a period of no more than three years; (2) provide assistance to obtain service, such as ground service, to and from the underserved airport; and (3) implement other measures to improve air service both in terms of the cost of such service to consumers and the availability of such service, including marketing and promotion of air service and enhanced use of airport facilities. In this regard, we note that Appendix B, page 3 of the Department's order inadvertently omitted the reference to use of the funds for subsidy as set forth above. We confirm here that grant monies can be used for airline subsidies, subject to the duration limitations set forth in the statute.

Q. The order identified a variety of ways that grant money could be used such as expenses for new advertising or promotional activities to improve air service, studies, hiring of personnel or consulting firms. Can the funds be used for projects not identified in the order?

A. The authorizing language in the statute is very broad and we will be receptive to considering a wide range of different proposals. The items listed in the Department's order were not intended to be restrictive. We would expect **all** proposals, however, to be consistent with the intent of the statute, namely improving air carrier service to airports not receiving sufficient air carrier service.

Q. Are all-cargo and other than scheduled passenger services permissible under the program?

A. The statute clearly is directed to addressing passenger service issues, and thus, we do not view proposals for all-cargo services as falling within the purview of this program, although a passenger proposal that included cargo benefits would not be excluded. The law does not, however, restrict services to scheduled passenger operations. Thus, we do not view only scheduled passenger services as within the scope of the statute. Indeed, a

critical focus of this law is improving access of small communities to the national transportation system, a goal that we recognize can be addressed in a variety of ways. Therefore, we will look carefully at all proposals, including those involving intermodal services, to ensure that they are consistent with this objective. In this regard, however, we intend to consider only those proposals that would involve full public access to the service at issue. We will not entertain proposals that are intended for, or related to, private carrier operations, such as private corporatejet services.

Q. The law provides that the Department will also work with air carriers providing service to participating communities in the grant program and major carriers serving large hub airports to facilitate joint fare arrangements. Are such desires by the community to be included in its proposal, or is this a separate endeavor after the community obtains a grant?

A. This should be part of the community's proposal if it is interested in joint fare arrangements and the Department's help in securing them.

Q. How does the Air Service Development Zone aspect of the law relate to the grant program?

A. The law provides that the Secretary will designate a community that has been awarded a grant in this program as an Air Service Development Zone and work with that community or consortium on means to attract business to the area surrounding the airport, to develop land use options for the area, and provide data, working with Department of Commerce and other agencies. Applicant communities interested in availing themselves of this opportunity should include such a request and justification for their selection in their proposals.

Application Filing Process

Q. When are applications due?

A. Applications are due April 22.

Q. Does a community have to file its application on that date to be considered?

A. Applications filed by the due date will be given priority consideration. Other applications will be accepted. However, later-filed applications will be considered for inclusion in the program only to the extent that funds remain available after all other successful applications have been funded, and to the extent that other restrictions in the statute have not been met (*i.e.*, not more than 40 communities nationwide and not more than four in any **one** State).

Q. How many copies of the applications need to be filed?

A. In our order, we have required that an original and five copies be filed. The original should be submitted on 8.5" X 11" paper, in dark ink (not green), and without tabs to facilitate inclusion in the Department's docket management system.

Q. Where are the applications to be filed? Is there a filing fee?

A. Applications are to be filed with the Department's Docket Operations and Media Management Division, Room PL-401, Department of Transportation, 400 7th Street, SW, Washington, D.C. 20590. The application should also (1) reference the Docket number for the program, Docket OST-2002-11590 and (2) the name of the community or consortium applying and the legal sponsor of the application. There is no fee for filing the grant application.

Q. Are there any specifications on the number of pages that a proposal should be?

A. Neither the law nor the Department's order imposes any minimum or maximum page specifications for proposals. Community proposals should clearly define the community's service situation and its proposed solution, including all funding necessary and the sources of those funds. We have made clear in our order that the more highly defined a proposal is, the more likely it will receive favorable consideration.

Q. Do the proposals need to be served on any other community or government parties?

A. No. Applicants are required only to submit the proposals to the Department in the established docket, unless the applicant is required to notify another state or federal agency when the application is submitted.

