



# INTRASTATE COMMERCIAL AIR SERVICE COMMITTEE

## Idaho Intrastate Passenger Air Service Study

JANUARY 2021



# TABLE OF CONTENTS

---

INTRODUCTION.....	1	ROUTE FORECASTS AND AIRLINES.....	28
EXECUTIVE SUMMARY.....	3	Methodology.....	28
CURRENT AND HISTORICAL AIR SERVICE.....	5	Regional Aircraft Availability.....	30
Current Air Service.....	5	Types of Aircraft Analyzed.....	31
Historical Air Service.....	6	Route Forecasts.....	33
Seasonality.....	9	Regional Airlines.....	37
Domestic Revenue and Fare Trends.....	10	Route Conclusions.....	40
Domestic Load Factor Trends.....	12	AIR SERVICE COMPARISONS.....	41
Revenue Per Available Seat Mile Trends.....	13	Existing Regional/Intrastate Service.....	41
Historical Intrastate Service.....	14	Historical Regional/Intrastate Service.....	43
PASSENGER DEMAND ASSESSMENT.....	18	AIR SERVICE DEVELOPMENT BEST PRACTICES.....	44
Methodology and Data Sources.....	18	Community Role.....	44
Factors Affecting Travel Demand.....	19	Barriers To Entry.....	45
True Visitation Estimate To Boise.....	20	Airline Risk Mitigation.....	46
True Visitation Estimate From Boise.....	22	Airline Incentive Summary.....	52
Combined True Visitation Estimate.....	23	CONCLUSIONS AND NEXT STEPS.....	53
Proxy Market Analysis.....	24	GLOSSARY.....	54
Propensity to Fly Model.....	25		

# INTRODUCTION

The Idaho Legislature created the Intrastate Commercial Air Service Committee (Committee) through Senate Concurrent Resolution 125 in 2020. The Committee's objective is to study intrastate commercial air service and develop a long-term, viable strategy for sustainable intrastate commercial air service in the state of Idaho. The Committee consists of a diverse group of leaders in commercial air service, travel and the business community. The Committee was granted approval to hire a consultant who is familiar with commercial airline service and with the capability to provide economic or additional research. Mead & Hunt was selected to complete the *Idaho Intrastate Passenger Air Service Study (Study)*.



Convenient access to the national air transportation system is a top priority for many businesses and tourists across the U.S. It is important that Idaho's major population, business and tourism centers have commercial airline service to meet the needs of urban and rural users. Idaho businesses rely on the commercial airline industry to support day-to-day activities, and Idaho's tourism industry relies heavily on commercial airline service. Idaho's rural landscape needs safe, efficient, reliable and accessible passenger air service.

This Study focuses on the state of passenger air service throughout Idaho, an assessment of intrastate air service passenger demand, potential routes/airlines for intrastate commercial air service and best practices to recruit new air service. The following airports/communities are included in the Study:

- Boise Airport (BOI) – Boise, Idaho
- Coeur d'Alene Airport (COE) – Hayden, Idaho
- Friedman Memorial Airport (SUN) – Hailey-Sun Valley, Idaho
- Idaho Falls Regional Airport (IDA) – Idaho Falls, Idaho
- Lewiston-Nez Perce County Regional Airport (LWS) – Lewiston, Idaho
- Magic Valley Regional Airport (TWF) – Twin Falls, Idaho
- McCall Municipal Airport (MYL) – McCall, Idaho
- Pocatello Regional Airport (PIH) – Pocatello, Idaho
- Pullman-Moscow Regional Airport (PUW) – Pullman-Moscow, Washington-Idaho



Achieving intrastate air service success requires thoroughly understanding the market and the needs of local stakeholders, airlines, and trends impacting the state and aviation industry. Air service development efforts are most effective when they follow a plan consistent with industry trends, the air service needs of communities and specific strategies of target airlines for additional air service. The Study airports are subject to several trends that impact air service efforts, including:

- Airline mergers have concentrated industry capacity with the “big four” airlines controlling over 80 percent of the U.S. domestic market.
- Smaller regional aircraft continue to be replaced by larger regional aircraft at an accelerated rate driven in part by a regional airline pilot shortage.
- Connecting passengers are funneled through fewer major hubs and short-haul markets were reduced or eliminated by select carriers.
- Competition for air service has increased with incentives and community partnerships becoming more important to the airline decision-making process.
- Low-cost carriers and ultra-low-cost carriers, as a group, are growing steadily in domestic markets, and the reaction and competition from traditional network carriers is evolving rapidly.
- Airlines reduced flying by up to 90 percent and eliminated service to select communities during the early phase of the pandemic.

This Study was developed as the Coronavirus Disease 2019 (referred to as COVID-19 or pandemic) continued to have devastating effects on the airline industry throughout the world. This Study reviews historical trends and intrastate travel to/from Boise as it existed through December 31, 2019. While the ultimate impact on the airline industry is yet to be determined, there will be a recovery period before the U.S. demand for air travel returns to normal conditions. Assumptions about the pandemic-affected air travel environment have not been incorporated because there is not currently a clear view to where this evolving situation will lead. However, as with every other challenge to industry demand (e.g., September 11, 2001, swine flu, the Great Recession), the industry is expected to rebound, and air travel will continue to be a vital and growing element for economic development throughout the U.S. While the currently changing environment will certainly create some temporary setbacks or delay potential expansion plans, the observations and recommendations of this Study are still valid and important for long-term air service development.

# EXECUTIVE SUMMARY

## DATA SOURCES

Global Positioning System (GPS)-based tracking data from smartphone devices was combined with data from other travel-related databases to create a true visitation estimate to quantify the visitation to/from Boise. The true visitation estimates include all travel between two points by any form of transportation (e.g., car, bus and aircraft). Due to impacts of COVID-19 in calendar year 2020, this analysis is based on data for the year ended December 31, 2019.

## HISTORICAL/CURRENT SERVICE

Of the nine Study airports, seven currently have commercial air service, with combined departures in 2019 of 34,700 and more than 3.1 million seats. Alaska Airlines provided the highest number of seats, just ahead of Delta Air Lines. Boise was the largest Study airport, while Idaho Falls was the second largest airport. Excluding Boise, the most common service was to Salt Lake City on Delta, with all markets except Pullman-Moscow offering Salt Lake City service. Flights and seats pre-pandemic had been growing significantly at the Study airports, with seats up 29 percent and flights up 20 percent between 2015 and 2019. Although the pandemic created striking impacts for the Study airports with a reduction of 25 percent fewer

seats than in 2019, the Study airports fared much better than the national average, which experienced a seat reduction of 38 percent.

Several carriers have provided intrastate Idaho service over the past 20 years. Current service, however, is limited to Gem Air between Salmon and Boise, operating an average of twice weekly in 2019 on nine-seat aircraft. Big Sky Airlines and SeaPort Airlines previously offered brief intrastate service, but services were cancelled following relatively poor performance. The primary intrastate service was operated by Alaska Airlines/Horizon Air. Over the years, Alaska/Horizon served Pullman-Moscow, Lewiston, Idaho Falls and Pocatello to Boise. The last service in operation was Lewiston, which was terminated in 2018. Historical performance for Alaska operating the 76-seat Bombardier Q400 turboprop aircraft was relatively poor in all intrastate markets, with load factors in the 50 to 65 percent range.

## PASSENGER DEMAND ASSESSMENT

Overall demand for intrastate visitation was calculated for 2019 for travel to and from Boise to each of the other eight Study markets. The two largest factors that affected visitation were

population and drive time. The larger the population size, typically the higher overall visitation. The lower the drive time between each market and Boise, the higher the number of visits per person. The highest visitation intrastate was Twin Falls to/from Boise, followed by McCall, Pocatello, Idaho Falls, Hailey-Sun Valley, Pullman-Moscow, Coeur d'Alene and Lewiston.

Portland, Oregon, was used as a proxy to model the propensity to fly for markets with nonstop air service. It was determined that the propensity to fly was greatly reduced for markets under a three-hour drive. The further the drive, the higher the propensity to travel by air as the time savings to fly and the average fare versus cost to drive become more favorable.

When the propensity to fly model was applied, the highest propensity to fly was Pullman-Moscow, followed by Coeur d'Alene. Coeur d'Alene is challenged due to its close proximity to Spokane International Airport and the likelihood that the majority of those travelers are already flying today. The next highest propensity to fly was Idaho Falls, Pocatello and Lewiston. The three shortest routes, McCall, Twin Falls and Hailey-Sun Valley, were

determined to be too close to Boise to be able to generate much propensity to fly because air travel would take longer and cost more than driving.

## ROUTE FORECASTS AND AIRLINES

Though Boise has the highest level of air service in the state, Boise is not considered to be a hub for any airline. Only one of the airlines analyzed has the ability to easily connect travelers beyond Boise to their final destination. The forecasts for intrastate service predominately considered local passenger demand (i.e., demand to/from Boise), with minimal connections beyond Boise. Each of the Study airports forecasted for Boise service either have airline service to a hub or are located near an airport with existing service to a hub (e.g., Coeur d'Alene to Spokane). Consideration of Boise service for the three shortest haul markets, McCall, Twin Falls and Hailey-Sun Valley, is not feasible due to the short drive times and low propensity to fly, so the routes were not forecasted.

Airfares were estimated using historical fares for Idaho's intrastate service and nonstop fares to Portland and Seattle. Based on these proxies, a high average Idaho intrastate fare is unlikely. Capturing passengers at the forecasted fare is critical to the success of intrastate air service. Even a \$10 lower fare would result in hundreds of thousands of dollars in less revenue, making routes unprofitable.

Due to high costs per seat for a nine-seat aircraft and the minimal number of 19- to 30-seat turboprops in service in the U.S., this analysis concentrated on 30- and 50-seat regional jets and 76-seat turboprop aircraft.

Overall, the Pocatello and Lewiston forecasts for all aircraft were negative. The Idaho Falls forecasts on a 50-seat regional jet once daily and the 76-seat turboprop once daily were marginally profitable. The Pullman-Moscow forecasts with 50-seat regional jets once or twice daily and 76-seat turboprop once or twice daily were profitable. While Coeur d'Alene had significant demand, equal to that of Pullman-Moscow, the forecasts were negative due to the close proximity to nonstop service at Spokane that has four to five daily roundtrips to Boise.

Potential airlines that can serve intrastate markets include Alaska Airlines, Contour Airlines, Denver Air Connection and JetSuiteX (JSX). These airlines operate the types of aircraft that had positive forecasts. While SkyWest Airlines is the largest regional airline, its requirement to operate flights to its partner's hubs limits their ability to operate intrastate service. If the requirement changes, SkyWest could potentially provide service through Boise.

Based on the route forecasts, intrastate service would likely only be successful from Pullman-Moscow and Idaho Falls, with both markets having positive forecasts for several different types of aircraft. Despite the negative forecasts

for Pocatello and Lewiston, they have the potential for service if they can support a higher airfare and still attract enough passengers to meet projections.

## AIR SERVICE COMPARISONS

Historically, there have been numerous intrastate routes throughout the country; however, over the past decade, many of those operations have ceased as the airline industry continues to change. Mid-sized regional aircraft have been removed from service, and the economics of operating primarily local, intrastate service has progressively worsened. Intrastate service today falls into two categories, traditional hub service and subsidized service. With traditional hub service, the vast majority of the traffic is connecting beyond the hub to other destinations outside the state.

## AIR SERVICE BEST PRACTICES

It is highly likely that intrastate Boise service will need monetary incentives (e.g., minimum revenue guarantees and subsidy). Funding options include the Small Community Air Service Development Program and state or local funding. While service is projected to be profitable from Idaho Falls and Pullman-Moscow, it is likely that the markets would take time to mature. This time period can vary greatly depending on the market and the airline, but it typically takes one to two years for a new market to mature. It is during the ramp-up period that airline incentives are needed most.

# CURRENT AND HISTORICAL AIR SERVICE

In this section, existing and historical air service is summarized for the Study airports, including flights, seats and nonstop destinations. Changes in air service and seasonality of air service are identified. Airline schedules were significantly reduced in 2020 in response to the unprecedented ongoing decrease in air travel due to the pandemic. While passengers and schedules are increasing over time, the published airline schedules for 2021 are uncertain. As a result, the majority of the schedule and passenger data in this section is based on 2019.



## CURRENT AIR SERVICE

Scheduled commercial air service for the Study airports was provided by seven airlines in 2019 (listed in order of seats in calendar year 2019): Alaska Airlines, Delta Air Lines, Southwest Airlines, United Airlines, American Airlines, Allegiant Air and Frontier Airlines. These airlines provided service to 20 destinations outside of Idaho with 52 percent of the flights operated to the three closest major airline hubs, including Denver, Salt Lake City and Seattle. **Table 3.1** provides the total flights and seats by Study airport and airline.

**TABLE 3.1 AIR SERVICE AT STUDY AIRPORTS BY AIRLINE – CY 2019**

AIRLINE	AIRPORT							DEPART-URES	SEATS	SEATS/DEPARTURE
	BOI	IDA	PIH	LWS	PUW	TWF	SUN			
Alaska	8,547		254	1,360				10,161	830,967	82
Delta	5,237	1,391			1,090	1,038	990	10,765	829,888	77
Southwest	4,402							4,402	644,430	146
United	5,281	1,194	550					7,025	524,304	75
American	1,713							1,713	196,494	115
Allegiant	278	312						590	98,754	167
Frontier	44							44	8,078	184
<b>Flights</b>	<b>25,502</b>	<b>2,897</b>	<b>1,823</b>	<b>1,360</b>	<b>1,090</b>	<b>1,038</b>	<b>990</b>	<b>34,700</b>		
<b>Seats</b>	<b>2,536,640</b>	<b>200,585</b>	<b>136,430</b>	<b>103,360</b>	<b>54,500</b>	<b>51,900</b>	<b>49,500</b>		<b>3,132,915</b>	<b>90</b>
<b>Seats/Dept</b>	<b>99</b>	<b>69</b>	<b>75</b>	<b>76</b>	<b>50</b>	<b>50</b>	<b>50</b>			

*Source: Diio Mi; Sorted by Total Seats for CY 2019*

Boise had the highest level of air service with over 10 times the number of seats compared to the next largest market. **Table 3.2** summarizes air service at the Study airports (excluding Boise) by nonstop market. Delta Air Lines’ Salt Lake City hub is the dominant hub for these airports primarily due to the proximity of Salt Lake City to southern Idaho. Pullman-Moscow is the exception with air service limited to Alaska Airlines service to their Seattle hub.

