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ITHACA
TOMPKINS REGIONAL
AIRPORT

Docket No. FAA-2003-15481
Docket Management System
U.S. Department of Transportation
Room Plaza 401
400 7th Street, SW.,
Washington, DC 20590-0001

23 July 2003

Re: Request for Public Comment on the Impact of Airlines Emerging from Bankruptcy on Hub Airports, Airport Systems and U.S. Capital Bond Markets
- Docket No. FAA-2003-15481 - 15

To Whom it May Concern:

The Ithaca Tompkins Regional Airport is a non-hub facility located in the Fingerlakes area of Upstate New York. Two scheduled airlines, both commuter carriers affiliated to US Airways, provide scheduled airline operations to Pittsburgh, Philadelphia and New York (LaGuardia). Between 1987 and 2000 enplaned passengers consistently averaged between 100,000 and 114,000 annually. Enplanements for the past two years have seen a drastic reduction from those totals.

When US Airways sought protection under Chapter 11 of the bankruptcy laws in August 2002, their unpaid bills totaled $ 160,570. This amount represents approximately ten percent (10%) of the airport's annual operating budget. The affect of this unpaid debt was to completely wipe out the airport's fund balance and cause a cash flow crisis that the airport owners (the County of Tompkins) had to make up by borrowing money.

Subsequently, US Airways agreed to pay one tenth of $ 160,570 ($16, 057) over a twelve- month period which was actually more than was required by the bankruptcy court.

Here are responses to the questions outlined in the FAA's request for public comment:

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Q.1 Is an airport's health tied to a particular carrier?

Clearly if the only carrier serving the airport goes into bankruptcy it will have a devastating affect on the airport's finances and in an instant, render the community it serves competitively obsolete. Those businesses and other important entities that rely on the airport are suddenly put at a disadvantage in terms of being able to compete in the market place. The extent of that disadvantage is gauged by the distance between their community and the next nearest airport that provides scheduled air service.

In the case of Ithaca, loss of air service would immediately take away the airport's self-sufficiency and cause it to become a drain on the local tax base.

Q.2 What actions have airports taken to aid airlines emerging from bankruptcy?

The Ithaca Tompkins Regional Airport, despite its financial difficulties, has continued to provide in excess of $ 50,000 annually to market the airport to the local community. The size of the market precludes US Airways itself from expending money on media advertising although it does sponsor local events, particularly at Cornell University, one of the airport's main users. The airport has recently begun initiatives to improve customer service. These include free parking for the first half-hour, free baggage carts, and providing "Airport Ambassadors" to assist passengers at the curbside.

Q.3 Has any airport canceled or deferred any capital development projects based on the financial condition of a particular carrier?

The loss of the airport fund balance, caused by the bad debt resulting from US Airways bankruptcy filing, has resulted in the airport's governing body looking at every single capital project under a microscope. Currently the local share of federally funded (AIP) projects is calculated as part of the rate base in US Airways' agreement. This agreement, however, is due to expire on 31 December 2003. If the airport is unable to negotiate similar terms into the new agreement, it is very likely that some capital projects will not go forward.

Q.4 What carriers that have filed for bankruptcy have defaulted on lease payments or rejected leases and contracts?

As previously stated, US Airways has begun monthly payments of $ 1,338 to pay down the 10% of debt at the time of Chapter 11 filing. The net loss to the airport will be $ 144,513. The airline's agreement to pay a total of $ 16,057 included a resumption of the existing contract which is due to end on 12/31/2003.

Q,5 What financial impact did the airport experience from those carriers filing for bankruptcy or emerging from bankruptcy ?

This has already been covered in previous responses. However, it should also be noted that not only is US Airways our **only** carrier but our agreement with them is **residual,** meaning that our financial health goes hand-in-hand with theirs. Our other revenue sources are such that we cannot hope to make up for the bad debt from US Airways' filing.

Q.6 What would be the financial impact to the airport if the bankruptcy carriers defaulted on lease and contract agreements or reduced or ceased service?

The FAA should be aware that these bankruptcies are far more serious for a small airport than they are for larger airports which can spread their losses (other than so-called fortress hubs, of course). The aftermath of 9/11 and the continuing poor economy have caused what might be called a "death spiral" at many small airports. Since 9/11 the Ithaca Tompkins Regional Airport has lost almost 30% of its flights and 34% of its passengers. Each month that goes by both the number of scheduled airline operations and number of enplaned passengers get progressively fewer.