Q. Will applicants be permitted to submit any information on a confidential basis?

A. The Department's procedural regulations, 14 CFR 302.12, permit confidential treatment of information that an applicant thinks is proprietary or otherwise commercially sensitive such that it should not be available to any other persons. More specifically, the confidential information must be limited to commercial or financial information whose disclosure would either significantly harm the competitive position of a business enterprise, or make it harder for the Department to obtain information of this type in the future. The applicant would need to segregate the material for which it seeks Confidential treatment in a separate sealed envelope marked "Confidential Submission of X (the applicant) in Docket OST-2002-11590" and include with that material a request in the form of a motion seeking confidential treatment of the material under Section 302.12 of the Department's regulations. The public portion of the application should indicate where the confidential material would have been. Under our practice, if you properly invoke Rule 12, the confidential portion of your filing will be treated as confidential unless and until we decide otherwise. There are generally two situations in which we decide to release information under Rule 12—in response to a Freedom of Information Act request, or to explain some part of our final decision on your application. If we

decide to release the information, the submitter of the information would be given a chance to show why we should not do so and, if we still disagree, to take us to court before we actually release any of the information. Applicants, however, should not plan on seeking confidential treatment of their full proposals.

Q. Will communities be able to supplement their proposals?

A. If necessary, applicant communities will be able to supplement their proposals. Any such supplements, however, should be filed as quickly as possible to facilitate the Department's review of all of the proposals. In addition, DOT staff may contact applicants for clarification and/or additional information with respect to their proposals.

Q. Will communities be permitted to comment on the proposals of other communities?

A. Neither the law nor the Department's procedures contemplate responsive pleadings to the proposals filed. The Department will evaluate all proposals filed based on the criteria and priorities set forth in the law and the guidelines set forth in the Department's order soliciting community proposals.

Q. Will communities have to apply each year for funds?

A. At this time, funds have been appropriated only for this fiscal year, but those funds remain available until they are expended. Should funds be available in subsequent years, communities would have to file a proposal for additional grants. The Department's order stated that we expect that self-sufficiency of the new or improved service will be an integral part of the community's goal. A one-year award may be sufficient for the community's planned project. While Communities should not assume that grants will be available in the future, should funds be available in subsequent years, communities could file for a separate grant to fund another project or to extend an existing one.

Application Contents

Q. Is there a specific application form or format for applying for the grant?

A. There is no exact format to follow or form to fill out *per se* since each airport/community's needs are different and we expect to see a variety of proposals. Each community is free to design the format of its application, as it believes will best support its proposal. The Department's RFP provides considerable guidance regarding the information that the Department believes would be useful to us in our review of your proposal.

Q. Is there information that must be included in the grant-in-aid proposal?

A. The law makes clear that applications must include an assessment of the community/consortium's need for access or improved access to the national air

transportation system and an analysis of how the community meets the criteria set forth in the law for participation in the program. The law also makes clear that the Department will prescribe the information that should be included in the grant application, and, of course, applicants should include that information as well. The Department's February 13 order offered numerous guidelines and suggestions for the preparation of grant proposals. Applicants may also provide other information that they believe would be useful to the Department in evaluating their grant requests.

Q. Does the airport/community's proposal have to be submitted by the State? Must the community/airport work through the State?

A. The law does not require the applicant communities/airports to work through their state transportation agencies. They are not precluded from doing so, however.

Q. Can the applicant community/airport work through their local transportation officials/agencies? Can the local or county public authorities be the sponsoring partner for the grant?

A. Yes. Both the law and the Department's order encourage applicants to work with local public authorities.

Q. Can a private organization sponsor the proposal?

A. Both the law and the Department's order encourage applicants to work with private local entities to facilitate implementation of the proposal. Only the public entity sponsor, however, can be the party responsible for reimbursement requests under the grant.

Q. Must proposals include "studies" that show data for a particular airport or city?

A. No. The Department understands that many airports/areas may not be in a financial position to conduct or to have already conducted such studies. However, applicants may submit any available data that would assist us in making a decision on the merits of the proposal.

Q. The order asks for a description of the public-private partnership that will be responsible for the program at the local level. Is it mandatory to have such a partnership to file an application?

A. The law does not require that the proposal include a public-private partnership. It does, however, indicate that such proposals would be given priority consideration. In addition, whether or not there is a public-private partnership, the grant must be awarded to a public entity that would be responsible for reimbursement requests and to receive funding from the Department.