**TABLE 3.2 AIR SERVICE AT STUDY AIRPORTS BY AIRLINE/DESTINATION – CY 2019 (EXCLUDES BOI)**

AIRPORT	DL	AS	UA	G4	G4	UA	UA	G4	G4	DL	UA	DL	DEPARTURES	SEATS
	SLC	SEA	DEN	AZA	LAS	LAX	SFO	LAX	OAK	LAX	ORD	MSP		
IDA	1,378		1,194	156	106			24	26			13	2,897	200,585
SUN	993	254	177			176	176			26	21		1,823	136,430
PUW		1360											1,360	103,360
PIH	1,090												1,090	54,500
TWF	1,038												1,038	51,900
LWS	990												990	49,500
<b>Total Flights</b>	<b>5,489</b>	<b>1,614</b>	<b>1,371</b>	<b>156</b>	<b>106</b>	<b>176</b>	<b>176</b>	<b>24</b>	<b>26</b>	<b>26</b>	<b>21</b>	<b>13</b>	<b>9,198</b>	
<b>Total Seats</b>	<b>315,429</b>	<b>122,664</b>	<b>73,650</b>	<b>28,287</b>	<b>16,557</b>	<b>13,376</b>	<b>13,376</b>	<b>4,320</b>	<b>4,056</b>	<b>1,976</b>	<b>1,596</b>	<b>988</b>		<b>596,275</b>

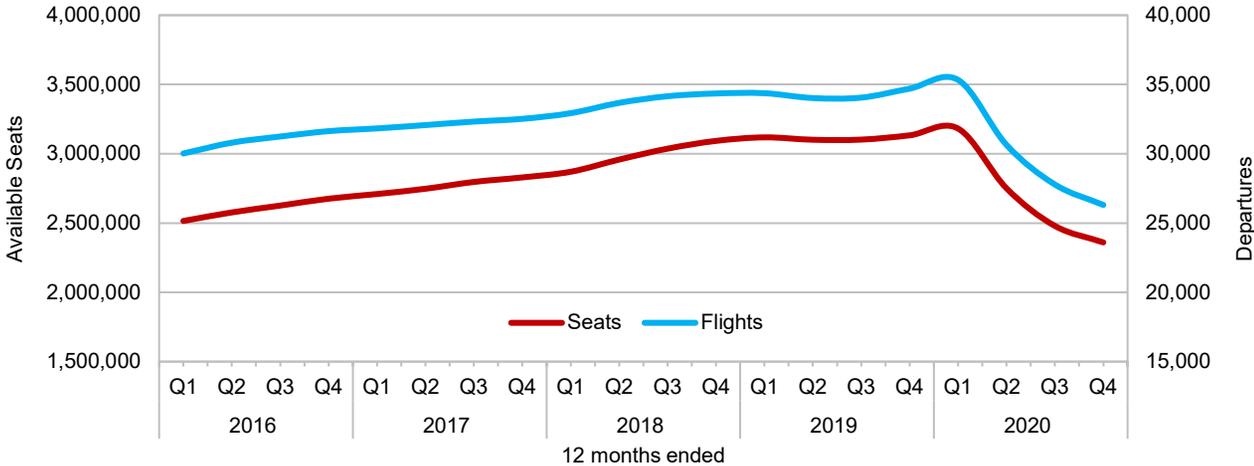
*Source: Diio Mi; Sorted by Total Seats for CY 2019; Note: Airline and airport identifier codes are listed in the Glossary*

Throughout the pandemic Idaho Falls continued to support air service to the Denver and Salt Lake City hubs as well as service to multiple destinations on Allegiant Air. Hailey-Sun Valley maintained year-round service to Salt Lake City and seasonal service to Chicago-O’Hare, Denver, Los Angeles, San Francisco and Seattle. Pullman-Moscow, Lewiston, Pocatello and Twin Falls maintained their primary hub service. The flights at the Study airports have outperformed the U.S. averages during the pandemic. For July 2020, the Study airports reached 38 percent of prior year passengers compared to 30 percent for the U.S. domestic average. Only six states operated at a higher percentage of 2019.

**HISTORICAL AIR SERVICE**

Prior to the pandemic, seats and flights for the Study airports were up significantly. In less than one year, the pandemic eliminated years of passenger and air service growth (**Exhibit 3.1**, next page), and estimates suggest that it will take several years for the industry to recover. From 2015 to 2019 the Study airports’ flights increased by 20 percent and seats by 29 percent. Flights were reduced by 24 percent in 2020 and seats by 25 percent as passenger demand dropped significantly beginning in March due to COVID-19; however, the reduction at the Study airports was far less than the national averages for both flights and seats compared to 2019.

EXHIBIT 3.1 HISTORICAL SCHEDULED OUTBOUND AIRLINE SEATS/DEPARTURES



Source: Diio Mi, Scheduled Seats/Flights for Study Airports

The changes vary market-by-market with more significant changes in some markets. **Table 3.3** provides a detailed review of flights and available seats by Study airport, including the airline providing service. Pocatello and Hailey-Sun Valley gained flights and seats from 2015 to 2020. Boise and Idaho Falls had fewer flights but small increases in seats due to the use of larger aircraft, while Lewiston, Pullman-Moscow and Twin Falls each show a reduction in flights and seats. Most of the reduction in service at Lewiston occurred in 2018 and 2019 prior to the pandemic.

TABLE 3.3 HISTORICAL AIR SERVICE											
AIRPORT	AIRLINE	ANNUAL DEPARTURES			CHANGE		ANNUAL SEATS			CHANGE	
		2015	2019	2020	2015-2019	2019-2020	2015	2019	2020	2015-2019	2019-2020
BOI	Alaska	7,789	8,547	6,603	10%	(23%)	588,676	708,303	538,486	20%	(24%)
	Allegiant	168	278	298	65%	7%	28,188	45,534	48,198	62%	6%
	American	848	1,713	1,596	102%	(7%)	111,500	196,494	164,427	76%	(16%)
	Delta	3,930	5237	4,282	33%	(18%)	361,796	511,495	392,914	41%	(23%)
	Frontier		44			(100%)		8,078			(100%)
	Southwest	3,218	4402	3,158	37%	(28%)	459,470	644,430	466,218	40%	(28%)
	United	4,372	5,281	3,331	21%	(37%)	332,184	422,306	274,601	27%	(35%)
	<b>Total</b>	<b>20,325</b>	<b>25,502</b>	<b>19,268</b>	<b>25%</b>	<b>(24%)</b>	<b>1,881,814</b>	<b>2,536,640</b>	<b>1,884,844</b>	<b>35%</b>	<b>(26%)</b>
IDA	Allegiant	268	312	283	16%	(9%)	44,368	53,220	48,954	20%	(8%)
	Delta	1,470	1391	1,136	(5%)	(18%)	86,155	87,167	79,919	1%	(8%)
	Frontier	2				(100%)	276				(100%)

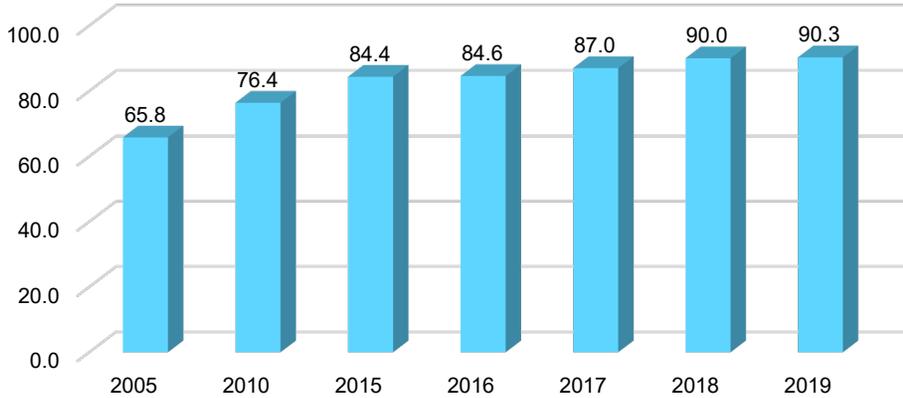
**TABLE 3.3 HISTORICAL AIR SERVICE**

AIRPORT	AIRLINE	ANNUAL DEPARTURES			CHANGE		ANNUAL SEATS			CHANGE	
		2015	2019	2020	2015-2019	2019-2020	2015	2019	2020	2015-2019	2019-2020
	United	991	1194	887	20%	(26%)	49,550	60,198	51,940	21%	(14%)
	<b>Total</b>	<b>2,731</b>	<b>2,897</b>	<b>2,306</b>	<b>6%</b>	<b>(20%)</b>	<b>180,349</b>	<b>200,585</b>	<b>180,813</b>	<b>11%</b>	<b>(10%)</b>
LWS	Alaska	1,046				(100%)	79,496				(100%)
	Delta	641	990	698	54%	(29%)	32,050	49,500	34,900	54%	(29%)
	<b>Total</b>	<b>1,687</b>	<b>990</b>	<b>698</b>	<b>(41%)</b>	<b>(29%)</b>	<b>111,546</b>	<b>49,500</b>	<b>34,900</b>	<b>(56%)</b>	<b>(29%)</b>
PIH	Delta	711	1,090	861	53%	(21%)	35,310	54,500	43,050	54%	(21%)
PUW	Alaska	1,046	1,360	850	30%	(38%)	79,496	103,360	64,600	30%	(38%)
SUN	Alaska	413	254	227	(38%)	(11%)	31,388	19,304	17,252	(38%)	(11%)
	Delta	736	1019	758	38%	(26%)	47,840	75,326	55,520	57%	(26%)
	United	285	550	491	93%	(11%)	19,950	41,800	36,968	110%	(12%)
	<b>Total</b>	<b>1,434</b>	<b>1,823</b>	<b>1,476</b>	<b>27%</b>	<b>(19%)</b>	<b>99,178</b>	<b>136,430</b>	<b>109,740</b>	<b>38%</b>	<b>(20%)</b>
TWF	Delta	902	1,038	848	15%	(18%)	45,100	51,900	42,400	15%	(18%)
<b>Total All Airports</b>		<b>28,836</b>	<b>34,700</b>	<b>26,307</b>	<b>20%</b>	<b>(24%)</b>	<b>2,432,793</b>	<b>3,132,915</b>	<b>2,360,347</b>	<b>29%</b>	<b>(25%)</b>

*Source: Diao Mi Annual Flights and Seats*

Seats per departure for the Study airports increased every year since 2005 through 2019, as shown in Exhibit 3.2, demonstrating the changes in the types of aircraft used.

**EXHIBIT 3.2 AVERAGE SEATS PER DEPARTURE BY CALENDAR YEAR**



*Source: Diao Mi*

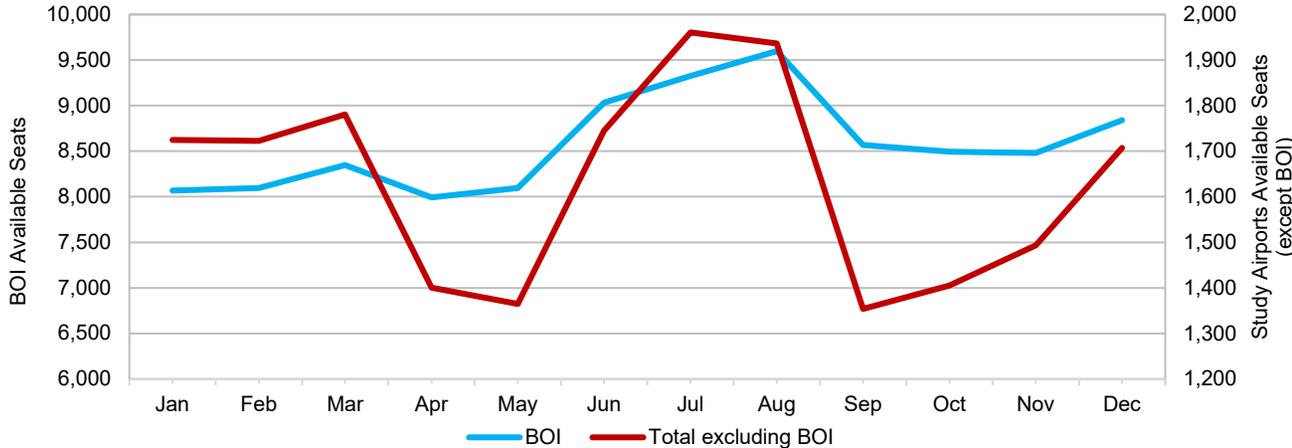
Since 2005, the average aircraft size used in Idaho has increased by 37 percent. Much of this increase is due to the significant reduction in the use of turboprop aircraft.

Since 2005, the average aircraft size used at the Study airports increased by 37 percent. Much of this increase is due to the significant reduction in the use of smaller turboprop aircraft. From 2005 to 2015, the use of turboprops decreased by 70 percent while regional jets increased 50 percent. Mainline jet aircraft flying was reduced 20 percent. During this period, the Study airports were impacted by this industry trend as airlines replaced smaller aircraft with larger aircraft in all categories. The average mainline jet increased from 133 to 152 seats, regional jets from 57 to 68 seats and turboprops from 40 to 76 seats. The introduction of regional jets configured with 70 and 76 seats had a major impact on the regional jet category as they replaced 50-seat aircraft. One of the significant impacts of this change was that service in small markets using uneconomical, smaller turboprops was either eliminated or replaced with larger aircraft.

**SEASONALITY**

As a strong tourist destination, airline capacity is generally increased to the Study airports in the summer in response to additional demand. Exhibit 3.3 provides the seasonality of service for the Study airports by month. In addition to a strong summer peak, Study airports, particularly Hailey-Sun Valley, have significant winter seasonal demand.

**EXHIBIT 3.3 SEASONALITY OF SCHEDULED SEATS – CY 2019**



Source: Diio Mi, Note: excludes Great Lakes Airlines due to skewing of data

One way to review the impact of tourism on a market is to look at the percentage of originating passengers, also referred to as the percentage origin. Generally, a market with a lower percentage of originating traffic is considered to be impacted more by visitors than markets with a higher percent origination. Table 3.4 (next page) provides the percentage of origin



traffic by Study airport. Hailey-Sun Valley’s percentage origin is much lower than other Study airports. Hailey-Sun Valley’s percentage averaged 37 percent in 2019; the next lowest percentage origin was at Idaho Falls at 53 percent. In general, the percentage origin has not changed significantly at each of the airports with the exception of the increase of approximately 10 points since 2005 for Pocatello. Study airports have a much higher origin percentage to strong leisure destinations like Hawaii (83 percent), Orlando (74 percent) and Las Vegas (72 percent), but, even without these markets, most Study airports have more originating travel than inbound leisure demand.

**TABLE 3.4 PERCENT ORIGINATING PASSENGERS**

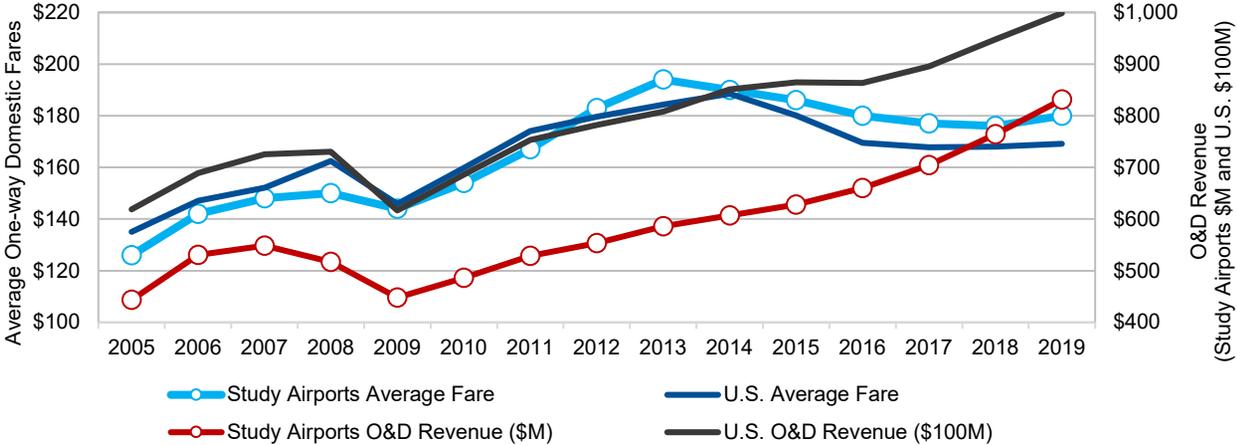
AIRPORT	% ORIGIN TRAFFIC			
	2005	2010	2015	2019
BOI	53.9	54.8	54.8	55.0
IDA	51.8	55.6	53.4	52.9
LWS	57.2	58.9	57.0	60.5
PIH	57.0	56.4	64.2	66.7
PUW	52.3	54.5	53.3	56.3
SUN	32.9	33.4	35.3	36.7
TWF	56.1	56.9	57.7	60.1
<b>Total</b>	<b>53.1</b>	<b>54.4</b>	<b>54.2</b>	<b>54.6</b>

*Source: Diio Mi*

**DOMESTIC REVENUE AND FARE TRENDS**

Exhibit 3.4 shows the trend from 2005 through 2019 for the Study airports compared to the national average. Since 2005, the Study airports’ origin and destination domestic revenue increased 85 percent on a 44 percent increase in the average fare. By comparison, nationally revenue increased 61 percent on a 25 percent increase in fare. The Study airports’ average fare peaked in 2013 at \$194. From 2013 to 2019, the Study airports’ average fare went down \$14 or 7 percent while revenue increased 41 percent due to continued growth in passenger demand. During that period, the U.S. average domestic fare dropped \$15 or 8 percent with revenue increasing 24 percent.

