

LYNCHBURG REGIONAL AIRPORT

COMMISSION MEMBER UPDATE

Tuesday, January 22, 2013

REPORT

AIRFIELD PROJECTS MAKE PROGRESS

With the exception of some final ramp lighting installation, pavement sealcoating and markings, the air carrier apron and taxiway rehabilitation project is essentially completed. A total of nearly 80 state-of-the-art LED taxiway and ramp lights are being installed which, in addition to being more intense, use significantly less electricity for added cost savings.

In addition, work on the new GA ramp project will get underway soon, with the pre-construction meeting scheduled for this coming Wednesday. I expect that the contractor should receive a notice-to-proceed to begin actual construction by the first of February.

In other related airfield construction projects, Phase II of the taxiway realignment and GA ramp project is in the final stage of design and re-packaging of the bid documents and construction specifications. We are timing actual bidding to coincide with the release of federal AIP funds for this year so as to get as much of a jump on construction this year as possible. I'm also very encouraged by the fact that the FAA's Airports District Office (ADO) has programmed some \$3 million in discretionary funding for this next phase of the project.

PASSENGER TRAFFIC FINISHES STRONG IN 2012

December airline passenger traffic saw an 8.5 percent increase over the same month last year, continuing a steady growth trend throughout the year at LYH. In all, the airport handled a total of 157,517 passengers for the year, with average aircraft load factors reaching a record 78 percent for the entire 12-month period. The passenger count for 2012 represents our third best year for passenger activity at LYH in the last 12.

DOT RESPONDS TO LYH REQUEST TO AMEND SCASDP GRANT

Although it took over four months to receive a reply, on November 21, 2012 I finally received a formal response to my request to the U.S. Department of Transportation to amend the airport's Small Community Air Service Development Program (SCASDP) grant to include more airlines. This request was based on the realization that recent airline industry events have conspired to make it impossible for LYH to maintain the narrower scope and intent of the original SCASDP proposal and grant as awarded. Accordingly, the airport proposed that by broadening the scope of the grant to allow LYH to negotiate with other major network carriers, and to include other hub destinations, our chances of attracting additional air carrier service by a second airline would be considerably enhanced.

Unfortunately, in its November 21, 2012 letter, the U.S. DOT denied this request based upon the reasoning that "...the substitute proposal [the airport] put forward would involve changes to the 2011 Grant's substantial and material features, and so [would] not be permissible under existing grant law or our procedures." In view of the industry circumstances cited in our request, however, the letter did indicate that the Grant will not be terminated under option provisions included in the Grant Agreement "in order to [allow the airport] additional time to seek alternate service consistent with the terms of the Grant."

For the time being, therefore, I will continue to pursue Southwest Airlines under the original Air Tran proposal as approved in our Grant. Accordingly, airport officials are in the process of arranging a

follow-up meeting with Southwest Airlines in early March for the purpose of providing an update on local market conditions, airport/airline activity and possible new developments in the future route plans of Southwest Airlines.

LYH OCTOBER PASSENGER SURVEY RESULTS TABULATED

The results of a comprehensive survey of LYH airline passengers undertaken in October 2012 have been completed, revealing some very interesting insights. The survey was designed to provide a snapshot of our airline customers and to profile the make-up and travel patterns of our customers in order to help us to better target LYH marketing efforts.

A total of 848 passengers were surveyed during the month from a sample of all departing flights throughout the week, resulting in a 7.5% sampling of all enplaned passengers. Overall, some 55.5% of LYH passengers were traveling for business reasons, with the remaining 44.5% flying for leisure purposes. Some 53% of outbound passengers were found to be local (Region 2000 residents), with a surprising 8.3% residing in LYH's secondary market area in outlying counties. The remaining 38.6% were visitors to the area, verifying once again that Lynchburg is predominately an originating air travel market. Among all respondents, the vast majority cited "Closer" and "Ease & Convenience" as their reason for choosing to fly from LYH, with the next highest response being "Lower Fare." And while males dominated the make-up of business travelers (70%), females represented a surprising two-thirds of all LYH leisure passengers.

I'll have more details on the survey results as part of my report to the Commission at next Monday's meeting.

FOURTH RENTAL CAR COMPANY BEGINS OPERATING AT LYH

National Car Rental began operating on January 9, representing our fourth rental car operator at the airport. As I mentioned in the last *Update*, National is actually owned by Enterprise Rent A Car, but will be operating as a stand-alone entity due to its distinctly different business model from Enterprise. National is occupying the same counter and service facilities that Enterprise operated from previously at LYH.

ITEMS FOR THE AGENDA

The first order of business for the January meeting of the Commission will be the election of a new Chairman and Vice-Chairman. Following that item and the consent agenda, the airport's finance manager will present LYH's proposed FY 2014 budget proposal for Commission consideration of a recommendation to the city manager and City Council. My report will focus on a presentation of the results of recent surveys, followed by a general discussion of the airport's air service development strategy for 2013, and a separate report on the status of updating both the City's and the County's airport zoning ordinances as related to obstruction protection.

In the meantime, if you have any questions or comments about the upcoming Commission meeting, give me a call at 455-6089 at my office, or I can be reached by cell at 444-3363.

Respectfully yours,

Mark F. Courtney

Mark F. Courtney, A.A.E.
Airport Director

LYNCHBURG REGIONAL AIRPORT COMMISSION

Monday, January 28, 2013

4:00 p.m.