Q. Regarding the public-private partnership, must the funds from the community come only from the local community or consortium of communities?

A. Funds are not restricted to the local community. State funds may also be used to help facilitate the project. Such funds may also be from local businesses, organizations of businesses or other private institutions, including airlines.

Q. Is it mandatory that the grant application include funds from the local community or consortium of communities?

A. A local share is not required under the law to receive a grant under the pilot program. The law, however, makes clear that funding a portion of the cost of the proposal by the community would be considered a positive element and would provide the community's grant proposal priority consideration.

Q. Is there a prescribed level of local share that would be deemed appropriate or reasonable?

A. The law does not prescribe a level of acceptable local contribution. We expect that the level of local contribution may **vary** depending upon the proposal.

Q. Can an airline be the private party sponsor in the public-private partnership to the exclusion of other private parties?

A. There are no limits to the number of private parties that can be included in the public/private partnership. If a community chooses just to have one private sponsor, it is free to do so. The private party can be an airline.

Q. If an airport pledges funds for the local share of **an** air service grant, would or could the airport be protected from claims of revenue diversion under the FAA's policy guidelines?

A. No, it would not be protected. We have looked closely at this issue. It is our determination that airports cannot use airport revenues for direct air carrier subsidy and still be consistent with the FAA policy on revenue diversion. The city, county, or state airport owner may provide the air carrier subsidies, but from non-airport funds. Of course, chamber of commerce groups and other business interests may also provide that type of subsidy. The airport, however, should not involve itself in the direct carrier subsidy, or even act as a funnel for monetary contributions by non-airport interests. The airport may waive or discount fees to an airline for a promotional period, but must do so in a non-discriminatory way. To the extent that applicants intend to use airport revenues as part of their proposal here, they should carefully review the proposed use of those funds against the FAA's policy guidelines on use of airport revenues.

Q. Can revenue guarantees be used as part or the entire local share portion of a proposal?

A. Yes. However, we would expect that the guarantee would be made up front and kept in escrow or secured by a surety bond, or some other mechanism whether or not it ever was ultimately used. Mere pledges to provide a certain level of revenues would not be acceptable. In addition, federal grant funds used as a guarantee should be held in escrow or otherwise secured and should be returned to the Department (U.S. Treasury) if not used.

Q. Must the application be a joint application by the public-private partnership if there is one?

A. The application should be filed by the community or the consortium, identifying both the public and private members of the partnership. The application should include a complete description of the respective roles of all sponsors with respect to funding and implementation of the proposal.

Q. Is the public partner administering the grant funds expected to have oversight and other responsibilities for the use of the grant funds?

A. Yes. The public partner, or if there is no public-private partnership, the public entity sponsor for the community/airport proposal will be the entity responsible for seeking and obtaining reimbursement for costs under the grant and is responsible for ensuring that the funds are used only as allocated. With respect to the private and/or public fund contributions, we also expect that the proposal will detail a plan by the applicant regarding how the community will ensure that the funds provided are being spent in the manner proposed.

Q. Can the State Aviation Department be the recipient of grant funds and responsible for administration of the grant award?

A. Yes. However, the maximum number of communities/consortia that may benefit is still limited to no more than four in any one state.

Q. Does the application have to provide that the public sponsor will be part owner of the entity providing the air services?

A. No. Neither the law nor the Department's order require such a relationship, but it is not precluded either.

Q. The Department's RFP requests the filing of the airport's budgets for the past two years and the current year's budget. It also asks for budgetary information for future years. Why is this information being requested?

A. The budget information provides both a retrospective and a prospective picture of the types of planning that the community and airport have already done to address their air service needs in both the short term and the longer term. We also need this information to ensure that the federal money under the grant will not be used simply to replace state or local money already allocated, but actually will be used for new projects. In providing this information, we are not expecting communities or airports to generate new information. Rather, our expectation is that communities would provide information that is already on hand. In addition, with respect to historical information, communities are free to submit “actual revenues and expenses,” rather than budgeted data.

Q. The Department’s order indicates that that the local contribution can include in-kind trading. Would such contributions accord a community priority consideration under the statute?

A. Yes. However, as we noted in our order, communities should understand that in-kind trading is frequently hard to quantify. Moreover, a community’s local contribution is not limited to in-kind trading and the local contribution from the community could include several components of which in-kind trading is one feature.