**EXHIBIT 3.4 DOMESTIC REVENUE AND FARE TRENDS**



Airfare and airline revenue changes at Study airports are shown in **Table 3.5**. Since 2005, airfares increased at each of the Study airports, with several increasing by more than 50 percent. The change since 2010 was also significant with all airports increasing by double digit percentages compared to only 6 percent nationally. More recently, fares have decreased at several airports, while Lewiston fares increased 34 percent since 2015. The significant fare increase at Lewiston and the loss of overall revenue was due to the discontinuance of nonstop service to Boise where fares were much lower than average. During this period, the national average fare decreased 6 percent. Airline revenue for the Study airports was strong except at Lewiston. For all other airports the revenue growth was significantly higher than the increase in average fares due to strong passenger demand.

**TABLE 3.5 CHANGE IN DOMESTIC FARES AND REVENUE**

AIRPORT	AVERAGE FARE (\$)				CHANGE 2019 VS.			O&D REVENUE (\$M)				CHANGE 2019 VS.		
	2005	2010	2015	2019	2005	2010	2015	2005	2010	2015	2019	2005	2010	2015
BOI	\$118	\$147	\$175	\$167	\$42	\$14	(\$5)	\$335	\$370	\$466	\$622	\$86	\$68	\$34
IDA	\$160	\$207	\$234	\$228	\$43	\$10	(\$2)	\$44	\$56	\$64	\$75	\$71	\$34	\$18
LWS	\$131	\$164	\$191	\$255	\$95	\$55	\$34	\$19	\$21	\$24	\$19	(\$0)	(\$12)	(\$22)
PIH	\$150	\$156	\$281	\$267	\$77	\$72	(\$5)	\$13	\$6	\$13	\$22	\$78	\$281	\$66
PUW	\$114	\$127	\$163	\$176	\$55	\$39	\$8	\$8	\$10	\$14	\$23	\$207	\$129	\$59
SUN	\$168	\$184	\$239	\$255	\$52	\$38	\$7	\$24	\$19	\$31	\$45	\$89	\$135	\$45
TWF	\$154	\$124	\$267	\$264	\$71	\$113	(\$1)	\$10	\$8	\$17	\$26	\$163	\$223	\$46
<b>Average</b>	<b>\$126</b>	<b>\$154</b>	<b>\$186</b>	<b>\$180</b>	<b>\$44</b>	<b>\$17</b>	<b>(\$3)</b>	<b>\$443</b>	<b>\$486</b>	<b>\$628</b>	<b>\$831</b>	<b>\$87</b>	<b>\$71</b>	<b>\$32</b>
<b>U.S.</b>	<b>\$135</b>	<b>\$160</b>	<b>\$180</b>	<b>\$169</b>	<b>\$25</b>	<b>\$6</b>	<b>(\$6)</b>	<b>\$62</b>	<b>\$69</b>	<b>\$86</b>	<b>\$100</b>	<b>\$61</b>	<b>\$46</b>	<b>\$15</b>

*Source: Diio Mi; Note U.S. O&D Revenue shown in millions*

Domestic fares for the Study airports averaged \$11 or 7 percent higher than the national average in 2019. This is driven by the weight of the average Boise fare that was \$2 or 1 percent lower than the national average. Five of the other airports had fares that were higher by \$50 or more than both Boise and the national average. Average fares at Lewiston, Pocatello, Hailey-Sun Valley and Twin Falls exceeded the national average by 50 percent or more with Pocatello the highest at 58 percent. The Idaho Falls average fare was 7 percent higher than the national average.

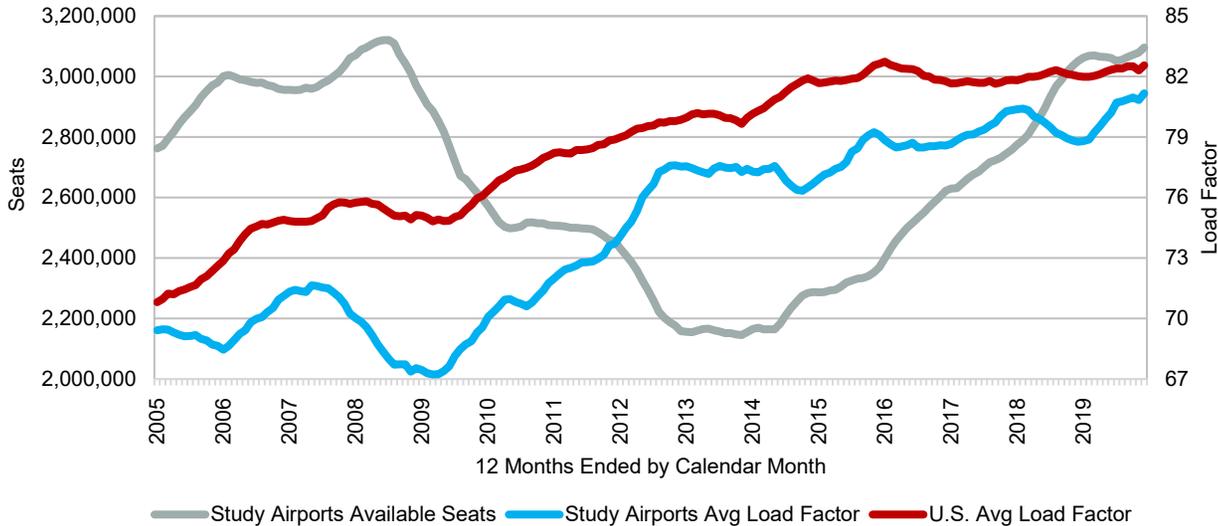
Higher average fares are a strength of the Study airports to the airlines, producing a higher level of airline revenue to assist in airline profitability. While fares have leveled off in recent years, the fares are at a level that will help justify capacity growth as demand returns in 2021 and beyond.

The Study airports' capacity steadily increased beginning in 2014, and load factors continued to increase, peaking at 81 percent at the end of 2019.

### DOMESTIC LOAD FACTOR TRENDS

Exhibit 3.5 provides the Study airports' available seats and load factors (i.e., percent of seats sold) for departures on a 12-month ended basis compared to the national average load factor to show fluctuations over time since 2005. Available seats for the Study airports peaked in mid-2008; at the same time the average load factor hit the lowest point from mid-2008 to mid-2009. Seat capacity decreased from 2009 to 2013, and the Study airports' average load factor increased. The Study airports' capacity steadily increased beginning in 2014, and load factors continued to increase, peaking at 81 percent at the end of 2019. The Study airports' overall seat capacity at the end of 2019 reached a level roughly equal to the peak in 2009. Comparatively, the national average load factor has consistently been above the Study airports' average, peaking at nearly eight points higher in 2009. At the end of 2019 the Study airports' load factor had reached a level within approximately one point of the national average.

EXHIBIT 3.5 LOAD FACTOR AND AVAILABLE SEATS



Source: Diio Mi

In assessing air service performance, load factors on an airport basis by hub and airline are more important. Table 3.6 (next page) provides a review of the average load factor by the three primary hubs by airline for the last 12 calendar quarters for each of the Study airports.

**TABLE 3.6 HISTORICAL LOAD FACTORS TO PRIMARY HUBS**

HUB	AIRPORT	AIRLINE	2017 %				2018 %				2019 %				2019 VS. 2018			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Denver, CO	BOI	Frontier						88	83	82		82	81	83		(5)	(1)	1
	BOI	United	84	91	87	90	88	89	89	89	88	91	90	89	1	2	1	(0)
	BOI	Southwest	76	90	86	86	77	86	87	87	80	88	87	90	2	2	1	3
	IDA	United	82	75	80	82	82	82	80	81	82	84	87	83	0	2	7	1
	SUN	United	71		65	75	67	72	77	62	70	74	79	72	3	1	2	10
Seattle, WA	BOI	Alaska	80	84	86	83	74	76	73	79	77	78	75	80	3	2	3	1
	BOI	Delta	68	73	78	79	70	72	71	75	80	79	76	74	10	7	5	(2)
	LWS	Alaska	64	59	58	66	58	61	58									
	PUW	Alaska	71	66	67	67	65	66	69	79	76	71	65	71	11	5	(4)	(7)
	SUN	Alaska	76	73	71	73	77	73	74	72	82	72	80	68	6	(2)	6	(4)
	SUN	Delta	35	27	39													
Salt Lake City, UT	BOI	Alaska	78	74	67	73	64	71	80	84	89				25			
	BOI	Delta	86	87	86	86	82	81	80	84	86	88	85	90	5	7	4	6
	IDA	Delta	77	80	77	81	79	83	83	84	89	91	91	91	10	9	8	6
	LWS	Delta	77	83	76	82	72	81	85	84	77	81	77	74	5	(1)	(9)	(10)
	PIH	Delta	75	82	82	81	75	71	68	74	77	79	79	81	1	8	11	8
	SUN	Delta	70	75	77	81	78	79	81	70	68	81	84	75	(10)	2	3	5
	TWF	Delta	69	77	77	81	70	65	68	78	71	81	80	77	1	16	12	(1)
<b>Combined Total</b>			<b>78</b>	<b>83</b>	<b>82</b>	<b>83</b>	<b>77</b>	<b>80</b>	<b>79</b>	<b>82</b>	<b>81</b>	<b>84</b>	<b>82</b>	<b>82</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>0</b>

*Source: Dijo Mi Load Factors*

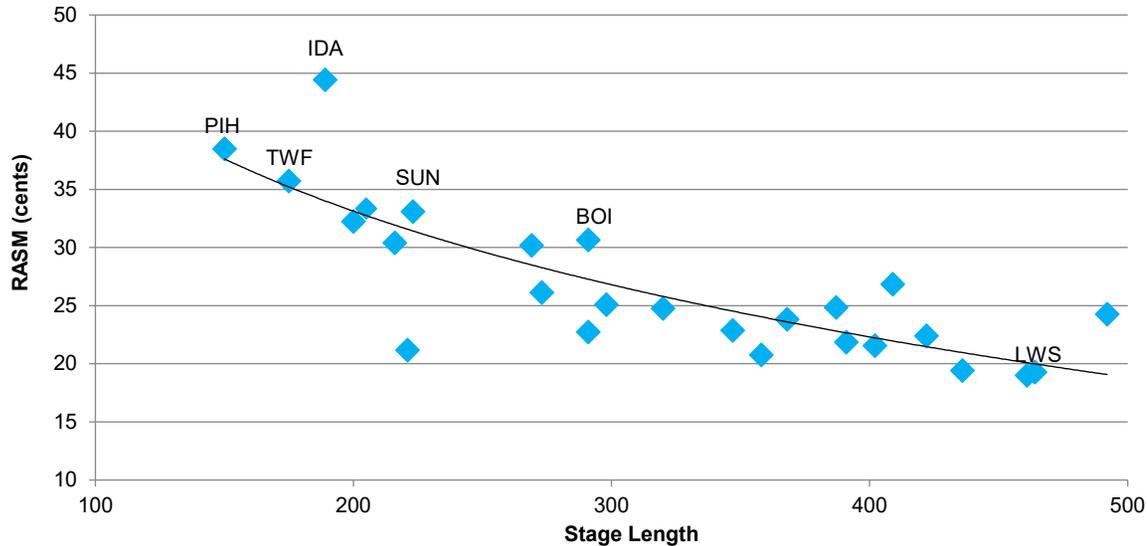
Many markets were operating with load factors in the 80 to 90 percent range by the fourth quarter of 2019, with Idaho Falls-Salt Lake City achieving higher than 90 percent. On a calendar year basis in 2019, the only primary hub markets with load factors at 75 percent or below were Pullman-Moscow to Seattle at 71 percent and Hailey-Sun Valley to Denver at 75 percent.

**REVENUE PER AVAILABLE SEAT MILE TRENDS**

Due to the varying level of service found at each of the markets analyzed, presenting revenue per available seat mile (RASM) charts for each city by route is impractical. Since all of the Study airports, except for Pullman-Moscow, had nonstop Delta service to Salt Lake City in 2019, **Exhibit 3.6** (next page) shows the RASM performance for each market compared to all Delta markets at Salt Lake City under 500 miles. Overall, all of the markets with service to Salt Lake City performed well, with Pocatello, Twin Falls and Hailey-Sun Valley having RASMs slightly above hub average. Idaho Falls had the highest RASM performance overall and compared to the hub average, while Boise was also above the hub average. Lewiston was just below the average for Delta at Salt Lake City for RASM performance in CY 2019.

Over the years, the trends in the airline industry have been to eliminate non-strategic flying, and with no airline having a hub at Boise, the intrastate flights were discontinued over time.

EXHIBIT 3.6 DELTA AIR LINES’ SALT LAKE CITY RASM COMPARISONS – CY 2019



**HISTORICAL INTRASTATE SERVICE**

Intrastate air service has changed significantly over the years. In the early 2000s, Pullman-Moscow, Lewiston, Pocatello and Idaho Falls all had nonstop service to Boise on Alaska Airlines/Horizon Air in addition to intrastate “charter” or “on-demand” service offered to other intrastate markets like Salmon. **Over the years, the trends in the airline industry have been to eliminate non-strategic flying, and with no airline having a hub at Boise, the intrastate flights were discontinued over time.** The reduction in regional aircraft such as 19-seat and 37-seat turboprops also had significant impacts to intrastate service. With the smallest aircraft that Alaska now operates being a 76-seat regional jet or turboprop, the minimum level of demand required to support service is much higher than what it was in the early 2000s when multiple airlines operated 37-seat or smaller aircraft intrastate. The lack of a traditional hub at Boise offering multiple connecting options on a single airline impacts the re-introduction of intrastate service.

The only current scheduled intrastate service is Gem Air, which operates as a Part-135 regional airline to Lemhi County Airport in Salmon, Idaho. The service operates typically less than daily, approximately twice weekly. Gem Air offers a one-way fare of \$225 and roundtrip at \$395, which is significantly higher than what is expected to be supportable on a large scale and likely caters to a very niche market to travel to the outdoor gateway and avoid traveling more than five hours by

*Gem Air's Salmon-Boise service averaged two passengers per flight and a 30 percent load factor over the past 10 years using a variety of turboprop aircraft.*

car. Gem Air also offers unscheduled charter service. **Table 3.7** provides Gem Air's performance for the intrastate service for the past 10 years. The service averaged two passengers per flight and a 30 percent load factor using a variety of turboprop aircraft.