AGENDA FOR THE COMMISSION

1. Call to Order
2. Commission action to elect a new Commission Chairman and Vice-Chairman.

CONSENT AGENDA

3. November 19, 2012 Commission Meeting Minutes
4. Lynchburg Regional Airport January 2013 Air Service Update
5. December 2012 Passenger Traffic Report

Consent Agenda Recommended Action: Receive and File

REGULAR AGENDA

6. Report of the Airport Finance Manager
 - A. A report with regards to the airport's proposed FY 2014 Operating Budget

Commission Action: Receive and consider recommendation to City Council
7. Report of the Airport Director
 - A. A presentation of the results of two recent LYH passenger surveys.
 - B. A report regarding year-end passenger traffic results and discussion of current airline industry trends and LYH air service development strategy for 2013.
 - C. A report on the status of updating both the City's and County's airport zoning ordinances as related to approach path obstruction protection.
8. Miscellaneous business
 - A. Inquiries and/or comments by Commission Members
9. Reports of airport businesses
10. Hearings of citizens upon Commission matters
11. Adjournment

Public Notice

There will be a meeting of the 2013 Airshow Coordinating Committee immediately following the above Commission meeting in the same location. Since the Coordinating Committee is comprised of three members of the airport Commission, the meeting will be open to the public.

**MINUTES OF
THE
LYNCHBURG REGIONAL AIRPORT COMMISSION MEETING
November 19, 2012
4:00 p.m.**

PRESENT:

Janice Crawford
Lynch Christian
Stewart Hobbs
David Laurrell
Don Brown
Kimball Payne
Bert Dodson
Charles Nowlin

ABSENT:

Jones Stanley

STAFF PRESENT:

Mark Courtney, Airport Director
Rick Stein, Deputy Airport Director
Wes Campbell, Airport Finance Director

(1) CALL TO ORDER:

Mrs. Janice Crawford called the meeting to order at 4:00 p.m.

(2) APPROVAL OF NOVEMBER 19, 2012 CONSENT AGENDA

Mrs. Crawford confirmed that everyone had received the items from the consent agenda; the August 27, 2012 Commission Meeting Minutes, the November 2012 Air Service Update and the October 2012 Passenger Traffic Report and asked if there were any questions or comments regarding the consent agenda items.

Mr. Nowlin had some questions regarding Entitlement Funds and their apportionment, which Mr. Courtney answered.

There being no further questions or comments, Mrs. Crawford asked for a motion to receive and file. The motion was made, seconded and unanimously accepted by all.

(3) REPORT OF THE AIRPORT DIRECTOR

A. A presentation regarding preliminary results of an airline passenger survey conducted in October.

Mr. Mark Courtney presented the preliminary results of an airline passenger survey conducted in October. He reminded everyone that a passenger survey was conducted in December 2010 just prior to Delta pulling out of this market, which will enable a comparison of where we stand now to then.

He then stated that of the 848 total respondents of the October 2012 survey, 55.5% were business with 44% leisure, indicating a return to our traditional profile of our passenger traffic which also will result in higher revenue generation for the airlines and more profitable flights for US Airways.

He said with the Dec 2010 survey the percentage of leisure passengers was closer to 57%, so there has been an uptick in business travel demand for this airport. He presented some more findings from the survey: 53% of

the passengers were “local” within Region 2000; 8.4% were “non-local originating” passengers who drove here from other areas to fly out of Lynchburg; and 38% were “visitors” who are flying in as a destination to conduct business or visit.

He went on to further discuss other aspects of the survey. There followed a general discussion.

B. An update on AIP and DOAV funded airfield projects currently underway or scheduled.

Mr. Courtney said that all paving work has been done, and the installation of the new lights and signs was underway. Since all of the lights and signs are new LED type fixtures, there should be a significant savings. He said the work should be finished within the next two weeks.

He said the contractor would start work on the general aviation ramp expansion that adjoins Freedom Aviation in January right after the first of the year. He said it was only a thirty-day project, barring adverse weather, and he was hopeful that it could be finished before the start of spring to allow grass seeding and adequate growth before the Air Show. There ensued additional discussion.

C. A report with regards to the status of adding a fourth rental car business at LYH.

Mr. Courtney said he was pleased to report that National Rental Car Company’s new lease and concession agreement had been fully executed as well as the addendums to the Hertz, Avis and Budget rental car agreements and that National is slated to start in January 2013. He said he hoped to see a little increase in revenue rather than just carving the pie up into more pieces.

(4) A REPORT BY THE SITE STUDY ENGINEER FOR THE AIRPORT’S NEW AIR TRAFFIC CONTROL TOWER, NICK PATTERSON OF RS&H, ON THE STATUS OF THE FAA SITE SELECTION PROCESS AND APPROVAL STATUS.

Mr. Nick Patterson with RS&H gave a presentation regarding site study for the airport’s new air traffic control tower and the status of the FAA site selection process and approval status.

He said the FAA had requested the site analysis report and they would be submitting it that week, and that the Safety Risk Management document was the final deliverable of the siting process. He said the goal was to have a new tower by the end of 2014. There followed a short discussion.

(5) REPORT OF FINANCE MANAGER

A. A report with regards to proposed changes in certain airport rates and charges affecting the following airport user fees.