Q. Can a community apply for a grant to cover capital expenditures such as terminal improvements, runway lights, radar equipment, instrument landing systems, GPS approaches, etc.?

A. The law does not expressly preclude such requests; however, funding for such requests was clearly not the intent of the statute. There are other grant programs that would facilitate capital expenditure requirements, such as the FAA’s **AIP** program, and such a grant could certainly be used in conjunction with a proposal that falls more appropriately under the purview of this program.

Q. The Department’s RFP requests that applicant communities provide a comparison of airfares currently offered at the community to those offered at similar communities in similarly served markets. What does the Department consider as the appropriate measures for similarly served markets?

A. There are a number of measures that can be used for this comparison, including density and distance. Communities are free to use other measures, as well, particularly those that they believe are relevant to the comparison and best explain the circumstances affecting their airfare circumstances. In this regard, we note that the General Accounting Office has recently issued a report on [Air Service Trends at Small Communities Since October 2000](http://www.gao.gov/new.items/d02432.pdf) (<http://www.gao.gov/new.items/d02432.pdf>). That report includes other indicia that may be appropriate in a community’s particular circumstance, such as per capita income. The comparison should clearly identify the measures used and why the community believes they are relevant to the comparison.

Q. The law refers to airfares for 1997. Are those the only fares that the Department will be considering?

A. No. The reference in the law to 1997 fares is relevant to the criteria for participation in the program. The current airfare and service situations at the applicant communities are most certainly relevant and will be included in the Department's evaluation of the grant proposals submitted.

Q. Where can we get data with respect to airfares and service at small communities?

A. The Department's Bureau of Transportation Statistics (BTS) has some information on both fares and services. To use the information, however, you may need a particular computer program to access the data. Otherwise, there are various vendors, such as **BACK** Associates and Data Base Products that make that type of information available for a fee.

Selection Process

Q. What factors will the Department look at to select among the proposals?

A. The law states that the Department will give priority to communities or consortia of communities (1) experiencing higher than average air fares, (2) where a portion of the cost of the project in the proposal is provided from local, non-airport revenue sources, (3) the community/consortium has or will establish a public private partnership to facilitate air service to the public, and (4) the grant will provide material benefits to a broad segment of the traveling public, including businesses, educational institutions and other enterprises whose access to the national air transportation system is limited. No application needs to have all of these factors to be given priority consideration. However, those proposals with more than one priority factor will have an advantage.

Beyond that, the law does not set further considerations for selection among the proposals. As we have stated in our order, we recognize that the needs of each community will differ and the solution to one community's problems may not be suitable for another community. Thus, we expect to see a wide range of proposals. We will be evaluating those proposals consistent with the intent of the program, namely improving air carrier service to airports not receiving sufficient air carrier service. We will also be looking for proposals that provide specific achievable goals, methods, or standards for determining whether the proposal is achieving its goals and the promise for continuation of the benefits after the funding ceases.

In selecting those airports and communities to be included in the program, the Department will be evaluating the relative size and geographic location of each applicant community; the grant amount requested compared with the total funds available for all communities; the proposed federal grant amount compared with the local share offered; the uniqueness of the community's stated problem(s); and the relative ability of each

community to resolve or address those problem(s). In this regard, communities should keep in mind that this is a demonstration program. We are looking for creative ways to increase air service at small communities and approaches that may serve as a model for other small communities.

Q. What is the Federal Government's role once the grant period is over?

A. Once the grant period (the period during which the funds may be used by the community) is over, the Federal Government would have no continuing role.

Q. What will the grant period be? Do the funds have to be expended in FY 2002?

A. The statute provides that the money remains eligible for award until it is expended. Thus, the funds do not need to be spent in FY 2002. There is no specific time limit on a grant, except that a grant for air carrier subsidy cannot be for more than three years.

Q. Are there maximum or minimum amounts of grants that the Department will award, given that the total amount available is \$20 million?

A. The law does not prescribe any limits on the amounts of individual awards and we do not believe that doing so would facilitate the intent of the program. Nor does the law suggest that the \$20 million be split evenly among the 40 possible communities selected. Both the law and the Department recognize that the needs of individual communities will differ, not only in the types of solutions that may be suitable to address service/fare issues, but also the funds necessary to implement those solutions. We expect a range of requests and we expect that the grants awarded will vary, depending upon the features and the merits of the proposals. The community involvement in terms of covering a portion of the cost of the proposal will help make it possible for the federal monies available to facilitate projects at more communities.

