

General Information on Airline Service Development at the Idaho Falls Regional Airport (IDA)

IDA currently has three scheduled airlines (United, Delta, and Allegiant) with direct flights to Salt Lake City, Utah; Denver, Colorado; Las Vegas, Nevada; Phoenix-Mesa, Arizona, and Oakland and Los Angeles, California, as well as seasonal summer service to Minneapolis-St. Paul, Minnesota. In addition, air charter companies on the field offer direct flights to Boise and other destinations on demand.

The airport is a landlord for the airlines and has very little say in where airlines fly, the ticket prices they charge, or the level of customer service they may or may not provide. The airport administration does stay in close contact with all the airlines, attends their conferences, and meets with their headquarter officers to offer suggestions and insights into the IDA market as well as to market our airport and community in an effort to attract new routes. IDA also partners with a very competent and successful air service development consultant to assist in this effort. However, in the end, airlines make their decisions based on profitability, and they are ultimately in control. Air service is directly tied to the economy and how many people are flying. Air service is also driven by the amount of utilization of existing flights and individual airline business models. All these factors combine to reflect a continuously volatile airline industry.

After safety and security, air service development is a high priority for the airport. IDA strives to be responsive to the community travel needs in both business and leisure routes. The airport mission's first priority is to maintain the existing airlines and routes. In the recent economy, many regional airports have lost air service. The second priority is to market and attract new airlines and new "sustainable" routes. Unfortunately, the recent trend in some airline business models is to pull away from "point to point" routes with no real hub on either end and instead to move to reflect a more "hub and spoke" model or, as Frontier did recently, move to a "large to large" airport route system. These trends make it even harder for smaller, geographically isolated regional airports like IDA to attract and maintain airline service routes.

In today's competitive market, airlines have very savvy business models to insure they can make a profit on any route they commit to with the goal of leading to a "self-sustaining" route. There are five basic requirements that an airline typically requires to

be profitable and to entertain starting a new route at an airport.

- The airline must have the right sized aircraft available for each route.
- The airline requires internal and external research data showing community support to equate to at least 85-90% passenger loads on every flight.
- The airline typically requires a minimum revenue guarantee for at least one year from the airport and community, usually between \$500,000 and \$2,000,000, depending upon the route and aircraft used.
- The airport must provide temporary incentives such as discounted or waived airport user fees.
- Finally, the airport must provide a paid marketing/advertising program for the route.

It's also important to remember that an airport community can throw lots of money and incentives at an airline to establish a new route; but if the route is not a viable one, it will ultimately fail. The airlines have to obtain consistent passenger loads of at least 85-90% on every flight to be profitable. There are also other factors that can make a route sustainable or not including national and global economics, fuel prices, and even natural disasters.

A good example of this is the San Francisco route at IDA in 2011-12 that proved not to be viable. The airport met all the airline's requirements to start the route including obtaining an DOT Small Community Air Service Development Grant for \$500,000 as a revenue guarantee. The passenger loads were decent for the first few months and then began to decrease below 80% and ultimately fell below 50% for the last six months of service. As soon as the revenue guarantee ran out, United pulled the flight as "unprofitable". Now in hindsight, United has advised that they believe one of the reasons the route may have failed is in part due to the Japanese earthquake and tsunami. Before that, the route had lots of connecting Asian traffic. After these two devastating events, Asian traffic dried up. United thinks it was traffic related to INL--when Fukushima went down, so did the traffic.

Although air service development is a very expensive and challenging endeavor, it's not impossible. The airport administration does all it can to make the airlines aware of the opportunities available here in Idaho Falls. However, the airlines are ultimately in control.

Airline Fares, Rates and Charges: Airports have little to no control over airline pricing. However, one of the most challenging, if not impossible, endeavors is for a geographically isolated regional airport such as IDA to persuade an airline to reduce its fare pricing structure and profit on an existing route that passengers have supported for two decades at 90% or higher load factors. Airport staff continues to communicate the local community's desire for reduced airfares to all our airline partners through technical numerical presentations in an effort to convince airline executives to reduce their rates and profits. However, the success rate of this type of endeavor continues to be very low.