Mr. Wes Campbell distributed a handout with background information as well as history and projections regarding the airport rates and charges. He explained the handout also contained a summary of the \$2.5 Million that the airport realizes in revenues, along with the past three years of historical data and the current year projections for fiscal year 2013. He also presented estimates if the proposed rate increases were implemented, which were:

1. An increase in airline terminal parking rates by \$1.00 per day.
2. The establishment of a non-signatory commercial landing fee of \$2.00/1000 lbs.
3. An increase of the airport’s non-commercial fuel flowage fee to \$.09 per gallon.

He said the increased revenue with these proposed increases would lower the airport’s subsidy from the City to around \$285,000. There ensued additional discussion.

Mr. Courtney said we would like to impose these increases January 1, 2013 and asked for a recommendation to be made. There followed a general discussion.

Commission Action: Make recommendation to City Manager.

Mr. Nowlin made a motion to approve all three for recommendation to the City Manager so they could become effective January 1, 2013. Mr. Bert Dodson seconded the motion. A vote was taken and it was unanimously approved by all.

(6) Commission member comments regarding the initial draft of the airport strategic plan document developed by the airport director and confirmation of schedule to complete the process.

Mr. Laurrell said he thought a good job was done by capturing the information and putting it together, and that we were moving in the right track.

Mr. Dodson asked if Mrs. Kennedy had put together the draft and Mr. Courtney responded no, that he had put it together.

Mr. Courtney said he could develop a more formal report to circulate among the Commission for comment. He said he believed the Commission should be involved on the policy level and that the strategies and tactics should be addressed at the staff level.

Mrs. Crawford asked if everyone had gotten a chance to review it and if there were any questions or comments.

There followed various questions and comments.

Mr. Courtney asked whether the Commission felt the need to meet again in order for him to develop the next iteration for circulation and comment at the next Commission meeting.

Mr. Payne said he would suggest that the Commission go ahead and adopt this draft as being a policy document and then have staff to fill in the strategy approach and report back to the Commission at a future Commission meeting.

Mr. Courtney suggested this be placed for motion and vote.

A motion was made regarding Mr. Payne's proposal to turn the draft into a policy document in order for the staff to continue to develop the strategies. The motion was seconded and voted on and unanimously accepted by all.

(7) MISCELLANEOUS BUSINESS

A. Inquiries and/or comments by Commission Members.

Mrs. Crawford asked if there were any inquiries or comments by Commission Members.

Mr. Dodson said he did not know if anyone wanted to discuss the letter to the editor in the recent Saturday edition of the News and Advance. He asked if anyone wanted to discuss it or to blow it off.

Mr. Courtney asked if he had seen Mr. Stewart Hobbs comments in today's paper.

Mr. Dodson said no he had not.

Mr. Hobbs said it was an unsolicited cheap shot with nothing to substantiate it whatsoever. There followed a brief discussion regarding the issue.

(8) REPORTS OF AIRPORT BUSINESSES

Mrs. Crawford asked if there were any reports of airport businesses.

Mr. Dave Young expressed the criticality of getting the ramp completed as they were out of space.

(9) HEARINGS OF CITIZENS UPON COMMISSION MATTERS

Mrs. Crawford asked if there were any questions or comments from the citizens present.

Mr. Charlie Granger asked if he could address the Commission. He said that he lived in Bedford County and owned his own business and he travelled. He said he used to travel out of Lynchburg until Delta left. He said he still travelled out of Lynchburg a little bit. He said he did not get up that morning planning to talk to the Commission but due to the letter to the Editor he felt like he wanted to come and at least hear a Commission meeting. He said he stops in the office periodically and asks what we are doing about another airline. He said typically the response that he gets is we are working on it. He said as a citizen he needs to know more than that. He went on to further discuss the issue. There followed a general discussion.

(10) ADJOURNMENT

There being no further business, the meeting was adjourned.

Lynchburg Regional Airport Commission

Effective January 2013

AIR SERVICE UPDATE

Summary The number of daily departure seats is 300 and the daily departure frequency is 6 on most days.

Carrier Profile	<u>Airline</u>	<u>Destination</u>	<u>Departures</u>	<u>Seats</u>	<u>Equipment</u>
	US Airways	Charlotte	6	300	DH3/CRJ
AIRPORT TOTAL:			6	300	

US Airways For the month of January, all the equipment are 50-seaters. There are five departures on Mondays and Tuesdays for the month of January.

Destinations Served	<u>Non-Stop</u>	<u>Departures</u>	<u>Total</u>
	Charlotte	6	6 (most days)

Aircraft Types	<u>Aircraft</u>	<u>No. of Departures/Day</u>
	DH8 Dash 8	0 Daily
	DH3 Dash 8-300	3 Daily
	CRJ	3 Daily

