

June 20, 2020 Airport Leadership Workshop

The City Council of the City of Idaho Falls met in Airport Leadership Workshop, Saturday, June 20, 2020, at the Skyline Activity Center, 1575 N. Skyline Dr. in Idaho Falls, Idaho at 8:00 a.m.

Call to Order and Roll Call:

There were present:

Mayor Rebecca L. Noah Casper
Councilmember Thomas Hally
Councilmember Jim Francis
Councilmember Shelly Smede
Councilmember Michelle Ziel-Dingman

Phone:

Councilmember John Radford
Councilmember Jim Freeman

Also present:

Rick Cloutier, Airport Director
Jayme Verish, Airport Assistant Director Operations & Maintenance
Brent Davis, Airport Administration Manager
Brook Edwards, Airport Administrative Assistant
Randy Fife, City Attorney
Jack Penning, Volaire Aviation Consultant

Mayor Casper called the meeting to order at 8:01 a.m. with the following items:

Announcements:

Mayor Casper reminds anyone that would like to join the rally at 3:00 today 6/20/2020.

Airport Updates/Grants/Terminal Expansion:

Director Cloutier reviewed the following with general discussion throughout:

Budget update: Contracts and grants have been executed and will be presented at an upcoming city council presentation. Terminal construction going forward has started this week. Part of the CARES Act, Federal Funding provided us with one hundred percent (100%) saving us from our seven and a half percent (7.5%) share that we normally pay.

Director Cloutier mentioned that the full-scale training that was scheduled for June has been pushed back to later in the year. All Federal Aviation Administration (FAA) inspections have been delayed or canceled. Master Plan Update, a blueprint of the next ten (10) years is scheduled for August with lots of public meetings and public input.

Financial Update:

Mr. Brent Davis give a summary of the FY 2020 Budget
Current operating revenue \$2,167,619
Total operating expenditures: \$2,410,293
Net deficit: (\$242,674) as of June 15, 2020

Given the unprecedented times that we are in Mr. Davis transitioned into what 2020 will look like.

Budget Summary for FY 2021

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With revenue accounts being cleaned up by specific individuals the lines from previous years to this year's budget will look different. From thirty-six (36) accounts to seventeen (17) accounts. This will better align where we're taking in the revenue and where the expenses are occurring. Mr. Davis stated that when we go to the airlines to build different scenarios it's a lot easier to do so.

Mr. Davis mentioned that the top line is the airports Airport Improvement Program (AIP) money and it's always an ever-changing moving target until we actually get the budget finalized. There are significant changes in the budget and you can see our revenues are down one point one million dollars (\$1.1 million) in operating revenue.

Administration – (\$36,000) Salary & Wages

Building Maintenance – (\$289,000) Salary & Wages

Ground Maintenance – There are take-aways (Salary & Wages) and adding back between the cost of material for the runway. This also include 15% a year increase with ice melt & chemical.

Airport Security – (\$100,000) Public Safety Contract (Police Services) due to decreased operations.

Fire Protection – No changes in service level.

Total Appropriation Request:

Revenue: \$14,881,175

Expenditure: \$15,408,285

Deficit (\$527,110)

Operating Revenue:

Deficit (\$762,935) due to Passenger Facility Charge (PFC's), Rental Car, & Airline (Landing Fees)

Expenditures:

Salaries & Wages (\$167,449) -15.5%

Benefits (\$60,921) – 12.6%

Current Operating Expense (\$215,190) -9.2%

MERF \$2,700 – 7.7%

Budget Notes:

Reduced revenue accounts from 36 to 17

Cut Personnel Expense \$228,370, 14.6%

3 filled positions

1 vacant position

Reduced non-exempt staff hours to 35 hours

Cut Operating Expense \$215,190, 9.2%

\$50k cut in Professional Services

\$82k cut in Repair & Maintenance

\$83k cut in Police Services (estimated change in service level)

Total Operations (Exclude FAA Capital)

Cut budget \$527,110, 13.3%

Budget Built on reduced activity

50% of 2019 calendar year enplanements

Mr. Davis noted that this is not the worst-case scenario budget, that the worst-case scenario exists and could greatly alter the budget as currently constructed. i.e. Airline bankruptcy/non-payment and/or pandemic setback.