Full bankruptcy would turn this airport into a General Aviation facility, which would require local taxes to subsidize its operation. The community itself would become a less desirable place to be as a place to live and as a place to do business. Apart from the great loss to area businesses, the three educational institutions that rely on the airport (Cornell University, Ithaca College, and Tompkins Cortland Community College) would have a much harder time recruiting students and faculty as well as reaching important business centers around the world.

Q.7 Has any airport changed any of its policies regarding leases and operating permits due to carrier bankruptcy?

The Ithaca Tompkins Regional Airport will soon be entering into negotiations with US Airways for a new lease beginning in January of 2004. Among the new clauses being considered are the requirement for a Letter of Credit, a requirement that Passenger Facility Charges (PFCs) are held by the airline in trust, and a provision for any money owed by the airport **to** the airline be used to offset airline bad debt (in the event we agree on a residual type of agreement).

Q.8 Have the bankrupt carriers caused the airport to incur higher debt and service costs?

Loss of the airport's fund balance caused by US Airways' bankruptcy bad debt has caused the airport to have to borrow money from other (Tompkins) County sources to pay bills for high-priced items (payments on capital projects and purchase of airport equipment). Use of other County fund balances on airport expenses has precluded the County from earning interest on that money.

Q.9 Have the carriers' recent financial problems caused any airports to defer or cancel Airport Improvement Program (AIP) or Passenger Facility Charge (PFC) funded development programs?

This has not occurred yet but loss of the airport's fund balance due to US Airways' bankruptcy has caused the airport's governing body to scrutinize the airport budget and all planned capital improvements. If the new airline contract will allow for the local share of AIP and PFC funded projects to be included in the rate base then these projects will be safe. If the contract does not, I think there is a good chance that some projects will either be deferred or canceled.

Q.10 Do the benefits that carriers obtain from bankruptcy help or hurt airports?

This has both a positive and negative answer. The protections afforded the carriers under Chapter 11 have caused this airport a direct financial loss of $ 144, 513 – a major financial blow to an airport of this size. Other airport tenants such as those that provide fuel, baggage delivery, crew transportation, etc. have similarly been left with unpaid debt. In some cases, for a small vendor, these kinds of debt can put them out of business. On the other hand, if these protections did not exist then presumably US Airways would have gone into liquidation and this community would be completely without air service.

Q.11 What actions, if any, could the federal government take now to help airports adjust to their current financial environment?

The Small Community Air Service (Pilot) Program will provide relief for airports having a hard time with high airfares and inadequate air service. The grant, spread over three years, will allow for financial incentives to bring competition to the marketplace. This will help to solve the problem, at least in the short term.

Ultimately, however, I believe the government must seriously look at some kind of partial re-regulation of the airline industry to protect air service to small communities. It seems to me that de-regulation, 25 years on, has been of tremendous benefit to large population areas but has worked in reverse for small communities. Forced to compete with low-cost carriers who thrive in the point-to-point, large population markets, established carriers that provide service to the hundreds of small communities in this country are finding they really cannot compete. In effect theirs is a different product and the cost of providing that product is much higher. As peoples' budgets get tighter, so they travel longer distances to find the lower fares. As this happens the critical mass that justifies service to small communities eventually does not warrant the kind of service being provided. This is very well illustrated at the Ithaca Tompkins Regional Airport by the drop in passengers, followed by the drop in airline operations, followed by a further drop in passengers, and so on. Airports that have residual-type agreements with their airlines are seeing a counter balance to their plummeting passenger figures.

The costs of running the airport remain fairly constant so as scheduled airline operations drop and the size of aircraft decreases airport rates and charges **per passenger** are going through the roof. In tough economic times this becomes yet another reason for airlines to withdraw service from small communities. This is what is being faced by the Ithaca Tompkins Regional Airport where rates and charges for 2004 are predicted to be about three times the industry average.

In the end the airlines' costs of operating from small communities like Ithaca cannot be justified and they pull out altogether. This has occurred in 17 communities since 9/11. Another 25 airports have been reduced to single carrier status. I believe that outside of large communities, the entire aviation structure in this country is in serious trouble. The Emergency Air Service Program (EAS), which the government would like to limit, will in fact, need to grow exponentially with every airline bankruptcy.

What the present situation will do to businesses that need access to the aviation system is to cause them to move to large population centers to remain competitive. If they do not, through their inability to be competitive, they will simply not survive. Forcing large population areas to become even large will cause congestion and lower peoples' overall quality of life. The beauty of the United States' aviation system is that it feeds commerce throughout the entire country and gives people the ability to choose the environment they wish to live in. It will probably take partial re-regulation of the aviation industry to preserve that freedom but it will be well worth the effort.

Sincerely,

Robert A. Nicholas, AAE
Airport Manager
Ithaca Tompkins Regional Airport