LYNCHBURG REGIONAL AIRPORT AIR TRAFFIC REPORT FOR DECEMBER 2012

AIR TRAFFIC REPORT	MONTH			YR TO DATE TOTALS			PERCENTAGE CHANGES		
	Dec-12	Nov-12	Dec-11	2012	2011	2011	Dec-12 Nov-12	Dec-12 Dec-11	12 YTD 11 YTD
ENPLAINED PASSENGERS	6,424	6,775	6,018	78,881	73,162		-5.2%	6.7%	7.8%
DEPLAINED PASSENGERS	5,960	6,781	5,391	78,636	73,248		-12.1%	10.6%	7.4%
TOTAL PASSENGERS	12,384	13,556	11,409	157,517	146,410		-8.6%	8.5%	7.6%
AIRCRAFT OPERATIONS (Landings and Takeoffs)									
Air Carrier	479	484	414	5,731	4,697		-1.0%	15.7%	22.0%
General Aviation	5,231	8,039	6,958	96,829	84,407		-34.9%	-24.8%	14.7%
Military	170	182	213	2,756	2,050		-6.6%	-20.2%	34.4%
Total	5,880	8,705	7,585	105,316	91,154		-32.5%	-22.5%	15.5%

AIR TRAFFIC REPORT	MONTH			YEAR TO DATE TOTALS			CHANGES		
	Dec-12	Nov-12	Dec-11	2012	2011	2011	Dec-12 Nov-12	Dec-12 Dec-11	11 YTD 10 YTD
NUMBER OF DAILY SCHEDULED FLIGHTS									
USAirways Express - Piedmont	3	3	3				0.0%	0.0%	
USAirways Express - PSA	0	0	0						
ACA - United Express	0	0	0						
ASA - Delta Connection	0	0	0						
Allegheny	0	0	0						
Shuttle America	0	0	0						
Air Midwest	3	3	3						
Total	6	6	6				0.0%	0.0%	
NUMBER OF ACTUAL FLIGHTS									
USAirways Express - Piedmont	84	85	90	689	1,635		-1.2%	-6.7%	-57.9%
USAirways Express - PSA	0	0	0	296	22				
ACA - United Express	0	0	0	-	-				
ASA - Delta Connection	0	0	0	-	5				
Allegheny	0	0	0	-	-				
Shuttle America	0	0	0	-	-				
Air Wisconsin	82	81	82	1,068	365				
Total	166	166	172	2,053	2,027		0.0%	-3.5%	1.3%
NUMBER OF CANCELLED FLIGHTS									
USAirways Express - Piedmont	2	1	0	16	50		1	2	-34
USAirways Express - PSA	0	0	0	6	2		0	0	4
ACA - United Express	0	0	0	-	-		0	0	0
ASA - Delta Connection	0	0	0	-	-		0	0	0
Allegheny	0	0	0	-	-		0	0	0
Shuttle America	0	0	0	-	-		0	0	0
Air Wisconsin	1	0	2	11	6		1	1	5
Total	3	1	2	33	58		2	1	-25

LYNCHBURG REGIONAL AIRPORT AIR TRAFFIC REPORT FOR DECEMBER 2012

**AIR TRAFFIC REPORT
NON-REVENUE PASSENGERS ONLY**

	MONTH				YEAR TO DATE TOTALS				PERCENTAGE CHANGES				PERCENT OF AIRPORT TOTAL	
	Dec-12	Nov-12	Dec-11		2012	2011	Dec-12	Dec-11	12 YTD	11 YTD	Dec-12	Nov-12	Dec-12	12/11/2011
	Dec-12	Nov-12	Dec-11		2012	2011	Dec-12	Dec-11	12 YTD	11 YTD	Dec-12	Nov-12	Dec-12	12/11/2011
DEPLAINED NON-REVENUE PASSENGERS														
USAirways Express - Piedmont	94	81	93		791	1,541	16.0%	1.1%	-48.7%		58.4%	60.4%	43.1%	
USAirways Express - PSA	0	0	0		285	35					0.0%	0.0%	0.0%	
ACA - United Express	0	0	0								0.0%	0.0%	0.0%	
ASA - Delta Connection	0	0	0		-	7	#DIV/0!	#DIV/0!	-100.0%		0.0%	0.0%	0.0%	
Allegheny	0	0	0								0.0%	0.0%	0.0%	
Shuttle America	0	0	0								0.0%	0.0%	0.0%	
Air Wisconsin	67	53	123		1,160	438					41.6%	39.6%	56.9%	
Total	161	134	216		2,236	2,021	20.1%	-25.5%	10.6%		100.0%	100.0%	100.0%	
TOTAL NON-REVENUE PASSENGERS														
USAirways Express - Piedmont	141	140	168		1,353	2,989	0.7%	-16.1%	-54.7%		51.3%	50.9%	41.7%	
USAirways Express - PSA	-	-	-		591	43					0.0%	0.0%	0.0%	
ACA - United Express	-	-	-								0.0%	0.0%	0.0%	
ASA - Delta Connection	-	-	-		-	14	#DIV/0!	#DIV/0!	-100.0%		0.0%	0.0%	0.0%	
Allegheny	-	-	-								0.0%	0.0%	0.0%	
Shuttle America	-	-	-								0.0%	0.0%	0.0%	
Air Wisconsin	134	135	235		2,370	901					48.7%	49.1%	58.3%	
Total	275	275	403		4,314	3,947	0.0%	-31.8%	9.3%		100.0%	100.0%	100.0%	

An Industry Overview

Snapshots: US Airline Industry 2013

Review Of Key Changes. Challenges. Evolution.



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Introduction

This document represents a brief overview of a only few of the emerging trends in the US airline industry, as analyzed by Boyd Group International. They are demonstrative of the wide changes that airports, airlines, suppliers and financial institutions can expect.