TABLE 3.7 HISTORICAL INTRASTATE FLIGHT PERFORMANCE – GEM AIR					
YEAR	DEPARTURES	DEPARTURES/ DAY	PER DEPARTURE		LOAD FACTOR
			PASSENGERS	SEATS	
<b>Gem Air: SMN-BOI</b>					
2002	20	0.1	2	9	26.4
2003	233	0.6	2	9	27.2
2004	184	0.5	4	9	43.0
2005	107	0.3	2	7	34.0
2006	207	0.6	2	6	31.0
2007	163	0.4	2	7	33.5
2016	84	0.2	2	6	25.2
2017	108	0.3	1	7	16.9
2018	140	0.4	1	7	22.2
2019	125	0.3	1	7	21.3
<b>Total</b>	<b>1,369</b>	<b>0.2</b>	<b>2</b>	<b>7</b>	<b>29.6</b>
<b>Big Sky Airlines: PIH-BOI</b>					
2006	870	2.4	6	19	33.3
2007	154	0.4	7	19	36.0
<b>Total</b>	<b>1,024</b>	<b>0.1</b>	<b>6</b>	<b>19</b>	<b>33.7</b>
<b>Seaport Airlines: IDA-BOI</b>					
2011	350	1.0	4	9	45.0
<i>Source: Diao Mi</i>					

**Table 3.7** also provides a recap of the data available for the Big Sky Airlines' service between Pocatello and Boise and the Seaport Airlines' service between Idaho Falls and Boise. Big Sky operated service from Pocatello to Boise from January 2006 through March 2007 using Beech 1900 turboprop aircraft. For this period, Big Sky reported a 34 percent load factor. Big Sky ceased operation in 2008. Seaport reported flights from Idaho Falls to Boise for four months in 2011. The flights operated with Pilatus PC-12 aircraft and performed at a 45 percent load factor. Seaport went out of business in 2016.

The primary intrastate service has been operated by Alaska/Horizon. Horizon has a long history of operating intrastate Idaho service, but the following summary will focus on flights operated since 2000. For this period, flights were operated from Boise to Pocatello and extended with through-service to Idaho Falls until 2005. Lewiston had nonstop service to Boise until 2018, with through service to Pullman-Moscow until 2015. Alaska/Horizon also operated flights from Boise and



Idaho Falls to Hailey-Sun Valley on a scheduled but irregular basis with most of the service operated as round-robins (i.e., service was not scheduled in both directions).

There is a problem in the regional industry in reporting passenger and performance data for markets with one-stop, tag flights or round-robins. Typically the data shows the majority of the traffic being generated from a single market and is often incomplete. For this reason, while **Table 3.8** and **Table 3.9** (next page) detail the onboard flight information for Lewiston, Pullman-Moscow, Idaho Falls and Pocatello, it is difficult to quantify the exact number of passengers being generated historically between each of these markets and Boise. The way the aircraft was routed for Lewiston and Pullman compounds this difficulty.

Alaska/Horizon scheduled the flights in what is historically referred to as a “milk-run,” whereby the aircraft would operate Boise to Lewiston to Pullman-Moscow to Seattle. All of the flights would therefore have passengers going to or from multiple airports.

**Table 3.8** provides the departure, seat and load factor data, as reported, for the Boise-Lewiston and Lewiston-Pullman-Moscow flight segments. The data for Pullman-Moscow and Lewiston indicate the above issue was prevalent in Alaska/Horizon’s reporting, as there is almost no passenger traffic being reported between Pullman-Moscow and Boise in the data, whereas discussions with Alaska have indicated that Pullman-Moscow generated a significant number of passengers to Boise. Efforts over the years to clarify these passenger numbers have been attempted but encountered difficulty in accounting for the passengers on these combined flights.

TABLE 3.8 ALASKA AIRLINES/HORIZON AIR BOI-LWS-PUW SERVICE										
YEAR	BOI - LWS					LWS - PUW				
	DEPARTURES	DEPT/ DAY	PER DEPT		LOAD FACTOR	DEPARTURES	DEPT/ DAY	PER DEPT		LOAD FACTOR
			PAX	SEATS				PAX	SEATS	
2000	1,344	4	20	37	53.9	145	0	10	37	27.4
2001	1,266	3	22	37	58.2	558	2	20	46	43.6
2002	1,326	4	20	37	55.0	663	2	23	64	36.6
2003	1,119	3	18	37	49.1	430	1	17	44	39.0
2004	764	2	21	37	56.7	1,039	3	18	38	46.1
2005	839	2	20	37	53.7	886	2	17	37	46.1
2006	664	2	23	37	62.3	816	2	17	37	46.7
2007	639	2	25	37	67.3	806	2	19	37	50.1
2008	514	1	32	64	50.2	795	2	26	66	39.1
2009	359	1	40	76	53.1	708	2	30	76	40.0
2010	328	1	39	76	51.9	749	2	29	76	37.9
2011	313	1	48	76	62.8	545	1	29	76	37.7
2012	307	1	50	76	66.0	312	1	23	76	30.9
2013	314	1	52	76	69.0	295	1	24	76	32.2

**TABLE 3.8 ALASKA AIRLINES/HORIZON AIR BOI-LWS-PUW SERVICE**

YEAR	BOI - LWS					LWS - PUW				
	DEPARTURES	DEPT/ DAY	PER DEPT		LOAD FACTOR	DEPARTURES	DEPT/ DAY	PER DEPT		LOAD FACTOR
			PAX	SEATS				PAX	SEATS	
2014	341	1	51	76	67.6	304	1	23	76	30.1
2015	346	1	47	76	62.3	197	1	24	76	31.0
2016	364	1	48	76	63.4					
2017	351	1	43	76	56.1					
2018	224	1	35	76	45.8					

Source: Diio Mi T100; Note: Dept = Departures; Pax = Passengers

**Table 3.9** provides the departure, seat and load factor data, as reported, for the Boise-Idaho Falls, Idaho Falls-Pocatello and Pocatello-Boise flight segments. While the issue in reporting remains, it is not as pronounced as the Pullman-Moscow-Boise data noted previously.

**TABLE 3.9 ALASKA AIRLINES/HORIZON AIR BOI-IDA-PIH SERVICE**

YEAR	BOI - IDA					IDA - PIH					PIH-BOI				
	DEPT	DEPT/ DAY	PER DEPT		LOAD FACTOR	DEPT	DEPT/ DAY	PER DEPT		LOAD FACTOR	DEPT	DEPT/ DAY	PER DEPT		LOAD FACTOR
			PAX	SEATS				PAX	SEATS				PAX	SEATS	
2000	1,627	4	22	37	59.6	69	0	23	37	62.7	1,306	4	17	37	45.0
2001	1,202	3	28	44	63.2	325	1	17	64	27.1	937	3	19	40	47.3
2002	1,011	3	30	55	54.2	678	2	17	63	26.5	641	2	21	52	41.1
2003	925	3	22	37	60.2	800	2	15	45	33.9	554	2	21	37	55.9
2004	626	2	28	40	69.1	804	2	19	51	37.3	347	1	29	42	68.5
2005	784	2	32	48	67.3	609	2	14	42	34.0	438	1	24	43	56.2
2006	1,075	3	25	37	68.6	13	0	15	37	40.1	7	0	29	37	77.8
2007	911	2	31	50	62.4										
2008	703	2	37	65	56.8										
2009	446	1	34	76	45.0										
2010	392	1	40	76	53.2										

Source: Diio Mi T100; Note: Dept = Departures; Pax = Passengers

# PASSENGER DEMAND ASSESSMENT

This section estimates the demand to/from the Boise area. Understanding the market demand for intrastate travel is the single most important aspect of this report and is the basis for the remainder of the analysis.

## METHODOLOGY AND DATA SOURCES

This Study uses GPS location-based data collected from mobile devices that are made anonymous in order to track where and when people travel between various points. Using several different databases, the data is combined to derive a true visitation estimate to quantify the total demand to a given geographic area despite the mode of transportation.

The location-based data is aggregated and analyzed from a variety of sources into a single contextualized dataset, with a high level of accuracy. Data for the true visitation estimate was acquired from a mobile data analytics company that collects data from a broad spectrum of mobile applications. Mobile data does not track devices 100 percent of the time. Locations are only given when the device is connected to data, whether it be cellular or Wi-Fi. The identity of the device owner is not available and never disclosed. The GPS data identifies where the device's "home" or "origin" is located. It represents the location where the device is most frequently observed in the evenings and on weekends over a duration of time.

For the Study, eight significant population centers (markets) have been identified for evaluating potential intrastate air service to Boise:

- Coeur d'Alene
- Hailey-Sun Valley
- Idaho Falls
- Lewiston
- McCall
- Pocatello
- Pullman-Moscow
- Twin Falls





For each market, an analysis was performed to identify the most commonly used geographic locations within the region to identify the areas in which to acquire the GPS-based data. The geographic area has to be large enough to capture a representative market area, while not being too large to erroneously grab devices that are just passing through the region. For markets with interstate highways passing through, careful effort was made to exclude the highway area itself to minimize the risk of capturing transient traffic. The Boise area was defined as the city of Boise geographic boundary, and, after performing data spot checks on some surrounding areas, the data gathered is considered statistically relevant and captures a sufficient level of each market to accurately quantify travel to/from Boise.

The analysis is broken into two separate visitation estimates, true visitation to Boise from the eight Study markets and the true visitation from Boise to each of the eight Study markets. Since demand is not the same in both directions, the data is analyzed to and from Boise, as well as total bi-directional demand.

Due to COVID-19 and data for calendar year 2020 not being finalized at the time of the Study, the data represents calendar year 2019. While some leisure-oriented destinations experienced seasonal increases in traffic, all locations in the country had significant drops in demand from March to May 2020, which would have material impacts to the potential long-term forecasting for intrastate demand. While the full impact to long-term travel due to the pandemic has not yet been determined, this analysis assumes that intrastate demand returns to pre-COVID levels. Leisure market destinations, such as Hailey-Sun Valley and Coeur d'Alene, are less likely to experience a decrease in visitation as demand to outdoor, leisure-oriented destinations held up better than other markets.

## FACTORS AFFECTING TRAVEL DEMAND

Several factors affect travel between communities, including distance, drive time, population and local services. Distance and drive time greatly impact the true visitation estimate for a location. The closer to an area and shorter the drive time, the higher the true visitation estimate, in large part due to the convenience of accessing normal day-to-day activities (e.g., shopping, entertainment and dining). Especially for smaller communities, the proximity to Boise results in higher overall visitation due to the convenient access to those day-to-day activities. The area's population also affects the true visitation estimate significantly, as the larger the population base the larger the base of travelers.

This data quantifies absolute demand between markets, not necessarily just demand that will have a propensity to use intrastate airline service. Different segments of travelers have varying propensity to fly, especially as it relates to drive distance and the type of traveler.

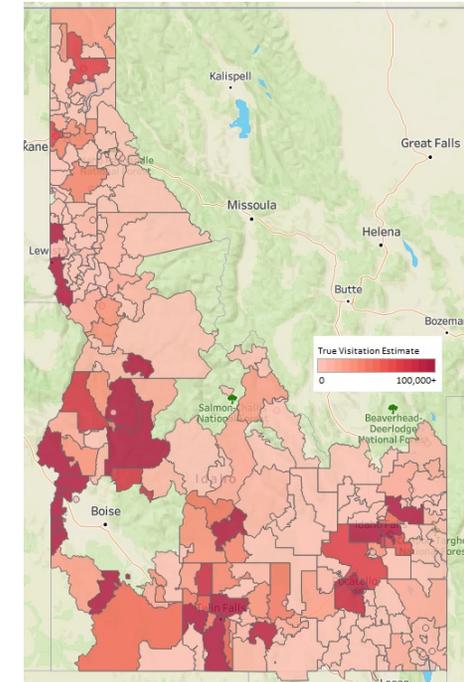
*Twin Falls generated by far the largest number of visits to Boise in 2019, with nearly half a million visits.*

A budget-conscious, time-insensitive leisure traveler has a lower propensity to consider air service on even medium-to-long duration drive markets, while a business traveler will have a higher propensity to travel by air due to time savings outweighing the increased cost. However, there is a point in the drive distance that very few, if any, travelers will consider using air service. While it will vary from market-to-market, in general the shorter the drive time, the less likely people are willing to travel by air, particularly drive times of less than two hours. Due to parking, security screening and the need to arrive early at the airport, it can be longer in total time to fly than drive in some short-haul markets. The propensity to fly based on drive times and expected type of travelers has been benchmarked against proxy markets with intrastate air service available.

### TRUE VISITATION ESTIMATE TO BOISE

Overall, there were more than 1.5 million visits to Boise from the eight Study markets. **Exhibit 4.1** provides a heat map of the level of visitation from each community. **Table 4.1** provides the true visitation estimate to Boise for each community. Twin Falls generated by far the largest number of visits to Boise in 2019, with nearly half a million visits. With a drive time of just two hours, it is highly probable that many residents from Twin Falls go to Boise for basic day-to-day activities, while the propensity to fly is likely minimal.

**EXHIBIT 4.1 VISITATION TO BOISE BY ZIP CODE**



**TABLE 4.1 VISITATION TO BOISE - CY 2019**

ORIGIN MARKET	DRIVE DISTANCE	DRIVE TIME	TRUE VISITATION ESTIMATE	POPULATION	VISITS/ PERSON
Twin Falls, ID	129	2:00	461,922	111,233	4.2
Pocatello, ID	234	3:26	246,823	88,023	2.8
Idaho Falls, ID	280	4:00	217,261	149,421	1.5
Hailey-Sun Valley, ID	141	2:20	172,532	29,450	5.9
Pullman-Moscow, WA-ID	295	5:30	170,755	89,759	1.9
McCall, ID	108	2:17	126,363	7,274	17.4
Coeur d'Alene, ID	379	7:00	115,260	164,798	0.7
Lewiston, ID	267	5:06	71,916	64,194	1.1
<b>Total Visitation To Boise</b>			<b>1,582,832</b>	<b>704,152</b>	<b>2.2</b>

*Source: Google Maps, Mead & Hunt GPS-Based Visitation Estimates, Woods & Poole, Economics, Inc; Sorted by true visitation estimate*



Pocatello, which is an approximate 3.5-hour drive to Boise, generated the second highest number of visits at 246,823. While the population of Twin Falls is just 26 percent greater than Pocatello, the true visitation estimate for Twin Falls was nearly double the size of Pocatello, demonstrating the impact of drive time on visitation. The significantly longer drive from Pocatello results in a lower level of travel between the two population centers.

Idaho Falls continues that declining trend due to drive distance, with an estimated 217,261 visits to Boise in 2019, even with a larger population base than either Pocatello or Twin Falls. Hailey-Sun Valley, one of the smallest populations of the Study markets, had the fourth highest visits at 172,532. While the drive time between Hailey-Sun Valley and Boise is similar to Twin Falls, the limited shopping in the significantly smaller community leads to a much higher propensity for the population to drive to Boise.

The Pullman-Moscow area has a larger population than any of the other markets with more than a five-hour drive to Boise. It had more absolute visits at 170,755 in 2019 and more visits per person to the Boise area. This significant increase, especially when considering the long drive time, is related to the University of Idaho located in Moscow, Idaho, and Washington State University located in Pullman, Washington. Students and faculty likely have a higher propensity to drive the five hours to Boise than other markets of a similar distance, such as Lewiston.

Pullman-Moscow had 137 percent more visits to Boise than Lewiston in 2019. Pullman-Moscow also had a higher number of visits per person, 1.90, than either Idaho Falls or Lewiston at a similar distance. This is likely due to the population size not including many of the University of Idaho or Washington State University students. While students that have relocated permanently to Pullman-Moscow are counted in local census numbers, many of the students would be counted where their parents live and are not included in local population estimates. University of Idaho had approximately 12,000 students in 2019, while Washington State University had approximately 21,000 students in 2019. If those combined 33,000 students were included in Pullman-Moscow's population of 89,759, then their visits per person would be 1.39, directly in line with Idaho Falls.