Airport Construction Update:

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Ms. Verish announces that the \$12M Terminal Construction Project has started and is 100% funded by the FAA, saving us from our 7.5% share that we normally pay. The project is expected to last approximately 18 months. By taking advantage of these changes to due COVID -19 to speed up the phasing and decrease that construction time, saving us time and money.

An additional 38,000 square feet of space for passenger hold rooms, concession areas, Transportation Security Administration (TSA) screening space, and passenger flow. We will be expanding our passenger gates from three (3) to five (5). Currently there are two (2) on the upper-level and (1) on the lower-level ground boarding. In the end we will have three (3) on the upper-level and (2) on the lower-level, giving us six (6) aircraft positions on the ramp. Giving us more opportunities to support more operations at any given time.

New covered ground boarding positions allowing passengers to not have to walk on the open ground – similar airport design as the “E” gate at Salt Lake City Airport.

Concession spaces are expanding on the second level, a full-service kitchen will be added along with a dining area.

TSA screening check-point with a dedicated pre-check lane.

American Disability Act (ADA) compliant service animal/pet relief area, post screening.

Updated finishes throughout the terminal; i.e. furniture, flooring, wall finishes, lighting, etc.

New Heating and Cooling elements with HEPA filters.



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Air Service Development

Mr. Penning gives a post-pandemic outlook:

Comparisons to previous downturns:

COVID-19 Vulnerability Index – Demand has not been hit as hard as it has been in very large markets. Gross Domestic Product (GDP) is not looking good with COVID-19. Mr. Penning states that Idaho Falls does not follow national trend and is difficult to forecast. We don't know what to expect after this pandemic after seeing trends from 9/11 and Great Recession. Idaho Falls is tied for the ninth-lowest April unemployment rate. Our national average is 13%. We have a strong underlying local economy; Bonneville County should be near average in terms of the impact of COVID-19. Idaho Falls metro area is 9% better than the national average, 80th at best of 380 metro areas in United States.

How Airlines are serving the region:

Capacity Reductions – Idaho's scheduled and forecasted airline seats at Idaho Airports with scheduled service will lose about ~35% capacity of passengers, which is better than the 48% national average. It is a loss of 2,900 departing seats per day. Last year Idaho Airports had 6 million available seats this year ~4 million will be expected this year. Status of Idaho Falls service in the month of June: Denver has two flights/day. United on Denver most

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markets in the Northwest have only five flights a week, and Idaho Falls Airport have maintained two flights per day throughout the summer. Mr. Penning states that it shows that our demand is better than our peer market. Our flight to Salt Lake City has two flights/day, Minneapolis was suspended for this summer. As of August 1, 2020, the Salt Lake City Flight will go to three flights/day. Allegiant is operating at full and is the only airline not requiring a mask at this time. The Phoenix/Mesa Arizona flight is at 90% full at two flights/week; Las Vegas at two flights/week; San Diego is two flights/week; Oakland is at two flights/week; Los Angeles is suspended entirely due to complete lock-down. By the end of this year Idaho Falls is forecasting to be down only 20%, by November & December it is looking like the same number of seats as last year at that time.

Mr. Penning makes note that Boise has lost Eight non-stop routes, Idaho is not as well connected as it had once been. Boise will take a bigger hit than any other market, a loss of ~3,000 departing seats per day. Pocatello has a loss of 85 departing seats per day, five flights a week to Salt Lake City on a 50-seat plane. As of October 1, 2020, Delta/SkyWest is free to leave Pocatello – they filed an exemption to leave Pocatello immediately, that exemption was not granted by the Department of Transportation. Since they filed that exemption the City of Pocatello made an agreement with SkyWest on behalf of Delta to charge SkyWest only one-dollar (\$1.00) a year for all services at the airport if they would maintain service. That will save SkyWest a half-million dollars a year that is being subsidized by the City of Pocatello.