It is noted that any forecasts, regardless of the data involved, are based on subjective conclusions derived from the information available and the interpretation of the forecaster. There is only one certainty in any forecast of this type: there will be variations as the year unfolds. Nevertheless, planning for the future requires making determinations about the business environment and how a hugely-complex range of variables may affect it.

The presence of uncertainty does not relieve any company in any industry of the responsibility to plan for the future. This is the foundation of our firm – and of the work we do for our clients throughout aviation.

We'd point out that we are the only consulting firm that accomplishes independent projections of this type. One reason is that most other consulting firms have no forecasting practice of their own, outside of relying on government data. At our firm, forecasting is the foundation of our data-driven expertise, and the data and forecasts in this document are demonstrative of the consulting and research expertise Boyd group International brings to its clients.

We certainly welcome input and comments – it only can widen and enhance the forum of discussion.

Also, be sure to check out our website – www.AviationPlanning.com for industry updates every Monday, as well as the latest in the consulting and forecasting programs offered by Boyd Group International.

We look forward to working with you in 2013!

THE STAFF OF BOYD GROUP INTERNATIONAL

Note: As a leading industry consulting, research, and forecast firm, the conclusions and predictions herein are entirely independent. The contents of this document are based on data and analyses as of January, 2013. Because of the dynamic nature of the subject matter, the data and conclusions herein are not to be construed as investment advice.

Summary: Basic Forecast Trends

Air Traffic Control: NextGen Is Still NoGen

Fodder for the gullible. Despite slow/no growth in airline flights, anywhere between 15% and 20% of flights still arrive 15 minutes or more off the already ATC-padded carrier schedules. Every month. We can depend on it.

Go back five years. Or ten years. Compare what the FAA was saying then, with what it's saying now about fixing the air traffic control system. It's a time warp with today's glowing projections of progress. Plan on more of the same in 2013.

Airline Capacity: Down

There will be no overall capacity growth in 2013. The few carriers that are adding capacity are doing so in a geographically-focused manner.

Airline Fleets: New Mixes

The pull-down of "regional jets" (defined as CRJ and ERJ aircraft) will accelerate. Of the 1,400 such aircraft in North American fleets in 2012, approximately 1,000 will come out of fleets by 2017. The remainder will almost exclusively be CRJ-700/990 airliners.

Fallout on air service: mostly positive. (Discussed below.)

- **Related:** The pull-down of flight frequencies at RJ-centric hubs at Memphis and Cincinnati/Northern Kentucky is essentially the result of the deteriorating economics of 50-seat jets, and not due to the DL/NW merger, as much of the media conveniently claims.

Air Passenger Traffic – Down

It will track with airline capacity. Plan on between 2.0% - 2.5% down compared to year 2012.

Long Term Traffic Trends

Forget the FAA forecasts. Air passenger traffic is no longer a "fallout" result of economic metrics. Enplanements will increasingly be the result of the capacity airlines offer based on cost/benefit strategies.

- **Data Snapshot:** In 2017, the airports in the United States will experience almost 50 million fewer enplanements than the current FAA forecast predicts. That will affect facility and capacity needs.

Air Service Development

The economics of air service have changed. With the impending merger of American and US Airways, there will be just nine major scheduled airlines,

and all have specific route strategies. The options and potential for new service recruitment are shrinking fast. Consultant studies to “find the right airline” will be right up there with ginning up a purchase contract on the Brooklyn Bridge.

- **Draw Your Own Conclusions:** In the future, will it really be necessary for a mid-size US airport to send staff to a speed-date event in China, for a 20-minute meeting with *Southwest*?

The “Regional Airline” Sector

It has been years since this segment of air transportation has been either “regional” or actually “airlines.” The reduction in 50-seat jets is concurrently eliminating the *raison-d’etre* for these operators’ existence.

Uncertainly: how far new pilot union scope clauses will allow outsourcing of flying to larger, essentially mainline-cabin aircraft such as E-Jets.

- **Draw Your Own Conclusions:** The trend toward outsourcing smaller airport operations to the cheapest contractor will continue to result in shortfalls in service quality, passenger satisfaction, and in the future - this is a third-rail nobody wants to touch – possibly ground efficiency. Pay rates below those of the airport janitorial staff for people with a zero career path do not attract the best-quality, motivated employees, regardless of counter arguments from airline financial departments.

Key Forecast Factors

Airline System Strategies To Watch

Open and robust take-traffic-from-the-competition strategies are mostly a thing of the past. Alliances and code-sharing between major carrier systems, combined with an increased focus on hub turf, now defines airline strategies.

To be clear, there is competition for traffic flows over various hubs. But frequent flyer programs have materially cornered much of the local O&D from hubsite cities, and within large metro areas. But in 2013, there are a number of airline strategy shifts that bear watching.

American/US Airways

A merger between these two carriers will likely have no effect on traffic flows until at least the fourth quarter of the year. However, assuming that the surviving management is that of US Airways, we can look for the following:

- Revision to Cornerstone Strategy. The AA strategy is the right one, but simply because it is the only one open to the airline. With the traffic flows that US Airways can bring to the mix, we can expect JFK – where there is no room for AA to grow, short of a likely product-disastrous tie-up with JetBlue – to see some international emphasis shifted to PHL.
- Some shift of flow traffic from PHX to DFW is very likely due to the better demographics and geographic location of the DFW Metroplex.
- The merger does not solve two other major problems facing AA: lack of a **oneworld** Chinese airline partner, and LAX being a geographically-inferior gateway to Asia.