McCall, just over a two-hour drive from Boise, had 126,363 annual visits to Boise (17.4 visits per person), even with a population that is much smaller than any other market. This significantly increased visit per person ratio at McCall is likely an even larger example of what was observed in Hailey-Sun Valley. With limited local services, many McCall residents drive to Boise for basic needs and day-to-day activities, dramatically increasing the number of visits per person when compared to other Study markets.

---

*Of the markets with more than a five-hour drive to Boise, Pullman-Moscow had the highest number of absolute visits and visits per person to the Boise area.*

---

*The largest market was the winter and summer resort town of McCall, with an estimated 436,642 annual visitors from Boise to McCall given the relatively short two-hour drive.*

Coeur d'Alene, while typically viewed as a destination market, has the largest population of the eight markets studied and had a significant number of visits to Boise in 2019, 115,260, despite being a seven-hour drive. The number of visits per person from Coeur d'Alene is by far the lowest of any market at just 0.7 visits. This lower ratio is attributable to the significant distance to Boise. With nonstop air service on Southwest Airlines and Alaska Airlines at nearby Spokane International Airport, it is likely that a fair number of Coeur d'Alene visitation is using the nearby service at Spokane.



## TRUE VISITATION ESTIMATE FROM BOISE

While there were more than 1.5 million visits from the eight Study markets going to Boise, inbound visitors are just one side of the demand equation. The visitation outbound from the nearly 818,000 people who live in the greater Boise area also needs to be quantified. The demand outbound from Boise to the eight Study markets differs in many ways than the demand inbound to Boise.

Overall, Boise had more than two million visits to the eight Study markets (**Table 4.2**). The largest market was the winter and summer resort town of McCall, with an estimated 436,642 annual visitors from Boise to McCall given the relatively short two-hour drive.

ORIGIN MARKET	DRIVE DISTANCE	DRIVE TIME	TRUE VISITATION ESTIMATE	VISITS/ PERSON
McCall, ID	108	2:17	436,642	0.5
Twin Falls, ID	129	2:00	352,392	0.4
Hailey-Sun Valley, ID	141	2:20	253,911	0.3
Idaho Falls, ID	280	4:00	253,307	0.3
Pocatello, ID	234	3:26	247,463	0.3
Pullman-Moscow, WA-ID	295	5:30	217,542	0.3
Coeur d'Alene, ID	379	7:00	191,948	0.2
Lewiston, ID	267	5:06	81,669	0.1
<b>Total Visitation To Boise</b>			<b>2,034,874</b>	-

*Source: Google Maps; Mead & Hunt GPS-Based Visitation Estimates, Woods & Poole Economics, Inc.; Sorted by true visitation estimate*



Twin Falls was the second largest market from Boise with 352,392 visits, likely impacted greatly by the shorter two-hour drive. The Hailey-Sun Valley area attracted 253,911 annual visits, which was also significantly larger than the local population would otherwise dictate due to being a resort destination.

Idaho Falls and Pocatello had similar visitation levels at 253,307 and 247,463, respectively. Of the longer drive distance markets, Pullman-Moscow had the largest visitation estimate at 217,542, driven in large part by the two universities in the region. The other destination market, Coeur d'Alene, had a much lower visitation estimate than either McCall or Hailey-Sun Valley due in large part to the seven-hour drive, which suppresses the number of trips being generated out of Boise. Lewiston had the lowest visitation of any market, with an estimated 81,669 visits from Boise residents in 2019.

### COMBINED TRUE VISITATION ESTIMATE

The combined visitation to/from Boise reached 3.6 million in 2019 (**Table 4.3**). Twin Falls was the largest Study market with 814,314 visits, followed by McCall at 563,005 and Pocatello at 494,286. The market with the least visitation in 2019 was Lewiston at less than half of the next smallest market (Coeur d'Alene) with just 153,585 estimated visits.

ORIGIN MARKET	TRUE VISITATION TO BOISE	TRUE VISITATION FROM BOISE	TOTAL TRUE VISITATION
Twin Falls, ID	461,922	352,392	814,314
McCall, ID	126,363	436,642	563,005
Pocatello, ID	246,823	247,463	494,286
Idaho Falls, ID	217,261	253,307	470,568
Hailey-Sun Valley, ID	172,532	253,911	426,443
Pullman-Moscow, WA-ID	170,755	217,542	388,297
Coeur d'Alene, ID	115,260	191,948	307,208
Lewiston, ID	71,916	81,669	153,585
<b>Total Visitation To Boise</b>	<b>1,582,832</b>	<b>2,034,874</b>	<b>3,617,706</b>

*Source: Google Maps; Mead & Hunt GPS-Based Visitation Estimates, Woods & Poole, Economics, Inc.; Sorted by total true visitation*

While Twin Falls had the highest number of visits of Study markets, it does not necessarily mean that it will have the highest number of potential passengers for intrastate air service. An overall higher visitation demonstrates that there is a larger potential pool of air travelers; however, the distance and drive time between markets is critical to understanding air travel demand.

## PROXY MARKET ANALYSIS

The true visitation estimate provided the overall visitation to/from Boise for each of the eight Study markets. The next step is to determine the propensity of each of these markets to fly to Boise. To do so involves benchmarking against proxy markets. Multiple hub markets were reviewed as potential proxy markets to establish local passenger demand based on drive distance to the hub. Of these markets, Portland, Oregon, was established as the best proxy.

Similar to the true visitation estimate for the Study markets, a true visitation estimate was created for Portland. The bi-directional demand was calculated between Portland and markets with nonstop air service in Oregon and Washington (**Table 4.4**) to determine the percent of visitors traveling by air. Eugene, Oregon, is the closest market with nonstop service to Portland at 121 miles and an approximate two-hour drive. While Eugene accounted for more than 3.3 million annual visits to/from Portland, the proximity greatly affected the propensity to fly with just 2,880 total annual flown passengers between Eugene and Portland, resulting in a minimal 0.1 percent of all visits by air.

MSA	TOTAL PORTLAND VISITATION	DRIVE DISTANCE	DRIVE TIME	POPULATION	FLOWN PAX	PDEW	AVERAGE FARE	% FLYING
Eugene, OR	3,353,647	121	1:55	380,413	2,880	3.9	\$104	0.1%
Redmond-Bend, OR	2,400,744	175	3:10	197,921	33,903	46.4	\$114	1.4%
Pendleton, OR	512,821	215	3:19	90,028	12,180	16.7	\$99	2.4%
Medford, OR	960,116	272	4:13	224,461	80,724	110.6	\$126	8.4%
Spokane, WA	704,389	358	5:28	1,129,819	179,502	245.9	\$120	15.9%
Boise, ID	1,035,873	436	6:36	737,011	230,918	316.3	\$118	22.3%

*Source: Google Maps; Mead & Hunt GPS-Based Visitation Estimates, Woods & Poole Economics, Inc; Sorted by drive distance/time;  
Note: PDEW = Passengers Daily Each Way*

Redmond-Bend, Oregon, a growing market as well as a leisure destination, is the second closest market to Portland at 175 miles. Redmond-Bend generated 2.4 million annual visits; however, due to the drive time of more than three hours and two-lane, mountainous roadways, Redmond-Bend was able to generate 33,903 annual flown passengers between the two cities, resulting in 1.4 percent of visits by air. Visitation from Portland to Redmond-Bend was much higher than visitation to Portland, in large part due to the destination nature of the Redmond-Bend area. This impacts the propensity to fly and likely suppresses the calculated 1.4 percent due to leisure customers having a much higher willingness to drive a further distance than business travelers.

Pendleton, Oregon, is 215 miles from Portland and is a slightly longer drive than Redmond-Bend. In 2019, Pendleton generated about 513,000 visits, while 12,180 airline passengers flew between the two markets, resulting in 2.4 percent of visits by air. Being a slightly further drive, both in distance and time, resulted in a slightly higher percent of visitors flying.



Medford is the furthest market in Oregon from Portland with nonstop service at a 272-mile drive or more than four hours. While total visitation was lower than Eugene and Redmond-Bend, the number of flown passengers in 2019 was substantially higher than either market due to the longer drive time. Overall, Medford had 80,724 passengers flying to or from Portland, resulting in 8.4 percent of the visitors flying.

While outside the state of Oregon and much larger markets than other proxy markets, an analysis of Boise and Spokane was also conducted. Spokane, at 358 miles or an approximate 5.5-hour drive from Portland, had 1,129,819 annual visitors bi-directionally. With air service between Portland and Spokane accounting for 179,502 annual passengers, the fly market was estimated to be 15.9 percent of the total visitation for 2019. Boise was the furthest market evaluated in the proxy analysis at 436 miles and a 6.5-hour drive. Boise had 1,035,873 visits in 2019, with 230,918 annual flown passengers to/from Portland in 2019, making an estimated 22.3 percent of visits by air. This proxy market analysis indicates that the longer the drive time the greater percent of visitors traveling by air.

## PROPENSITY TO FLY MODEL

With the clear correlation between drive time and the percent of visitors using air service, a similar breakdown can be used for the intrastate markets to quantify the number of visits that would likely have the propensity to use air service. Since every market has its own unique propensity to fly based on various factors such as socio-economic, demographic and leisure versus business split, a model with a low-, mid- and high-range estimate for drive time bands was created.

The model is used to calculate passenger propensity to fly based on the proxy data in the Portland analysis. The mid-level estimate is based on the Portland estimates, while the low-level estimate is based on a 33 percent reduction of the mid-level estimate. The high-level estimate is based on a 50 percent increase of the mid-level estimate. This range from low to high is what each of these markets should expect to have for demand, depending on actual service levels offered for intrastate service.

**Table 4.5** (next page) shows the Study airports sorted by mileage from Boise to apply the propensity to fly model. McCall, Twin Falls and Hailey-Sun Valley are all roughly the same drive time to Boise at between a two-hour and two-hour, 20-minute drive time. With a drive time of approximately two hours, the propensity for each of these markets to fly to Boise is limited. This limited propensity to fly is based on both the proxy market study as well as results of true market estimates performed in other markets throughout the country. The time savings for flying versus driving does not favor use of air service in markets with drive times in the approximate two-hour time frame. With a need to arrive at the airport at least 45 minutes prior to departure, an approximate one hour flight time (gate-to-gate time), five to 10 minutes disembarking and

then travel to the final location upon arrival, in most cases travel time is shorter by car than by airplane for any travel with drive times less than two to 2.5 hours.

**TABLE 4.5 PROPENSITY TO FLY MODEL**

ORIGIN MARKET	DRIVE DISTANCE	DRIVE TIME	TOTAL BOISE VISITATION	PROPENSITY TO FLY RANGE			POTENTIAL FLY MARKET (TOTAL PAX)			POTENTIAL FLY MARKET (PDEW)		
				LOW	MID	HIGH	LOW	MID	HIGH	LOW	MID	HIGH
Pullman-Moscow	295	5:30	388,297	8.00%	12.00%	18.00%	31,219	46,596	69,893	42.8	63.8	95.7
Coeur d'Alene	379	7:00	307,208	10.10%	15.00%	22.50%	30,874	46,081	69,122	42.3	63.1	94.7
Idaho Falls	280	4:00	470,568	5.40%	8.00%	12.00%	25,222	37,645	56,468	34.6	51.6	77.4
Pocatello	234	3:26	494,286	4.00%	6.00%	9.00%	19,870	29,657	44,486	27.2	40.6	60.9
Lewiston	267	5:06	153,585	8.00%	12.00%	18.00%	12,348	18,430	27,645	16.9	25.2	37.9
Twin Falls	129	2:00	814,314	0.07%	0.10%	0.15%	546	814	1,221	0.7	1.1	1.7
McCall	108	2:17	563,005	0.07%	0.10%	0.15%	377	563	845	0.5	0.8	1.2
Hailey-Sun Valley	141	2:20	426,443	0.07%	0.10%	0.15%	286	426	640	0.4	0.6	0.9

Source: Google Maps; Mead & Hunt GPS-Based Visitation Estimates, Mead & Hunt Propensity to Fly Model; Sorted by Potential Fly Market (Total Pax)

Based on drive times less than 2.5 hours, McCall, Twin Falls and Hailey-Sun Valley have a mid-level propensity to fly of just 0.1 percent of visits. While Twin Falls and McCall had the two highest visitation totals for intrastate demand, the minimal propensity to fly creates a very small airline passenger pool. The largest market, Twin Falls, is estimated at just less than one to 2 passengers daily each way (PDEW). Without significant connections beyond Boise, which do not exist today due to the nature of Boise's current air service, air service from McCall, Twin Falls or Hailey-Sun Valley to Boise would not be economically viable. The proximity to Boise means the ability to convert drive visitors to fly visitors is unlikely.

The next two markets by drive time are Pocatello (three hours and 26 minutes) and Idaho Falls (four hours). The two markets have similar total Boise visitation with 494,286 and 470,568, respectively. The mid-level propensity to fly for Pocatello is estimated at 6 percent and Idaho Falls at 8 percent. The adjustments compared to the proxy market analysis is a result of compensation for a higher business versus leisure makeup and difference in aircraft quality service index (QSI) at the proxy markets analyzed. Overall, it is estimated that Pocatello could have between 27 and 61 PDEW to Boise, while Idaho Falls could have between 35 and 77 PDEW to Boise. Both markets were determined to have enough potential demand to warrant inclusion within the route forecast section.

Lewiston had the lowest level of visitation between any of the Study markets and Boise at just 153,585 visits. This is a direct result of having a smaller population and not having additional drivers such as university travel (e.g., Pullman-Moscow) or resort destination travel (e.g., McCall or Hailey-Sun Valley). At a 267-mile or five hour drive, Lewiston had a mid-level estimated propensity to fly of 12 percent, which created an overall demand estimate to/from Boise of 16 PDEW




---

*The current 2019 estimated passenger demand for Pullman-Moscow to/from Boise is large enough to support intrastate service to Boise on different aircraft and frequency levels.*

---

to 38 PDEW, with a mid-level estimate of 25 PDEW. Lewiston is one of the only markets that had recent nonstop service to Boise on a similar service that is being analyzed in the Study. Lewiston to Boise nonstop service was operated by Alaska Airlines with 76-seat Bombardier Q400 aircraft. For the last full year of service, 2017, Lewiston to Boise had a total of 21 PDEW, which falls below the propensity to fly model of 25 PDEW. With Boise's overall domestic passenger growth from 2017 to 2019 of 19 percent, if Lewiston to Boise had grown in a similar fashion, the Lewiston-Boise service in 2019 would have been expected to generate 25 PDEW, directly in line with the 2019 estimates for Lewiston-Boise airline passenger demand.

Pullman-Moscow is a slightly further drive than Lewiston and was also estimated to have a mid-level propensity to fly of 12 percent, creating an air service market range of between 43 and 96 PDEW. As discussed in the first section, due to data filing inconsistencies by Alaska Airlines/Horizon Air in the 2000s, the historic market size between Pullman-Moscow and Boise is not available. The current 2019 estimated passenger demand is large enough to support intrastate service to Boise on different aircraft and frequency levels.