Ticket prices often depend on how many seats have been pre-sold on a flight a passenger is trying to book and on which days of the week a passenger wishes to fly. The **airlines' tiered pricing structure** leverages these seats to charge passengers more as the seats are depleted no matter what airport a person is flying from. Since Delta's SLC flights from IDA are so successful and usually around 90% full, the seats can cost more as compared to neighboring airports with less demand. IDA has asked Delta to add additional Salt Lake City flights as needed seasonally in an effort to increase the number of seats available and their respective pricing. However, Delta has been reluctant thus far as it would decrease its profit margin.

When people compare fares from other airports such as Pocatello or Boise with fares from IDA, they really need to put the comparison in perspective. The leakage from Pocatello is extremely small (less than 2%) and is actually less than the leakage to the Boise airport. The fact is, most people do not factor in the price of their personal time away from work or family, fuel costs, vehicle usage, and food and hotel costs when comparing local airfares to SLC. The Idaho Falls airport's new website "IFlyIDA.com" has a cost calculator that allows people to calculate the "true costs" of flying out of larger airports. Sometimes it is cheaper to fly out of SLC, but sometimes it's cheaper or a breakeven to fly from IDA when all the "true costs" are factored in. IDA has continued to enjoy a strong business clientele via Delta and United and leisure traffic via Allegiant for over two decades now. Idaho Falls offers 8-12 flights a day compared to the 2-3 flights per day from Pocatello. And those 12 IDA flights average 90-100% full passenger loads every day. IDA also has direct daily flights to Denver via United and weekly flights to Las Vegas, Phoenix-Mesa, Los Angeles, and Oakland on Allegiant as well as the Delta Minneapolis-St. Paul seasonal flights.

IDA continues to experience annual passenger growth. In 2014, IDA experienced a 12% increase in enplaned passengers. And it wasn't just because of Frontier. Delta, United, and Allegiant also grew.

Customer Experience: Although IDA has little influence with the airlines' level of customer service, IDA is working to keep the airport competitive and attractive to the traveling public by keeping up with emerging technologies. In addition to the completion of the new terminal expansion project in 2014, the Idaho Falls airport has recently retained a professional air service and airport marketing, advertising, community outreach, and branding agency to assist in improving airport services and the perception of our customers. IDA has recently worked with airlines to implement "mobile boarding" passes and to install E-scanners at the security checkpoint to allow passengers with only carry-on bags to use smart phones to check-in at the security screening point. Updated ticket counter computer kiosks have been installed for passengers with checked bags. The airport has developed a new logo and website, "IFlyIDA.com," where customers can calculate the "true costs" of traveling out of larger area airports, book airline tickets directly, check flight status and anticipated delays, and learn about airport services and businesses, etc. IDA also recently initiated a community outreach program to measure the perception of the airport and the desires of local passengers. Social media campaigns including Facebook and Twitter have been established to connect the airport with our customers and to promote routes and services. There is also an on-going effort to implement scheduled, targeted advertising campaigns to promote IDA.

A common passenger concern is the time it takes to get a checked bag delivered from the aircraft to the baggage claim carousel on arriving flights. Like many small regional airports, all the airlines currently flying out of IDA are operated by a third-party ground handling company. Skywest operates on behalf of Delta and United flights and Quickflight operates Allegiant flights. The airlines hire these private ground handler companies through a competitive bid process that results in an extremely frugal-low cost operation that utilizes a skeleton crew of part-time workers to operate all the airlines' operations, i.e., the same person who checks a passenger in at the ticket counter also performs gate/aircraft entry and baggage loading/unloading duties. This practice results in a greater possibility of varied customer service levels. The airport is a landlord for the airlines and has very little say or control over the level of customer

service they may or may not provide. Furthermore, the airport's governing body, the Federal Aviation Administration (FAA), through grant assurances, restricts any airport management interaction that could affect competition between airlines. Recently an airport in the Southeast tried to improve its baggage delivery times by offering an incentive payment based on baggage delivery on-time performance. The airline sued the airport for intervening in the competition between airlines and won in federal court. The court ruled that the airport was in violation of its FAA grant assurances. Although poor weather conditions and the number of bags on any given flight affect delivery times, the airlines at IDA have stated that their goal is to provide customer bags within twenty minutes of arrival.