Idaho Falls Market Fundamentals:

Updated Passenger Market – 54% that live here use ID; 38% that live here drove and flew Salt Lake City. An average of 1300 passengers per day in and out of our market that travel. That is up 30% since 2017, we added 300 passengers per day in the last three years, Idaho Falls passenger were up 40%. Idaho Falls Regional Airport retention is up from 40% to 54%. Salt Lake City retention is down from 50% to 38% from 2017. Pocatello was capturing only 4% down to 2%, fewer and fewer people are driving to Pocatello. If every person flew out of Idaho Falls Airport generates enough passengers to fill seventeen departures each day on a 76-seat airplane.

Service Profitability – All service is highly profitable in 2019, United/Denver and Delta/Salt Lake City operated at margins around 25%. Mr. Penning stated that we have doubled Delta and almost tripled United's margin from 2017, Delta's margin last year was at 13% and United's margin was around 9%. Allegiant services were also very profitable, although a little tighter in Vegas and Los Angeles. Minneapolis (MSP) and Las Angeles (LAX) are the most in danger as MSP "overflies" Salt Lake City – it is more efficient to connect at Salt Lake City.

Leveraging Airline Strategy:

Airline Consolidation – Out of 47 airlines in the 1980's, five major airlines in the United States are left: American Airlines, Alaska, Delta, United, and Southwest. Not a lot of airlines to choose from so we have to be strategic.

Network Airline Hub Structure – We work with Delta and United, and are currently working on Alaska and American.

Delta: Salt Lake City and Minneapolis are safe; Seattle and Boston would be at risk, Delta has done a big build up in Seattle that is all Asian fee and that market has absolutely crashed, so the Seattle market is out of the cards.

United: Denver is safe; We have serviced to San Francisco in the past and that is certainly an option in the future.

Alaska: Bought Virgin American and have built hubs in California. Portland and Seattle are safe and we need service to the Pacific Northwest, as it is our most requested for service.

American: Their core is Charlotte, Dallas & D.C. and is safe.

Target Markets – SkyWest can currently fly "At-Risk" for American Airlines, Delta and United. SkyWest is working with an agreement with Alaska. At least fifty-five (55) available aircraft in 2021. Beginning January 1, 2020, SkyWest is looking to put planes. Idaho Falls Air Service is targeting Seattle flown by American Airlines, but serviced by SkyWest. For the low-cost carrier with Allegiant to Palm Springs, Tucson, Minneapolis, Dallas-Fort Worth.

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Consideration in Planning – An Airline is trying to find the best use of an aircraft and crew resources. Do I have the right aircraft? Do I have room in the schedule? Does the market make sense? What are the unique costs? (airport costs and fuel). Are extra costs worth it? (high fares). Is there a market with less risk?

Securing Service - Mr. Penning stated that we need to understand when they (business traveler) will travel and what demand will be relative to 2019. Where they go and who they fly. This is to communicate to our current airlines that when business travel is back, we can help guide them to getting frequencies back into the market. We are monitoring the return of demand and seeing signs of life on our low-cost carrier, Allegiant. We will be applying for a small community grant application to help with that demand. Rick Cloutier and Jack Penning will be meeting with network planners at the headquarters, SkyWest, Alaska and American as soon as available.

Mitigating Risk – Mr. Penning stated that we do, as an airport provide direct cash for marketing for new service to raise awareness, we provide fee waivers for new service for a short period of time (landing fee, terminal rent, start-up cost offsets, ground handling support, etc.) and Idaho Falls Regional Airport is not the only airport that does this. All airports provide this, this is not a new thing. The big thing to remember is the Minimum Revenue Guarantee (MRG), and this is where the grant comes into play but also a lot of communities are doing this on their own. When we are getting a new service and we remove risk of the airline starting service and losing money by agreeing to a target revenue amount per flight (i.e. Below target: direct loss payment; above target: no payment) it is the best way to remove risk. With a (\$500,000) potential budget shortfall – how do we overcome budget shortfalls? We get more people traveling, increase our parking revenue and our rental car revenue. With a new flight we will most likely bring in ~\$250,000 new revenue.

The meeting adjourned at 10:22 a.m.

s/ Brook Edwards
Brook Edwards, Airport Administration

s/ Rebecca L. Noah Casper
Rebecca Casper, Mayor