Southwest/AirTran

This combination has evolved materially since it was first announced.

- The B-717s, which initially were publically deemed by Southwest as fitting well in their system (which was entirely accurate from a capacity and fleet-mix standpoint) have now been pulled from the future picture.
- Some major-traffic points served by AirTran, such as SRQ, BMI and PHF, were subsequently found to be incompatible with WN costs, and have been deleted. These deleted airports alone accounted for over half a million AirTran passengers.
- The decision not to bank connecting flights at ATL will result in a much smaller eventual Southwest footprint at that airport compared to what AirTran operated. This leaves more traffic opportunities and



The outcome of the Southwest acquisition of AirTran will be different in scope than originally envisioned.

Its fleet plan at the moment shows little growth. That's not a negative:

No airline ever went out of business by **not** jumping at growth.

less competition for Delta. This will also have some positive fallout for CLT, which will benefit the merger between AA and US.

- As of January 2, 2013, the combined WN/FL system will offer 4.3% fewer departures in the first quarter than in the year-before period.
- The carrier is very carefully restructuring its route system, quietly deleting some point-to-point flying in favor of increasing revenues over its hubs (yes, hubs) at MDW and DEN. By the end of 2013, Denver will be Southwest's clear turf, with United and Frontier somewhere behind.

Delta Air Lines

The main focus here for 2013 is the up-gauging of unit capacity as the carrier pulls down 50-seat lift and replaces it with larger CRJs as well as B-717s leased in from the former AirTran fleet.

For airports, the results of this fleet shift will be almost entirely positive. The airline is in the process of deleting markets that are 50-seat centric, including pulling-down flight levels at Memphis and Cincinnati/Northern Kentucky. In others, the load factors on existing 50-seat routes indicate substantial revenue spill. Larger units of capacity will recapture much of this.

Spirit

A unique approach to competition that's apparently working: going head to head with major carriers on their own turf. Expansion at DFW not only takes on American, but has ramifications for Southwest's plans at Dallas/Love, which is just 17 miles and 25 minutes away.

Ditto at MSP and ORD, too. Bears watching in regard to specific segments of traffic capture.

Allegiant

Allegiant makes it clear – correctly – that it is a travel company, not an airline. The difference is not hair-splitting. Allegiant provides a leisure product that competes with other applications of disposable income. An airline fills the travel needs of a community. Allegiant largely creates the passenger demand that fills its aircraft.

Allegiant faces the delicate balance of assuring that its low fares are accompanied by substantial purchase of ancillaries. This can be an occasional problem, particularly at major leisure destinations where local consumers discover the low fares to visit grandma in Cedar Rapids. If there's too many of these reverse-originations, the profit potential gets dicey. Consumers at CID will likely buy hotel, rental car and show packages when they go to Las Vegas. Folks living in LAS don't buy packages (even if they existed) in Cedar Rapids.

Allegiant's flexibility allows it to add, delete, and sometimes re-enter markets quickly.

The Airbus strategy is stellar. There are dozens of A-319s and A-320s coming on the market – cheap – and Allegiant can take the pick of the litter. Factoid: an A-319 fuel burn is over \$500 an hour below an MD-83.

Airline Capacity Decisions

Historically, airlines were assumed to be entities that reacted to changes in the economy. As things like GDP, disposable income, population etc., went up, the forecast methodologies followed suit in predicting airlines would add capacity to capture the new demand.

Those days are over. The airline business is now mature.

Where, how and when carriers schedule their aircraft is no longer a primary reaction to economic factors. Airlines are now making the determination of how they match revenue to costs. It's no longer market share, or traffic volume. The goal is to produce levels of capacity that allow maximum return. When we look at the first quarter of 2013, it is very clear that airlines are not adding any extra capacity:



A new program that puts the expertise of Boyd Group International right on the airport's team.



System	Departures				Seats			
	2012	2013	Change	% Change	2012	2013	Change	% Change
AA	310,575	315,547	4,972	1.6%	34,063,568	34,201,475	137,907	0.4%
DL	466,389	446,230	-20,159	-4.3%	48,443,474	47,887,647	-555,827	-1.1%
UA/CO	490,806	473,777	-17,029	-3.5%	43,702,445	42,604,766	-1,097,679	-2.5%
US	288,980	278,767	-10,213	-3.5%	26,904,956	26,389,256	-515,700	-1.9%
AS	70,337	72,091	1,754	2.5%	7,856,912	8,089,973	233,061	3.0%
B6	63,706	67,669	3,963	6.2%	8,452,550	8,979,000	526,450	6.2%
HK	18,063	20,845	2,782	15.4%	2,759,365	3,189,228	429,863	15.6%
VX	12,831	12,589	-242	-1.9%	1,792,994	1,764,998	-27,996	-1.6%
WN/FL	335,577	321,082	-14,495	-4.3%	44,931,164	43,519,484	-1,411,680	-3.1%
E9	32,613	21,285	-11,328	-34.7%	3,807,952	2,859,417	-948,535	-24.9%
Totals	2,089,877	2,029,882	-59,995	-2.9%	222,715,380	219,485,244	-3,230,136	-1.5%

No Excess Capacity For New Service

The carriers that are adding capacity – Spirit and B6 – are essentially point-to-point carriers (Spirit for the moment, at least), and give-or-take an occasional Latrobe, they focus on big airports. This means for the majority of airports, there is no new capacity being added that will need to find a home.¹

This also means that any new or increased flying in a market will come at the expense of another.