Coeur d'Alene is the furthest market from Boise, at 379 miles and a seven-hour drive. This leads to a higher propensity to travel by air, estimated at 15 percent for the mid-level estimate. However, Coeur d'Alene is located in close proximity to Spokane International Airport at just 39 miles and 40 minutes. With up to five daily nonstops combined on Southwest Airlines and Alaska Airlines, the Spokane-Boise service had a total of 221 PDEW in 2019. While the potential airline passenger market for Coeur d'Alene-Boise is between 42 and 95 PDEW, there is a high-likelihood that much of the air travel visitation potential is already flying between Boise and Spokane today.

There is no public data available for where Southwest is generating traffic from in Spokane due to their model of selling direct to consumer via their website. The Alaska Airlines Spokane-Boise passengers were reviewed using Airline Reporting Corporation (ARC) data that provides the number of tickets purchased through online travel agencies (e.g., Expedia, Orbitz or Travelocity) and brick and mortar local travel agencies. For passengers originating Spokane with their destination being Boise in 2019, ARC data shows that 37 percent of passengers originated from the city of Coeur d'Alene. Assuming that Southwest has the same booking patterns locally, the data suggests that 82 of the 221 PDEW in 2019 originated from Coeur d'Alene. This estimate falls directly within the estimates for potential airline service. While Coeur d'Alene generates a significant number of visits intrastate, the demand is already being met by the significant service nearby in Spokane and therefore is not considered to be economically viable for airline service.

# ROUTE FORECASTS AND AIRLINES

This section calculates the profit and loss forecast for the Study airports identified with enough propensity to fly in the previous section. Aircraft that are currently in use by commercial air carriers in the U.S. that are appropriately sized for the estimated market demand are identified. Potential air carriers with the right-sized aircraft are also discussed.

## METHODOLOGY

The potential profitability for markets that had a high enough level of local demand to Boise are forecasted based on the propensity to fly model. Due to their close proximity to Boise, the demand modeling found that Hailey-Sun Valley, McCall and Twin Falls did not have enough air travel demand to justify a route forecast.

With less than two PDEW estimated for each of these markets, the market sizes are not large enough to complete a forecast. The forecasts focus on Pocatello, Idaho Falls, Lewiston, Pullman-Moscow and Coeur d'Alene.



## Connecting Passengers

Outside of potential Alaska Airlines' service with 76-seat turboprops, all other potential service would be operated by largely independent regional airlines offering minimal connections beyond Boise. Due to independent regional airlines not having codeshares available for this service, it is likely that any connections beyond Boise would be "self-connect" or interline connections that would require fares to be purchased separately (sum of local prices). For example, the fare from Idaho Falls to Boise would be added to the fare for Boise to the final destination. While there may be instances where these prices are competitive with fares available on the existing out-of-state hub air service, it is more often the case that the total price will be uncompetitive, and the requirement to buy multiple tickets (self-connect) and not have protections afforded to passengers in case of irregular operations (delays or cancellations) would make connecting over Boise uncompetitive. The likely higher fares and lack of a single ticket connection greatly reduces potential connections over Boise. The forecasts take this into account for all service except service forecasted for the 76-seat Bombardier Q400, which would have Alaska Airlines' connections available.



## Airfares

Revenue consists of two primary components, rate and volume. Airline revenue management departments have the role of maximizing revenue by adjusting fares (rates), which in turn affects how many passengers (volume) will use the service. For decades, the balancing act between fares and demand has been a tug of war within the airline industry. Ultra-low-cost carriers traditionally focus on large markets to try to drive down fares to stimulate extra passengers for a given route, while legacy airlines have tended to maximize the fares before getting too expensive and driving away demand.

For markets like intrastate service, airfares would not be set to compete with other airlines offering connections, but instead would be determined by the cost/benefit comparison to the primary mode of transportation, the automobile. Nearly all of the visits in the demand assessment for the Study airports are traveling between each market and Boise via the roadways, be it personal cars or commercial vehicles.

The quality of the roads/highways within Idaho means that the shorter the drive, the harder it will be to shift passengers from cars to airplanes. This is why it is challenging to entice many passengers to forgo the drive of two hours or less in order to fly. With the direct cost to drive being relatively minimal per mile, the time savings needs to be considerable in order to offset the higher cost of air travel. To provide a peer market comparison, **Table 5.1** shows the average one-way airfare for calendar year 2019 for numerous markets from Seattle and Portland on Alaska Airlines.

**TABLE 5.1 PEER MARKET DRIVE COST AND AVERAGE FARE COMPARISON**

ORIGIN	DESTINATION	NONSTOP MILEAGE	DRIVE MILEAGE	DRIVE TIME	IRS DRIVE COST	ONE-WAY AVG FARE
Portland, OR	Redmond, OR	116	143	2:53	\$83	\$110
Seattle, WA	Yakima, WA	103	148	2:16	\$86	\$106
Seattle, WA	Wenatchee, WA	99	148	2:36	\$86	\$106
Portland, OR	Seattle, WA	129	173	2:43	\$100	\$115
Portland, OR	Everett, WA	161	201	3:13	\$117	\$86
Seattle, WA	Pasco, WA	172	221	3:32	\$128	\$92
Seattle, WA	Walla Walla, WA	213	267	4:17	\$155	\$88
Seattle, WA	Eugene, OR	234	275	4:29	\$160	\$110
Seattle, WA	Spokane, WA	224	284	4:13	\$165	\$93
Portland, OR	Medford, OR	222	284	4:19	\$165	\$126
Seattle, WA	Pullman-Moscow, WA-ID	250	290	4:34	\$168	\$114
Seattle, WA	Redmond, OR	228	303	5:27	\$176	\$95

*Source: Google Maps, Diio Mi CY 2019 average one-way fare; 2019 IRS rate of \$0.58/mile used; Sorted by Drive Mileage*

*It is not generally cheaper to fly than drive until the distance is about 200 miles or greater, which is also the distance where the drive time is no longer faster than the time needed to fly between the cities.*

The fares range from a low of \$86 for Portland-Everett to a high of \$126 for Portland-Medford. Based on historical fares for Lewiston-Boise, the likely average fares for intrastate service range from \$100 to \$110 one-way. The average fares are critical to the forecasts, as even a \$10 swing represents hundreds of thousands of dollars in potential revenue, which can be the difference between profit or loss. Also in **Table 5.1** is the relative cost to drive to each of these cities from either Portland or Seattle based on the 2019 Internal Revenue Service (IRS) standard mileage rate of 58 cents per mile. For shorter flights, the drive time is faster than the time it takes to fly, and it is significantly cheaper. A market like Redmond-Bend to Portland that captures less than 2 percent of the visitation has a cost to fly that is 33 percent higher than it is to drive. It is not generally cheaper to fly than drive until the distance is about 200 miles or greater, which is also the distance where the drive time is no longer faster than the time needed to fly between the cities.

## REGIONAL AIRCRAFT AVAILABILITY

Over the past 20 years, the regional airline industry has continued to evolve impacting the type of profitable service that can be operated in the contiguous U.S. There were numerous regional airlines in the early 2000s operating a variety of regional aircraft from nine-seat turboprops to 86-seat regional jets. As fuel prices began climbing in 2005 from historical prices around \$1 per gallon to over \$2 per gallon, regional aircraft such as 19-seat Beech 1900D and 30- to 34-seat aircraft like the Saab 340, De Havilland Dash-8, Jetstream 41 and Embraer EMB-120 Brasilias became increasingly harder to operate profitably. As fuel prices continued to rise to their peak in 2008 at nearly \$4 per gallon, most of these aircraft were grounded as they became essentially impossible to operate profitably.

Airlines operating 19-seat turboprops such as Air Midwest, Big Sky Airlines, Colgan Air and Regions Air ended service between 2006 and 2008, leaving a major gap in service levels available for smaller communities. Over the subsequent years, the airlines that operated 30- to 37-seat turboprops began retiring those aircraft as well, as the increased cost of fuel, maintenance cost due to aging aircraft and demand for pilots began winding operations down. Hundreds of these smaller, less than 50-seat aircraft were permanently parked. While many markets were transitioned into the 50-seat and larger regional jet market, the virtual elimination of regional aircraft between nine seats and 50 seats has had a profound impact on regional air service during the past 15 years. While it was once common to have regional service with predominately local demand, nearly all service today to small markets operates into a major airline's hub to allow for connections beyond. This has led to elimination of intrastate service across the country unless a hub airport exists in the state.

During the transition through 2011, many airlines ended service to these smaller communities or transitioned to the U.S. Department of Transportation (DOT)'s Essential Air Service (EAS) program for subsidized service. Even those subsidies were unable to overcome the economic challenges faced by these aircraft, leading to the vast majority of EAS service in the contiguous U.S. to be operated by either nine-seat turboprop or 50-seat regional jets. There are currently few



exceptions to the type of aircraft operated, with the main exception being 30-seat regional jets that are operating under 14 Code of Federal Regulations (CFR) Part 298 Exemptions for Air Taxi and Commuter Air Carrier Operations.

## TYPES OF AIRCRAFT ANALYZED

This change across the national air transportation system impacts the type of aircraft evaluated and airlines that could provide Idaho's intrastate air service. This section discusses three primary types of aircraft for potential intrastate service.

1. Nine-seat turboprops (includes the Cessna 208 Caravan and the Pilatus PC-12)
2. 30- to 50-seat regional jets
3. 76-seat turboprops

### Nine-Seat Turboprops

While there are numerous nine-seat turboprop operators in the U.S., many do not operate scheduled Part 135 passenger service. The airlines that do operate scheduled passenger service typically operate in a subsidized environment, such as part of the U.S. DOT's EAS program. There are numerous types of nine-seat aircraft in operation, such as Cessna 402s, Tecnam P2012 Travellers, Cessna Caravans and Pilatus PC-12. For simplicity, this section focuses on the Cessna Caravan and the Pilatus PC-12. With costs per block hour starting around \$1,300 and going as high as \$2,000, these smaller aircraft are very difficult to operate profitably without subsidies. In fact, one of the largest operators of these smaller regional aircraft have stated that in order for them to compete effectively without subsidy, there needs to be a body of water or unpassable mountain range in the way eliminating competition from the automobile. The ideal stage length for these aircraft are less than 200 miles.

Based on the recent EAS bid by Boutique Air for Altoona, Pennsylvania, the nine-seat Pilatus PC-12 has a cost per block hour of nearly \$1,300. The shortest flight intrastate is Pocatello-Boise at 189 miles. With an estimated 65-minute block time (gate-to-gate duration), Pocatello-Boise service has an estimated \$1,410 in expenses per departure. For calendar year 2019, the primary nine-seat passenger airlines had an average load factor of 59 percent, with just three routes nationwide averaging a load factor over 80 percent. With an 80 percent load factor, a nine-seat aircraft would require a one-way average fare of \$196. As discussed previously, the average fares that are reasonable to generate sufficient demand for a 189-mile Pocatello-Boise route is between \$100 and \$140 per passenger. With an 80 percent load factor and a \$140 average fare, each roundtrip for Pocatello-Boise would lose approximately \$804. Over the course of a year operating two daily roundtrips, Pocatello-Boise service would likely lose approximately \$600,000 on a nine-seat aircraft.

*Without permanent subsidies, likely north of \$1 million per route, service with nine-seat aircraft intrastate is not feasible.*

The results for other markets would be worse than the Pocatello-Boise analysis, as the further the flight, the higher the total cost per flight. It is not possible for the average fare to increase sufficiently in order for these markets to break even on a nine-seat aircraft. **Without permanent subsidies, likely north of \$1 million per route, service with nine-seat aircraft intrastate is not feasible.** Individual route level forecasts for nine-seat aircraft will not be performed due to this inability to operate profitably even in the most favorable situation.



### 30- to 50-Seat Regional Jets

The workhorse of the regional airline industry for the past 25 years has been 50-seat regional jets. While once numbering well over 1,000 aircraft operating in the U.S., the number has continued to shrink in recent years in large part due to increased restrictions placed upon regional airlines by their legacy partner's union contracts (i.e., scope clause) and general aging of the fleet. The 50-seat market is still a large part of the regional makeup, and there are niche operations by smaller, typically 30-seat regional jets. While all of the 30- to 37-seat regional jets were eliminated over the past decade from legacy airlines, a number of them are still operating in the industry filling a different niche, typically under 14 CFR Part 298 Public Charters.

For this analysis, two "sister" aircraft have been evaluated, the Embraer Regional Jet (ERJ)-135 and ERJ-145. The ERJ-135 was originally designed to carry 37 passengers; however, in recent years Part 135 commuter carriers have reconfigured the aircraft to seat 30 passengers in order to operate under Part 298 rules. The ERJ-145 is the larger "sibling" of the ERJ-135 and is still operated today by many different regional airlines for the legacy carriers. While this analysis, for simplicity, is evaluating the ERJ-145 for 50-seat service, the analysis applies equally to the other 50-seat regional jet, the Canadair Regional Jet (CRJ)-200. While there are minor differences in operating economics, the differences between the ERJ-145 and the CRJ-200 are minimal and would not materially impact forecasts for intrastate service. Similarly, while the ERJ-135 operating in a 30-seat configuration is the primary aircraft evaluated in that size, other 30-seat regional jets like the Fairchild Dornier 328JET would be interchangeable in terms of economic viability.

### 76-Seat Turboprops

The De Havilland Dash-8-Q400 has been a staple in the Pacific Northwest for more than a decade with Alaska Airlines. Due to their past Idaho intrastate service and large operation in the region, they are the only traditional airline being evaluated. The Q400 analysis varies from the other analyses in that it considers some potential connecting opportunities



over Boise. Alaska's codeshare relationships and operations at Boise allow for connections not possible for the independent regional airlines operating smaller aircraft. This helps to offset the larger seat capacity and higher costs of the Q400; however, while the Q400 has a higher level of potential onboard passengers than the comparable 50-seat regional jet with the ability to carry connecting passengers, the average segment fare for the Q400 is lower due to multiple flights (i.e., local and connecting segments) splitting the ticket price.

Passengers connecting over Boise on Alaska would have that fare "pro-rated" between the two legs. While each airline calculates this pro-ration with slight variations, it is generally based on the relative distance flown for the two (or more) segments. Historically, Alaska served Lewiston-Boise until 2018 with approximately 60 percent of the passengers flying local between Boise and Lewiston. This means that approximately 40 percent of the passengers that flew between Lewiston and Boise were making a connection beyond Boise, either on Alaska or their airline partner(s). The Q400 forecast models estimate a similar local versus connect makeup onboard as was experienced historically for Lewiston-Boise.

## ROUTE FORECASTS

This subsection summarizes the route forecasts completed for each community and each aircraft type. These forecasts are for a "mature" market and do not include the lower demand period as the market is building. Numerous variables impact how quickly a market matures. Even different routes from the same market will develop at varying rates. The modeling was used to estimate the local demand based on numerous variables including aircraft type, frequency, average fares and distance from Boise. Costs were derived from internal models that are refined based on U.S. DOT Form 41 data and EAS bids. While the ERJ-135 forecasts are for a 30-seat aircraft, there is little difference in operating costs with the larger 50-seat ERJ-145. In most cases, the difference in cost is less than 10 percent, even though there are 67 percent more seats available. The Q400, being a much larger and more expensive aircraft to operate, has a lower per seat cost than the regional jet aircraft; however, that savings is only beneficial in the forecasts when the extra capacity is needed.