Q. Is it possible that the Department would award a community a smaller grant than it had requested?

A. Yes. However, if we elect to do so, we would first contact the applicant community.

Q. Would a community with no air service and a high-fare airport one hour away have a better chance of receiving a grant than a community with air service, even if that service is inadequate, since the community at least already is connected to the national air transportation system?

A. As this will be a competitive process, we cannot comment on what proposals would have a better chance than others except to say that proposals meeting the criteria set forth in the law will be given priority consideration. Within those that meet those criteria, we will be looking closely at the needs of the community, the degree of its service/fare

problems, and the feasibility of the proposal it has presented for award of a grant under this program consistent with the criteria set forth in the statute.

Q. If a community does not meet the milestones and timetable for success under its proposal, can or will the balance of funds available under the grant be withheld?

A. It is quite possible that the grant agreements offered would include performance standards based on the applicant's proposal. The Department would reserve the option to withhold further distribution of the grant monies if such standards were not met. We would handle those situations on a case-by-case basis.

Q. Would a community have a better chance for a grant if it partners its proposal with a specific airline or develops a proposal to attract a low-fare airline to the community?

A. **As** this most likely will be a competitive process, we cannot comment on what would best improve a community's selection for a grant. The law does not prescribe how a community should develop a strategy to address its air service problems. The community will need to determine what strategy best serves its interests. However, the more highly developed the proposal, the more likely it is that we will be able to understand and evaluate it.

Q. If the Department awarded a grant amount of less than what the community requested, would the grant be conditioned upon the community demonstrating that it could obtain the balance of funding necessary for the project? Would the Department reject the proposal if it did not agree with the grant amount requested?

A. We do not anticipate conditioning grant awards on the community obtaining additional funds. However, it is possible that the Department may make grant awards for less than what communities have requested, and the community would need to determine whether it remained interested in implementing the proposal with a lesser level of federal funding. A proposal would not be summarily rejected solely on the basis that the grant amount requested was excessive in our determination. We will be evaluating proposals on the basis of the criteria under the law and the reasonableness of the proposed activity to meet the community's stated problem, including the community's projected cost for that activity and sources of funds to implement the proposal.

Q. Will the Department be issuing any guidance that **will** rank the importance **of** the selection criteria?

A. No. Our order outlined the types of information that we were looking for communities to provide and the factors that we will look at in reviewing the proposals. The law sets forth clear guidelines as to the factors that should be given priority consideration. We will be evaluating the proposals filed in this context. The importance, of the individual selection criteria must be considered in the context of the circumstances affecting each community's air service.

Q. How soon after the proposals are filed will the Department be awarding the grant funds?

A. We cannot say exactly when the grant money will be awarded. That will depend in part upon the number of grant requests that we receive. We intend to process the grant applications as quickly as possible. We are mindful that funding for this program was not available until after the fiscal year had already begun and that communities receiving grants will be anxious to implement their awards.

Q. May an applicant begin to spend its share of the project, or sign a contract to commit to spend a portion of the cost of its proposed project, before it has received a grant?

A. No. Applicants are cautioned not to spend or commit local funds or their share of the cost involved in the grant application until they have actually received a grant. The Department will not reimburse any expense of any applicant that is dated before the applicant has actually received a grant.

Q. How will the Department ensure fairness in reviewing the proposals?

A. The law sets forth clear guidelines regarding the factors for consideration of proposals under this program. The Department in its order also made clear the objective factors that would be used including the size and geographic location of the community, the grant amount requested compared to the total available for all communities, the community's participation in funding the proposed activity, and the uniqueness of the community's stated problem and its ability to resolve that problem. We will do all that we can to ensure that all proposals are accorded fair and equal consideration against these criteria.

Q. Once a grant agreement is signed, does the community have the option of revising its proposal, should extenuating circumstances arise?

A. No, unless the grant agreement included the right to do that.

Q. When will the Department make payments under the grants?

A. The Department will process payment requests for each grant as reimbursement requests are submitted showing copies of paid invoices. Payment or reimbursement requests should be made on a regular, monthly basis, unless other arrangements are made in advance in the grant agreement.