Forecast point: the approaches that communities take toward “air service development” will need to change. It's no mystery to identify the airlines have potential – or, have no potential – for entering a new market. There isn't a great deal that can be “developed.”

¹ The AA increase is due to international flying.

For 2013: Air service levels need to be monitored and managed. Log onto www.AviationPlanning.com for details on **Air Service Management™** - a program geared for this new environment.

Airline Fleet Decisions

In 1999, Boyd Group International's Global Fleet Trend & Demand forecasts were the first to determine that demand for "regional jets" was essentially already met with the combination of aircraft in operation and then-currently on order.



The new standard in industry
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On-line Analytical Firepower™

Other forecast methodologies simply trend-lined airliner demand, "show-horning" each category currently being built into the projected need for ASKs. Our approach was to review airline fleet needs and strategies for specific-mission airliners. The result: there was a finite eventual demand for 50-seat jets. Running counter to ambient wisdom at the time, it was not a projection that found much willing acceptance at the time, but data is data, regardless of "what everybody knows."

Going forward, the combination of accelerated retirement of 50-seat (and smaller) jets, the entry of mainline-cabin small jets such as the MRJ and Embraer E-Jets, and changes in some pilot contracts permitting more outsourcing of flying, will point to major fleet shifts in the next five years.

North America	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Net Chg
180 + Seats	643	621	647	655	663	664	680	690	705	736	769	126
126 - 180	3,175	3,153	3,114	3,144	3,129	3,139	3,178	3,215	3,261	3,325	3,390	215
101 - 125	330	433	587	714	858	1,005	1,030	1,052	1,073	1,093	1,111	781
75 - 100	570	596	590	645	683	706	723	740	747	753	771	201
Regional Jets	1,401	1,308	980	728	583	405	405	405	405	405	405	-996
Total	6,119	6,111	5,918	5,886	5,916	5,919	6,017	6,102	6,191	6,312	6,446	327

In North America, total fleets of jet airliners will actually decline between now and 2015, with slow growth resuming starting the following year.

As of today, total number of aircraft will increase by only 5.4% through 2022. Seat availability (not shown) will grow slightly faster, due to shifts in fleets and entry of new mainline-cabin airliners, such as the Bombardier C-Series, and the new -NEO and -MAX variants which will be able to profitably operate in wider market missions.

In 2103, led by Delta, we expect to see at least 100 additional RJ-cabin airliners to be retired, and all 50-seat and smaller RJs will be out of service by 2017. The remainder of the "Regional Jet" category will be exclusively CRJ-700/900/1000 variants.²

² The term "regional jet" essentially has no in-fleet meaning any longer. Therefore, Boyd Group International classifies only the original ERJ and CRJ platforms in this category. Often Embraer E-jets are misclassified as regional jets." The reality is they were designed to fill market gaps left by retirements of airliners such as DC-9-10s and F-100s.

“Regional Jet” Retirements: Market-Positive

Because of the misunderstanding of the term “regional jet,” the assumption in the media is often that the retirement of these airliners will hurt “regional” markets, where, it is assumed, these machines are exclusively operated.

But these are “small” jets, and not “regional” in market application. They are used where low capacity is indicated, either based on size of market, or on time-of-day demand. United, for example, schedules 50-seaters at times of the day in the Denver-Phoenix market. Therefore, the retirement of these airliners is not the wholesale disaster for smaller communities that some alleged “analysts” may predict. In fact, for many communities and airlines, there are net-new traffic revenue opportunities that will immediately derive from the up-gauging of capacity.

A review of key airline hubsites (year ending 5/2012) shows that 50-seaters are now mismatched to dozens of feed markets – causing traffic loss for the airport, and missed revenue opportunities for airline systems:



Don't assume the airline “knows” that your airport's a prime candidate for RJ replacement.

Boyd Group International's new

Air Service Management™

program is on-going monitoring of the client airport's “vital signs” – load factors, changes in capacity, fare shifts, and competitive events at other airports. This includes changes in aircraft applications.

Delta/Detroit	Load Factor	Delta/Salt Lake City	Load Factor
ALB	84.9%	BIL	84.9%
ABE	81.0%	BZN	81.0%
BGR	87.4%	GTF	87.4%
SBN	80.1%	HLN	80.1%
TVC	80.0%	MFR	80.0%
		LWS	85.3%
American/DFW	Load Factor	United/Denver	Load Factor
BMI	82.0%	BZN	86.6%
BTR	84.0%	DRO	80.4%
CAE	83.6%	GTF	80.2%
LEX	81.1%	MSO	82.8%
RAP	81.2%	RDM	84.4%
VPS	83.2%		

When flights – on average – are in excess of 80%, it means that revenue is being turned away. Regardless of pricing power, net-new revenue is being lost. Adding to the need to replace these 50-seaters is the fact that the operating costs are increasingly not materially higher than new-generation larger aircraft. In fact, in some of these markets, mainline equipment – including new-generation aircraft such as the Bombardier C-Series and the NEO and –MAX models would easily fill the market.

For 2013, watch for this shift to up-gauge unit capacity to be spearheaded by Delta out of ATL. The reduction in flight operations at that airport resulting from the FL absorption into Southwest will facilitate this shift.