### Pocatello, Idaho – 189 Miles

Pocatello-Boise is the shortest route at 189 miles with adequate potential demand for a route forecast. **Table 5.2** provides the forecast summaries for Pocatello for the ERJ-135, ERJ-145 and Q400 aircraft. A forecast with one and two daily roundtrips was performed for each regional jet, but only a one roundtrip forecast was completed for the Q400. All Pocatello-Boise forecasts were projected to have a loss. The ERJ-135 single roundtrip forecast had an 82 percent load factor and a negative margin of 12 percent, while the larger ERJ-145 single roundtrip forecast had a 52 percent load factor with a negative margin of 13 percent. Both regional jet forecasts with two roundtrips resulted in a significant loss with a negative margin over 35 percent. The Q400 forecast resulted in the highest number of passengers due to the ability to have some connecting passengers beyond Boise; however, the reduced average fare after pro-rating the connecting revenue and the higher cost to operate resulted in a 55 percent load factor and 21 percent loss.

### Lewiston, Idaho – 198 Miles

Lewiston-Boise is the second shortest route at 198 miles with adequate potential demand to create a route forecast. Lewiston is the only market to have nonstop service to Boise in recent history. Alaska operated a single roundtrip daily until 2018 with their 76-seat Q400. **Table 5.3** shows the summaries for Lewiston for the ERJ-135, ERJ-145 and Q400 aircraft. For each regional jet, an analysis of one and two daily roundtrips was performed whereas only a one roundtrip forecast was completed for the Q400. All of the forecasts performed for Lewiston-Boise were negative, ranging from a negative margin of 15 percent for a single roundtrip with the 30-seat regional jet to a negative margin of 85 percent for two roundtrips on a 50-seat regional jet. The Q400 route forecast resulted in a 55 percent load factor and a negative margin of 21 percent. Comparing to historical performance, Lewiston-Boise in 2017 (the last full year of service) had a load factor of 56 percent, while having an average fare onboard of just \$85. This forecast reflects a higher average fare for the local market at \$110 than what Alaska

**TABLE 5.2 PIH-BOI ROUTE FORECAST SUMMARY**

CATEGORY	AIRCRAFT				
	ERJ-135		ERJ-145		Q400
	1 RT	2 RT	1 RT	2 RT	1 RT
Mileage	189	189	189	189	189
Seats/Departure	30	30	50	50	76
Annual Departures	730	1,460	730	1,460	730
Annual Seats	21,900	43,800	36,500	73,000	55,480
ASMs	4,139,100	8,278,200	6,898,500	13,797,000	10,485,720
RPMs	3,402,620	5,605,173	3,581,706	5,605,173	5,730,729
Block Hours/Dep	1.0	1.0	1.0	1.0	1.0
Annual Block Hours	730	1,460	730	1,460	730
Projected Load Factor	82.2%	67.7%	51.9%	40.6%	54.7%
Annual Passengers	18,003	29,657	18,951	29,657	30,321
Avg Fare	\$110	\$110	\$110	\$110	\$91
Total Revenue	\$1,980,361	\$3,262,270	\$2,084,591	\$3,262,270	\$2,768,336
Total Expenses	\$2,214,419	\$4,428,837	\$2,352,389	\$4,704,777	\$3,355,430
<b>Projected Profit/(Loss)</b>	<b>(\$234,057)</b>	<b>(\$1,166,567)</b>	<b>(\$267,798)</b>	<b>(\$1,442,507)</b>	<b>(\$587,094)</b>
<b>Margin</b>	<b>(11.8%)</b>	<b>(35.8%)</b>	<b>(12.8%)</b>	<b>(44.2%)</b>	<b>(21.2%)</b>

**TABLE 5.3 LWS-BOI ROUTE FORECAST SUMMARY**

CATEGORY	AIRCRAFT				
	ERJ-135		ERJ-145		Q400
	1 RT	2 RT	1 RT	2 RT	1 RT
Mileage	198	198	198	198	198
Seats/Departure	30	30	50	50	76
Annual Departures	730	1,460	730	1,460	730
Annual Seats	21,900	43,800	36,500	73,000	55,480
ASMs	4,336,200	8,672,400	7,227,000	14,454,000	10,985,040
RPMs	3,466,683	4,561,425	3,649,140	4,561,425	6,021,081
Block Hours/Dep	1.0	1.0	1.0	1.0	1.0
Annual Block Hours	730	1,460	730	1,460	730
Projected Load Factor	79.9%	52.6%	50.5%	31.6%	54.8%
Annual Passengers	17,509	23,038	18,430	23,038	30,410
Avg Fare	\$110	\$110	\$110	\$110	\$91
Total Revenue	\$1,925,935	\$2,534,125	\$2,027,300	\$2,534,125	\$2,776,387
Total Expenses	\$2,211,462	\$4,422,924	\$2,348,775	\$4,697,550	\$3,350,437
<b>Projected Profit/(Loss)</b>	<b>(\$285,527)</b>	<b>(\$1,888,799)</b>	<b>(\$321,475)</b>	<b>(\$2,163,425)</b>	<b>(\$574,050)</b>
<b>Margin</b>	<b>(14.8%)</b>	<b>(74.5%)</b>	<b>(15.9%)</b>	<b>(85.4%)</b>	<b>(20.7%)</b>

had in calendar year 2017 at \$102, and an overall higher onboard fare (\$91) than historical performance. A forecast with the same fares as 2017 results in the Q400 forecast having a much worse negative margin of 37 percent. Even with a higher average fare and similar passengers, Lewiston-Boise is not forecasted to be financially viable on a Q400.

### Idaho Falls, Idaho – 209 Miles

Idaho Falls-Boise is the third shortest route with adequate potential demand to create route level forecasts at 209 miles.

**Table 5.4** shows the summaries for Idaho Falls for the ERJ-135, ERJ-145 and Q400 aircraft. For each regional jet, an analysis of one and two daily roundtrips was performed whereas only a one roundtrip forecast was completed for the Q400. Idaho Falls-Boise projected a small profit for both the ERJ-145 forecast for one roundtrip and the Q400 forecast. Idaho Falls had a higher forecasted demand to Boise than either Pocatello or Lewiston, which resulted in better overall performance than either of the other two opportunities. Overall, the ERJ-145 single roundtrip forecast provided the best forecast, with a 4 percent margin on a 66 percent load factor, while the other profitable forecast was the Q400 with a 72 percent load factor and a 1 percent margin.

### Pullman-Moscow, Washington-Idaho – 224 Miles

Pullman-Moscow to Boise is the largest local market identified in the passenger demand assessment and has a stage length of 224 miles. **Table 5.5** shows the summaries for the Pullman-Moscow-Boise route forecasts. With significant local demand, both ERJ-135 forecasts were capacity constrained and could not overcome their expenses due to the smaller capacity of the aircraft. Both forecasts with the ERJ-145 were profitable, with a high load factor of 82 percent for a single roundtrip and 64 percent for two roundtrips. The single roundtrip on a Q400 also resulted in a load factor of 83 percent and strong margin of 16 percent, while two roundtrips on a Q400 resulted in a 71 percent load factor and a 1 percent margin.

**TABLE 5.4 IDA-BOI ROUTE FORECAST SUMMARY**

CATEGORY	AIRCRAFT				
	ERJ-135		ERJ-145		Q400
	1 RT	2 RT	1 RT	2 RT	1 RT
Mileage	209	209	209	209	209
Seats/Departure	30	30	50	50	76
Annual Departures	730	1,460	730	1,460	730
Annual Seats	21,900	43,800	36,500	73,000	55,480
ASMs	4,577,100	9,154,200	7,628,500	15,257,000	11,595,320
RPMs	3,820,921	7,553,093	5,027,527	7,867,805	8,295,420
Block Hours/Dep	1.1	1.1	1.1	1.1	1.1
Annual Block Hours	791	1,582	791	1,582	791
Projected Load Factor	83.5%	82.5%	65.9%	51.6%	71.5%
Annual Passengers	18,282	36,139	24,055	37,645	39,691
Avg Fare	\$110	\$110	\$110	\$110	\$91
Total Revenue	\$2,011,011	\$3,975,312	\$2,646,067	\$4,140,950	\$3,623,789
Total Expenses	\$2,357,207	\$4,714,413	\$2,540,291	\$5,080,581	\$3,594,549
<b>Projected Profit/(Loss)</b>	<b>(\$346,196)</b>	<b>(\$739,101)</b>	<b>\$105,777</b>	<b>(\$939,631)</b>	<b>\$29,240</b>
<b>Margin</b>	<b>(17.2%)</b>	<b>(18.6%)</b>	<b>4.0%</b>	<b>(22.7%)</b>	<b>0.8%</b>

**TABLE 5.5 PUW-BOI ROUTE FORECAST SUMMARY**

CATEGORY	AIRCRAFT					
	ERJ-135		ERJ-145		Q400	
	1 RT	2 RT	1 RT	2 RT	1 RT	2 RT
Mileage	224	224	224	224	224	224
Seats/Departure	30	30	50	50	76	76
Annual Departures	730	1,460	730	1,460	730	1,460
Annual Seats	21,900	43,800	36,500	73,000	55,480	110,960
ASMs	4,905,600	9,811,200	8,176,000	16,352,000	12,427,520	24,855,040
RPMs	4,035,087	8,089,066	6,669,565	10,437,504	10,337,826	17,535,007
Block Hours/Dep	1.1	1.1	1.1	1.1	1.1	1.1
Annual Block Hours	791	1,582	791	1,582	791	1,582
Projected Load Factor	82.3%	82.4%	81.6%	63.8%	83.2%	70.5%
Annual Passengers	18,014	36,112	29,775	46,596	46,151	78,281
Avg Fare	\$115	\$115	\$110	\$110	\$91	\$91
Total Revenue	\$2,071,585	\$4,152,869	\$3,275,233	\$5,125,560	\$4,213,587	\$7,147,081
Total Expenses	\$2,339,971	\$4,679,942	\$2,526,384	\$5,052,768	\$3,541,843	\$7,083,686
<b>Projected Profit/(Loss)</b>	<b>(\$268,386)</b>	<b>(\$527,074)</b>	<b>\$748,849</b>	<b>\$72,792</b>	<b>\$671,744</b>	<b>\$63,394</b>
<b>Margin</b>	<b>(13.0%)</b>	<b>(12.7%)</b>	<b>22.9%</b>	<b>1.4%</b>	<b>15.9%</b>	<b>0.9%</b>



Pullman-Moscow's demand has historically been fairly seasonal, with significant reductions in demand during the summer period when both universities are not in session. While most of the forecasts for Pullman-Moscow are positive, significant attention should be paid to demand during off-peak periods as profitability will likely be impacted, with the need to adjust frequency levels during the slower summer period when the universities are not in session.

### Coeur d'Alene, Idaho – 292 Miles

Coeur d'Alene-Boise is a very large market, just slightly smaller than Pullman-Moscow; however, it is greatly challenged due to its proximity to Spokane International Airport. At just over a half an hour drive, Coeur d'Alene is competing with the road traffic and, more importantly, competing with significant nonstop service found at Spokane on both Southwest Airlines and Alaska Airlines. **Table 5.6** shows the forecast summary for Coeur d'Alene-Boise, which is the worst profitability of any route forecasted for this Study. The challenge is that the region's passenger traffic is already served well from Spokane, so any new service at Coeur d'Alene would have to compete directly with Spokane's service. The average fare to Boise was also much lower at Spokane than projected in the other Study markets, which impacts the forecast models for Coeur d'Alene. While there is nonstop service between Spokane and Boise, it is unlikely that Coeur d'Alene service would be financially viable.

**TABLE 5.6 COE-BOI ROUTE FORECAST SUMMARY**

CATEGORY	AIRCRAFT				
	ERJ-135		ERJ-145		Q400
	1 RT	2 RT	1 RT	2 RT	1 RT
Mileage	292	292	292	292	292
Seats/Departure	30	30	50	50	76
Annual Departures	730	1,460	730	1,460	730
Annual Seats	21,900	43,800	36,500	73,000	55,480
ASMs	6,394,800	12,789,600	10,658,000	21,316,000	16,200,160
RPMs	5,316,944	10,633,266	6,797,920	12,446,056	8,407,616
Block Hours/Dep	1.3	1.3	1.3	1.3	1.3
Annual Block Hours	913	1,825	913	1,825	913
Projected Load Factor	83.1%	83.1%	63.8%	58.4%	51.9%
Annual Passengers	18,209	36,415	23,281	42,623	28,793
Avg Fare	\$90	\$90	\$90	\$90	\$86
Total Revenue	\$1,638,784	\$3,277,376	\$2,095,249	\$3,836,113	\$2,461,819
Total Expenses	\$3,050,320	\$6,100,639	\$3,293,322	\$6,586,644	\$4,617,046
<b>Projected Profit/(Loss)</b>	<b>(\$1,411,535)</b>	<b>(\$2,823,263)</b>	<b>(\$1,198,073)</b>	<b>(\$2,750,531)</b>	<b>(\$2,155,227)</b>
<b>Margin</b>	<b>(86.1%)</b>	<b>(86.1%)</b>	<b>(57.2%)</b>	<b>(71.7%)</b>	<b>(87.5%)</b>

---

*Due to the types of aircraft operated by regional airlines, they are the most likely to provide service intrastate. While regional airline flying has decreased, there is still a market for independent regional airlines.*

---

## REGIONAL AIRLINES

Regional airlines can be broken into two separate categories based on the operating certificate they use, Part 121 and Part 135. A Part 121 airline is an airline that operates aircraft with 10 or more seats in scheduled passenger service. Typically the regional airlines that fall into this category operate 19-seat Beech 1900D, 30-seat EMB-120 Brasilias, 34-seat Saab-340B or 50-seat or larger regional jets. These airlines were impacted greatly in recent years by pilot rule changes commonly known as Federal Aviation Regulation (FAR) Part 117. The most significant change for regional airlines was the requirement for all cockpit crew members to hold a minimum Airline Transport Pilot (ATP) certificate, which typically necessitates a minimum of 1,500 flight hours of experience. The historical requirement for a first officer was just a commercial pilot certificate, which was typically possible at 250 hours. While it was rare for a pilot to work at a Part 121 airline flying regional jet aircraft at the minimum hours, the much lower minimum requirements allowed the airlines to flex their hiring standards to meet short-term needs. The change drastically affected the short- and long-term pilot pool for regional airlines.

Part 135 air carriers are required to operate aircraft with less than 10 seats in scheduled passenger service. There has been a strong resurgence in these airlines, as the pilot rule changes and aging aircraft have dramatically impacted the number of Part 121 independent airlines. The resurgence in Part 135 airlines is primarily a result of 19-seat and 30-seat turboprop flying being virtually eliminated from the EAS program. There are very few Part 135 routes operating in the continental U.S. without subsidies due to their poor economics. Part 135 air carriers can also operate under Part 298 Public Charter rules, which allows those airlines to operate scheduled passenger flights with up to 30 seats, bypassing the need to upgrade to the much more expensive Part 121 air carrier certificates. Several airlines such as Contour Airlines and JSX operate in this manner.

Historically the regional airline industry was substantially larger and operated a significant amount of independent service outside of contract flying on behalf of legacy airlines such as American Airlines, Delta Air Lines and United Airlines. Due to the types of aircraft operated by regional airlines, they are the most likely to provide service intrastate. While regional airline flying has decreased, there is still a market for independent regional airlines.



*While Boutique Air continues to grow, they operate just a handful of non-subsidized routes, and the economics of a nine-seat aircraft are a challenge for them to grow their unsubsidized flying.*

### **Boutique Air**

Boutique is a regional airline that operates under Part 135 scheduled passenger operations. Boutique operates the Pilatus PC-12 single-engine turboprop aircraft in either an eight or nine-seat configuration. They operate more than two dozen routes to EAS markets throughout the U.S. Boutique has been one of the benefactors of the shutdown of Great Lakes Airlines, with numerous operations to/from Denver. While the airline continues to grow, they operate just a handful of non-subsidized routes, and the economics of a nine-seat aircraft are a challenge for them to grow their unsubsidized flying. The relative cost to acquire and operate the aircraft make it very difficult to operate profitably without direct subsidies. In the Pacific Northwest, Boutique operates the Pendleton-Portland service under the EAS program.

