

# Airline Services Meeting Agenda

## April 16, 2008

### Forward Sheridan Conference Room

Welcome—Paul Wallop and Bruce Garber, Co-Chairs

Presentation—Mike Mooney, The Boyd Group

Mr. Mooney had a PowerPoint presentation prepared for the group. This presentation is available as PDF file and will be uploaded to the website for reference.

Mr. Mooney began with an overview of the current airline service conditions. Rising fuel prices and predicted economic slowdown are concerning to the airline industry; 9 domestic airlines have either failed, filed for Chapter 11 bankruptcy, or liquidated in the last 12 months. Airlines are experiencing record load factors; coupled with inefficient planes, airlines are struggling to break even, even with fare increases. Mr. Mooney stated that most carriers will not make a profit this year. Small community air service is in crisis—Great Lakes Airlines and Gulfstream Airlines are the remaining operators of B1900 aircraft. Other regional airlines have failed—RegionsAir, Big Sky, Air Midwest, and Skyway are either out of business or drastically scaling back operations. Operating costs for small turboprops have doubled since 2004; larger turboprops are in high demand because of their fuel efficiency. Network carriers and low cost airlines are investigating merger potential and reducing plans for growth.

Wyoming air service is a growth market compared to the rest of the US. United and Delta provide most flights through regional partners. Denver and Salt Lake City are the primary hubs for service into or out of Wyoming. Enplanements and traffic are increasing while most other domestic markets are shrinking. Currently in Sheridan, there are 3 round trips to Denver daily; two trips are scheduled with the Brasilia, and one is scheduled on a B1900D. Great Lakes Airlines operates the flights to Denver, with code sharing through United and Frontier. However, there are concerns about reliability, on-time performance, equipment downgrades, pricing, and scheduling.

Mr. Mooney pulled together some of the statistics reviewing Great Lakes performance over the last 9 months. 97% of scheduled flights were completed; however, there were many cancellations in December and January. However, on-time performance is poor—approximately 60% of flights are on-time. Given the small market, on-time performance should be much higher. There have also been issues with equipment downgrades from the Brasilia to the B1900 and issues with passenger and bag bumping. Mr. Mooney also examined the pricing for air travel—Sheridan fares to Denver average between \$30 and \$60 lower than Gillette. For travel to Denver from Billings, travel from Sheridan averages \$100 to \$200 more; however, for connections beyond Denver, comparisons of Sheridan and Billings pricing is inconsistent.

Mr. Mooney discussed several options for improved air service options:

- Additional Denver flights from Great Lakes
- Service to Denver through United (flying a Dash 8 aircraft)
- Service to Salt Lake City through Delta Skywest
- Pricing discussions with United and Frontier to develop a consistent parity-plus pricing with Billings

Mr. Mooney noted that United is particularly interested in providing air service to the oil and gas industry; as data is developed to present a proposal to United, we need to focus on this industry sector's flight needs. Mr. Mooney also noted that the Boyd Group assisted the task force in responding to a Request for Proposals (RFP) from Frontier Airlines in 2007. Frontier Airlines may be a viable service option for Sheridan; however, now is not the time to approach the airline to request an expansion of service due to their recent bankruptcy filing. If we are going to approach Frontier, we need to see how the bankruptcy filing will affect the airline.

The Sheridan community will probably need to offer either a marketing subsidy or risk abatement funding to attract additional airline service to the area. For example, Gillette and Rock Springs have both offered local marketing dollars as an incentive for airlines. Mr. Mudder asked if it helps to approach a company with cash in hand for marketing or risk abatement subsidies; Mr. Mooney replied that it depends on how the airline intends to operate. If an airline is paid a certain fee per departure, then marketing dollars or risk abatement funds may not be necessary. However, if an airline is flying at-risk, paid only on the number of seats sold, then marketing dollars and risk abatement funds can enhance the attractiveness of providing service to a community.

Mr. Mooney explained that risk abatement funds are not a subsidy, but help to alleviate the risk that an airline assumes when entering a new market. If new service performs well, only a minimal amount of money may be spent from the risk abatement fund pool. Most airlines will ask that the new service provide a certain profit per flight; if a flight doesn't meet the profit margin, risk abatement funds are used to fill the gap. Wyoming does have a program that will provide funds for airline service improvement to communities that can provide a 20% match. The federal government also has a Small Community Air Service Development grant to assist with funding air service improvement; proposals are due June 6, and require a community match. Mr. Mooney recommends that Sheridan pursue air service improvement funding; if Wyoming can provide funds with a 20% match, Mr. Mooney recommends that Sheridan raise \$200,000 for an \$800,000 match, totaling \$1 million in community air service improvement dollars. Mr. Garber asked if the funding is easy to get; Mr. Stopka replied that dollars are allocated on a first come, first serve basis. However, Mr. Stopka noted, there is no set percentage for the community match—state funds could provide a match for as little as 10% or as high as 30%.

Mr. Mooney noted that there are also some equipment issues that are working themselves out. Currently, Mesa Airlines holds the title to 32 B1900 planes, but will not lease out the planes to Great Lakes Airlines. If Great Lakes could get those planes, they would have the equipment to serve their newly acquired essential air service (EAS) routes. Mr. Mooney notes that Mesa Airlines may be close to filing for bankruptcy. United and

SkyWest have both entered into Rock Springs and Gillette; Great Lakes cannot compete and may be losing their market share in those areas. Grand Junction, CO is also moving Great Lakes out; the loss of these markets may result in a movement of equipment to the Sheridan market.

The group brought the air service discussion back to community air service improvement funds; there is a question as to how to show the state that funds are committed from community partners. Mr. Wallop recommends that the group plan now to raise a \$200,000 commitment of funds should we get an airline interested in serving Sheridan. Mr. Chino notes that Forward Sheridan is working on a draft of the next fiscal year budget—perhaps funds could be allocated if needed. Mr. Spencer suggested that the task force solicit for funds, with a certain percentage of the total pledge due to be held in a bank account, creating a sort of war chest of the partial pledges. This money can be rolled into other tasks or returned if it's not used.

Mr. Ferries is concerned about using funds for recruitment of additional air service and going against Great Lakes, as they are the only carrier in Sheridan. Mr. Wallop noted that we can use the funds to upgrade existing service—providing a 4<sup>th</sup> flight or purchasing additional equipment—in addition to recruiting additional air service. The Task Force needs to discuss ways to help Great Lakes help us. Mr. Wallop noted that community funds should be used to support the Task Force in all negotiations; although the Department of Transportation will not allow Great Lakes to pull out of Sheridan, Sheridan cannot afford any drop in air service.

Mr. Mooney noted that recruitment of a new airline will not result in immediate air service; recruiting an airline now will provide additional service in 2009.