What can we expect in the future for airline choices? Attracting a large mainline air carrier to provide "daily" service to Boise and Seattle and additional East Coast connections remain top priorities for IDA. However, Boise is a difficult route due to the fact it's a small "point to point" route with no real hub on either end. To make the situation worse, there's a growing trend for airlines to change their business models to reflect a more "hub and spoke" or "large to large point to point" flight system. In addition, there are really only two "scheduled" airlines in business today that would be interested in flying the Boise route daily, i.e., Alaska/Horizon and Seaport. Currently, both do not have the right sized aircraft to make the route profitable even with a revenue guarantee, but IDA is staying in touch with them in the case they acquire additional aircraft appropriate for this route.

The Idaho Falls airport administration has been vocal in asking Idaho's state legislators to step in and assist Idaho airports in establishing scheduled, intrastate airline service. IDA has been reaching out to several small charter airline companies based in Idaho and surrounding states that are considering flying the Boise route by utilizing small 9-12 seat turboprop aircraft. However, they continue to struggle to get their cost structure lowered. If it's too high, it would result in an unreasonably high air fare which will not work. Since these airlines are small, unscheduled charter companies, they typically will need a funded "travel bank" from the community of pre-purchased tickets before they will begin operations. If they can get their cost structure lowered, IDA will plan to introduce these companies to the local businesses and community leaders to ascertain the actual need for this route and, more importantly, what people are willing to pay for it.

Allegiant Airlines: IDA constantly pressures Allegiant to provide better customer service. However, like most ultra-low carriers, their business model is based on profitability and efficiency of operations, leaving customer service to a lower priority. Airport administration believes this is the reason Allegiant is one of the most profitable U.S. airlines still in growth mode. To make things worse, unfortunately, all the other U.S. airlines are watching Allegiant and are seeing that this business model is successful and profitable. IDA is also urging Allegiant to provide year around service to the Los Angeles basin. However, they continue to have issues with available flight slots out of LAX; this route's aircraft are based there. Allegiant has advised they are considering relocating their aircraft to another airport in the Los Angeles basin that has fewer operating restrictions.

East Coast Connection: IDA has offered Delta Airlines a \$500,000 revenue guarantee that the airport received from a Department of Transportation (DOT) government-funded Small Community Air Service Development grant in 2014 if Delta will agree to fly the MSP route "daily". However, Delta has yet to take up the offer. Delta believes it can make more profit utilizing the aircraft on the off days on another route in their national system. Delta has committed to offer flights from IDA to MSP three times a week during the summer season. IDA is working with the DOT for approval to try to utilize the grant for another East Coast connection airport such as Atlanta, Dallas-Ft. Worth, Houston, or Chicago.

In early 2015, Frontier chose to stop flying the Denver-IDA route along with twenty (20+) other small regional airports connecting out of the Denver hub. This decision had nothing to do with the Idaho Falls community's support or airport costs. The Frontier flights were averaging 88-95% full every flight. However, the decision was made due to a large shift in Frontier's business model. The company that oversees Frontier's operations has made the decision to operate as a "ultra-low fare" air carrier and is shifting from flying people from regional airports to large airport hubs like Denver, the "hub and spoke" system, and is now trying to fly larger "point to point" airports much like Spirit Airlines. The airport administration did all it could in an effort to change Frontier's mind about leaving IDA. The airport even offered Frontier a revenue guarantee if they would consider staying. However, Frontier advised that even with a revenue guarantee, it would not fit into their new business model and that Idaho Falls would need at least

1.5 million people in our 2-hour catchment area to be considered for “point to point” service. Currently, IDA has approximately 660,000 people in its 2-hour radius catchment area. While the IDA-DEN service had very high load factors, the airline is moving away from smaller markets across the country. The citizens of Idaho Falls enjoyed and used the service, and the airport is actively looking to replace it.

West Coast Connections: IDA is in communication with Alaska Airlines in an effort to re-establish a non-stop flight to Seattle. This connection would give Idaho Falls a Northwest connection to another international hub.

The airline and aviation industry is in a constant state of change and remains very volatile. The airport will keep the public and media informed if any of the developments described above becomes available. In December 2017, the Airport submitted an application for another DOT Small Community Air Service Development Program Grant. If awarded the grant, the Airport plans to offer it to Alaska Airlines as a revenue guarantee to begin the Seattle service.

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