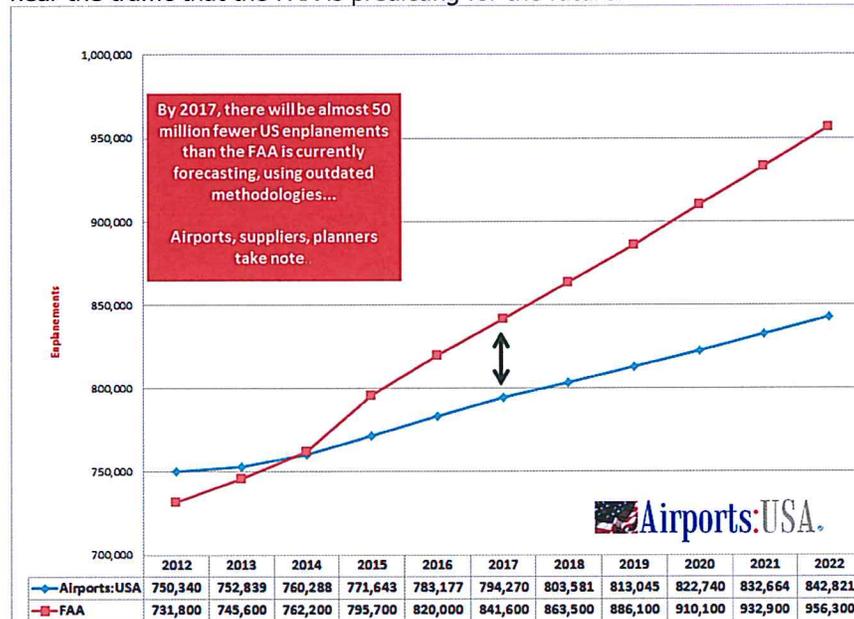
Basic Enplanement Forecast

Accurate identification of future traffic opportunities is part of the airport forecasts accomplished for our clients...

This includes opportunities for drawing traffic from competing airports in the region...

Nothing personal. It's strictly business.

The fact that airlines are adding neither seats nor aircraft in the coming year is not a temporary phenomenon. It is a result of fundamentally-different strategic and traffic metrics. This has severe ramifications for airports, suppliers, concessionaires and master planners: there won't be anywhere near the traffic that the FAA is predicting for the future.³



The point is that “traditional” methodologies that assume airline growth will track with various economic indicators have never worked very well. Today, with the new airline economics, they don't work at all. We can track this. In the early 1990s, the FAA was forecasting a billion enplanements by year 2000. Now, 12 years after that date the FAA is predicting that figure to be reached sometime after 2023 – nearly a quarter-century later than what they predicted in the early 1990s.

Planning for 2013 and beyond should encompass these realities. Data for 2012 is still estimated as of this time. However, the Airports:USA™ 2012 estimate is based on actual airline filings, not a mathematic formula.

Industry-Leading Forecast Expertise. Boyd Group International forecast expertise is often used within teams revising FAA Airport Master Plans. When the actual forecast varies substantially from the FAA Terminal Area Forecast, our professionals are expert at demonstrating the data successfully to the FAA. If your airport is looking at a Master Plan update, give us a call. We'll make sure you'll be focused on data that reflects the future.

³ (Note that the Airports:USA figures shown represent the best case traffic scenario for 2013, with virtually flat traffic. The Baseline forecast indicates approximately 746 million enplanements.)



We're pleased to announce that the Baltimore-Washington Thurgood Marshall International Airport is the host for the 18th Annual Boyd Group International Aviation Forecast Summit.

Reserve your space now for the New Year's rate...

Before January 22, registration is just \$945.

[Click Here](#)

Compare that to the costs of other aviation events.

This is the aviation forecast event – data and insights that are clear, focused, and real-world. Presentations from the decision-makers. No rambling panels. Hard questions and hard answers.

We're planning an exciting event this November, and more information will be posted at www.AviationForecastSummit.com in the weeks ahead. In the meantime, we are offering special early registration rates, so log on and check it out.

Here are some basic snapshots from the presentations made by airline and industry CEOs at the 2012 Summit at DFW.



The Summit featured discussions with CEOs from Southwest, Allegiant, Spirit, JetBlue, US Airways, Virgin America and Azul.

Another great quote from the Summit. Regarding current approaches often taken by airports to get new service, Maury Gallagher of Allegiant described them as:

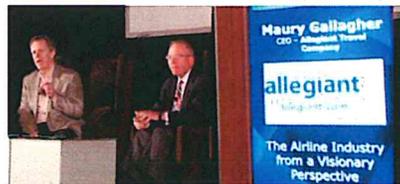
"Your dream. My money."



Ben Baldanza - Spirit David Cush - Virgin America Dave Barger - JetBlue



Gary Kelly of Southwest discusses future strategy with Jeff Potter of Boyd Group Intl.



Allegiant's Maury Gallagher brought up a range of insightful concepts in an open discussion & attendee O&A with Mike Boyd of Boyd Group International.



The AA merger issue was off the table for legal reasons - but nothing else was in a lively interchange with Scott Kirby, President of US Airways.

The 400+ attendees at the 2012 event received insights into 2013 that no other event provides. We're planning the 2013 Summit to be even more comprehensive. Make plans now to join us.