### **Cape Air**

Cape Air is one of the largest regional airlines in the U.S. They operate scheduled passenger services in the Northeast, the Caribbean, Midwest and eastern Montana. While Cape Air operates across the U.S., in the Pacific Northwest, Cape Air operates solely from Billings, Montana, serving five smaller Montana markets with Cessna aircraft under the EAS program. Cape Air is in the midst of a fleet renewal program, replacing old Cessna 402 aircraft with a new Italian aircraft (Tecnam P2012 Traveller). The first of these aircraft are being operated in EAS markets from Boston and St. Louis. It will take several years for Cape Air to replace the entire fleet, and, at this time, they are not operating the aircraft in the western U.S. Cape Air has stated many times to communities around the country that they have only two successful models. Their service is supported through subsidies (typically the EAS program) or there is a physical barrier or impediment that makes the car not an option. In the case of Cape Air, much of that involves service to islands in the northeast or the Caribbean.

### **Contour Airlines**

Based in Smyrna, Tennessee, Contour Airlines is the market identifier for Corporate Flight Management (CFM). They operate as a Part 135 carrier in either scheduled service or scheduled charter service. By operating as scheduled charters, they can operate up to 30-seat aircraft under Part 135 rules. Contour operates several EAS markets, from Georgia to California, as well as non-EAS routes within California primarily at Santa Barbara. Contour operates Jetstream turboprop aircraft (nine to 30 seats) and 30-seat regional jet aircraft. They do not currently operate in the Pacific Northwest.

### **Denver Air Connection**

Denver Air Connection is the marketing brand for the cargo and charter airline Key Lime Air. Key Lime Air operates numerous regional aircraft from turboprop Fairchild Swearingen Metroliners to 30-seat Fairchild Dornier 328JETs and 50-



seat ERJ-145s. Key Lime Air has expanded operations in recent years picking up additional EAS routes in the western U.S. and operates both 30- and 50-seat regional jet aircraft.

### JSX (Formerly JetSuiteX)

JSX is a marketing brand using other Part 135 airlines to operate scheduled charter passenger flights with 30-seat ERJ-135 aircraft. Their main base of operations is in California (Burbank and Concord), Texas (Dallas), Nevada (Las Vegas) and Arizona (Phoenix). While their service is primarily within the southwest, they have shown interest in growing significantly in the future. JSX also primarily operates from Fixed Base Operator (FBO) to FBO, without the use of passenger terminals. That has led to some issues, leading Orange County in late 2020 to change its policy and require all scheduled flights to operate from terminals.

### Kenmore Air

Kenmore operates scheduled and charter seaplane and land plane service to destinations throughout western Washington and southwestern British Columbia, as well as seaplane "flightseeing" flights around Seattle. Kenmore operates a fleet of 25 aircraft, ranging from two-passenger Cessna 180 to nine-passenger Caravans and Otters. The vast majority of their fleet are float equipped, which would not be practical for the intrastate Idaho service.

### SkyWest Airlines

SkyWest is the world's largest regional airline, operating more than 350 regional jets. SkyWest has contracts with the major airlines including Alaska Airlines, American Airlines, Delta Air Lines and United Airlines. SkyWest has weathered the pilot issues better than many other regional airlines and has grown the number of 50-seat aircraft operating, especially under the pro-rate/at-risk model. SkyWest operates the 50-seat CRJ-200 aircraft in at-risk markets on behalf of American, Delta and United; however, SkyWest only operates pro-rate service to the respective major carrier's hub airports. SkyWest was not included in the analysis because they do not have a pro-rate contract with Alaska at this time, and it is unlikely that American, Delta or United would allow SkyWest to operate pro-rate to Boise.

### Southern Airways Express

Based in Memphis, Tennessee, Southern Airways has gone from a small airline operating just a couple of less-than-daily routes from Memphis to one of the largest Part 135 regional airlines in the country by purchasing other regional airlines. They recently acquired Hawaii-based Mokulele Airlines, which doubled the size of the airline and significantly grew their

*Further discussions should occur with target airlines, such as Alaska Airlines, Denver Air Connection and JSX, in order to gauge interest in serving Pullman-Moscow and Idaho Falls.*

non-EAS portfolio. Southern Airways' history of operating non-subsidized routes has been limited to date, due to the relatively poor economics of their fleet of nine-seat Cessna Caravan turboprops.

### **Other Airlines**

There are numerous other small Part 135 regional airlines, or potential startup airlines, that could potentially serve the intrastate Idaho market. However, almost all of these airlines will have significantly worse operating economics due to the lack of economies of scale and would look for significant subsidies for any air service.

## **ROUTE CONCLUSIONS**

Based on the passenger demand assessment and route forecasts, the most promising Study airports for intrastate service are Pullman-Moscow and Idaho Falls, with both markets having positive forecasts for several different types of aircraft. Pocatello and Lewiston have forecasts that, while negative, have the potential for service if it is found that they can support a higher airfare and still attract enough passengers to meet projections. For these markets, if the local fare was approximately \$20 more per passenger, they could be profitable on a single roundtrip; however, based on proxy markets, historical fares and the modeling herein, the ability to get that higher airfare is questionable. Starting at Pullman-Moscow and/or Idaho Falls and then carefully monitoring price elasticity could help to determine the ability for Pocatello or Lewiston to obtain the higher fares needed to support economically sustainable air service.

Further discussions should occur with target airlines, (e.g., Alaska Airlines, Denver Air Connection and JSX) in order to gauge interest in serving Idaho Falls and Pullman-Moscow. Potential risk mitigation (i.e., incentives such as revenue guarantees or subsidies) that would be required to support the service should be discussed. While the Q400 service on Alaska would have the highest risk for starting new service due to the larger aircraft and higher costs, Alaska's strength in the region and brand recognition would help improve the likelihood of success.

The passenger demand assessment and route forecasts are based on historical demand in 2019. The long-term impact of COVID-19 on passenger demand, including whether demand levels will return to pre-COVID levels and how long that return will take, is not yet understood. It is likely that travel levels will remain suppressed for some time, so the full impact on intrastate travel is unknown. Suppressed travel levels further emphasize that service starting in one or both of the markets with the strongest forecasts is the best strategy to "test the waters" and then carefully monitor how that service performs in order to determine the ability to expand to other markets.

# AIR SERVICE COMPARISONS

In this section, peer markets that have had success securing commercial air service with state initiatives are compared to the proposed Idaho intrastate service. Other short-haul trips from smaller markets are also included in the comparisons where applicable. A summary of the peer market service and similarities to the proposed Idaho intrastate service is provided.

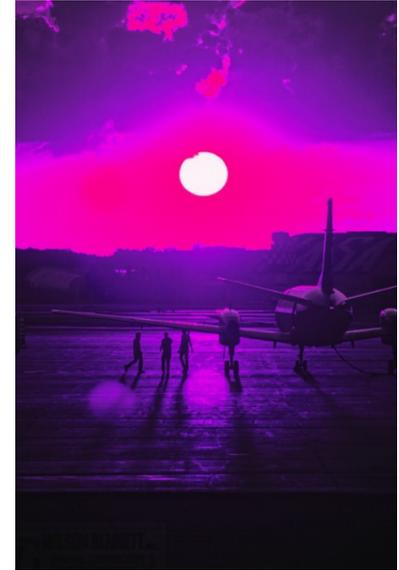
## EXISTING REGIONAL/INTRASTATE SERVICE

For many decades, regional and/or intrastate service was a common occurrence in the U.S., often served by independent regional airlines. Many of the large regional airlines today were started with operations like SkyWest Airlines operating from St. George and Cedar City, Utah, to Salt Lake City or Mesa Airlines operating from Farmington, New Mexico, to Albuquerque, New Mexico. While the trend to shift towards traditional hub and spoke operations began in the 1980s and 1990s for regional airlines, up until the late 2000s, these regional operations were still found sporadically.

Over the past decade, many of the regional and/or intrastate operations have ceased to exist as airline industry trends continue to change. Mid-sized regional aircraft such as Beech 1900D and Saab 340B turboprops have been removed from service, and the economics of operating primarily local, intrastate service has progressively gotten worse. Currently, there are no examples of unsubsidized intrastate service unless there is service to a carrier's hub operation or that operates to a geographically isolated market such as an island. The regional operations that exist today with intrastate service fall into two categories, traditional hub service and subsidized service.

### Traditional Hub Service

While the traditional hub service in these communities are also considered "intrastate," the vast majority of the traffic for these routes are connecting beyond the hub to other destinations. **Table 6.1** (next page) shows a selection of peer hubs for intrastate service, the airline, the number of intrastate markets served and the average percent of local passengers. Only three intrastate hubs had the local passengers make up more than 20 percent of total passengers. United Airlines'



*The regional operations that exist today with intrastate service fall into two categories, traditional hub service and subsidized service.*

San Francisco hub had the highest local share of passengers, with 45 percent of their service to the 16 destinations within the state of California being local (going to or from San Francisco only). This is due to the large populations for each city within California. Alaska Airlines' Seattle and Portland services are both approximately 30 percent local passengers, with the high percent local due in large part to geography and the airline's model. Geographically speaking, both Portland and Seattle are in the opposite direction of the rest of the country for intrastate flights, meaning a passenger going from Spokane to Seattle would need to backhaul in order to go to their final destinations virtually anywhere in the country, adding significant time and inconvenience. Alaska's model also impacts their passenger makeup, as they have historically been an airline that prices local markets more competitively than many of their legacy airline brethren. This keeps the passengers that are apt to fly locally intrastate using the airline service and not changing their travel habits to the car by keeping costs reasonable.

### Subsidized Service

When looking at other existing intrastate service, the remainder fall under the EAS program, typically with independent regional airlines. In neighboring Montana, the intrastate service operated by Cape Air with nine-seat aircraft operate to five intrastate markets to Billings, Montana; however, a total of \$13.2 million in annual subsidies from the U.S. DOT support the service through the EAS program. The intra-Pennsylvania service to Pittsburgh, Pennsylvania, nicknamed the PIT Connector, also has similar intrastate service to five markets on Southern Airways Express' nine-seat aircraft that received \$13.7 million in annual EAS subsidies from the U.S. DOT.

One program outside of the EAS program is Wyoming's Air Service Enhancement Program (ASEP). Recognizing the need for reliable and enhanced commercial air service, in 2004, the Wyoming Legislature enabled the ASEP. This program's primary focus has been funding allocated through legislation to be used in the form of airline service agreements and revenue guarantees. This state funded program requires local communities to contribute a significant portion of the funding to align both state and community interests. The state-wide program, run by the Wyoming

**TABLE 6.1 INTRA-STATE ROUTES BY HUB AND AVERAGE LOCAL PASSENGERS PERCENTAGE – CY 2019**

HUB	AIRLINE	# OF DESTINATIONS	AVERAGE % LOCAL
San Francisco, CA (SFO)	United Airlines	16	44.5%
Seattle, WA (SEA)	Alaska Airlines	9	31.8%
Portland, OR (PDX)	Alaska Airlines	4	30.3%
Houston, TX (IAH)	United Airlines	14	18.3%
Dallas-Ft. Worth, TX (DFW)	American Airlines	23	16.7%
Denver, CO (DEN)	United Airlines	9	8.6%
Chicago, IL (ORD)	United Airlines	4	6.9%
Atlanta, GA (ATL)	Delta Air Lines	6	5.2%
Detroit, MI (DTW)	Delta Air Lines	11	4.1%
Minneapolis, MN (MSP)	Delta Air Lines	6	3.7%
Chicago, IL (ORD)	American Airlines	5	3.6%
Charlotte, NC (CLT)	American Airlines	8	2.0%

*Source: Diio Mi; Sorted by average % local*



Department of Transportation, is very unique, whereby the state of Wyoming is financially assisting airlines to operate in the state. The ASEP is one of few programs of its kind in the nation. The ASEP differs significantly from intrastate service, in that the service supported is traditional hub-and-spoke service on a legacy airline such as Denver on United Airlines or Salt Lake City on Delta Air Lines. The primary purpose of the service is to tie Wyoming communities into the national transportation system at a hub (i.e., Denver or Salt Lake City), not within the state, and the majority of the passengers are connecting beyond Denver or Salt Lake City. In fact, in 2019 for those six Wyoming markets with service to Denver, just 11 percent of passengers were local to or from Denver. With Boise not being a hub for any one airline, most service options would be based on purely local passengers going to or from Boise, and even service by an airline like Alaska would be two-thirds or greater local passengers.

## HISTORICAL REGIONAL/INTRASTATE SERVICE

Until about 2008, several carriers provided intrastate regional operations throughout the country that were operated without subsidies. Two examples of intrastate service that ultimately shut down were Mesa Airlines in Albuquerque, New Mexico, and Big Sky Airlines in Billings, Montana. Both of these operations were predominately supported by local, intrastate passengers connecting smaller regional markets to the larger city within the state. Each of these operators used 19-seat turboprop aircraft for their service, which were largely retired from service in the U.S. by 2010 since they were no longer economically viable.

Mesa Airlines was founded in Farmington, New Mexico, to serve the Farmington to Albuquerque market, and eventually spread throughout the state during the 1980s and 1990s. At their height, Mesa served nearly 10 markets within the state both through federal subsidies and at their own risk. As fuel prices rose and roads intrastate were improved over the years, the service had a much harder time competing with the automobile and ultimately shutdown in 2007.

Big Sky Airlines, once a staple of the upper Rocky Mountain area, was based in Billings, Montana. While they had many intrastate routes supported through the EAS program, Big Sky also provided unsubsidized intra-Montana service from Billings to Helena, Great Falls and Missoula. Similar to Mesa, Big Sky shut down operations in 2008 due to the rise in fuel prices making their service uneconomical.

# AIR SERVICE DEVELOPMENT BEST PRACTICES

It is highly likely that intrastate Boise service will need monetary incentives (e.g., minimum revenue guarantees, subsidy) for a carrier to start and maintain long-term service. This section describes the community's role in air service incentives and the barriers to entry for new air service. Airline risk mitigation strategies are identified, including a description of various types of incentives that are used to support new air service.

While service is projected to be profitable eventually from Idaho Falls and Pullman-Moscow, it is highly likely that the markets would take time to build to a mature, profitable state. This time period can vary greatly depending on the market and the airline, but it typically takes one to two years for the markets to mature. During that period, it is common for both passengers and average fares to be below final projections, which puts significant financial pressure on the route. This risk for the airline is typically why most new service startups require financial incentives. For a market like Pocatello or Lewiston, which are projected to lose money even after market maturity, service would likely require long-term or even permanent subsidies to be in place for the service to start and continue.



## COMMUNITY ROLE

The role of the community in air service initiatives cannot be over emphasized. With few exceptions, it is the community not the airline that takes the initiative. Airline managers consider smaller markets higher risk than larger markets. In short, the pie is smaller and the barriers to entry are significant to overcome existing travel habits. Because these markets make up such a small share of an airlines' overall passenger volume, few marketing dollars are devoted by airlines to these markets. Communities seeking service improvements must convince airline decision makers not only that the market has the required passenger and revenue potential but that the community is committed to supporting the service to ensure success and is willing to share the airline's risk.

In general there are two groups of air travelers, leisure and business. The local business community should be the most engaged group in air service improvement. Business flyers are time sensitive and are willing to pay for convenience;



hence, they are the backbone of the air service market. Leisure travelers are more price sensitive and less likely to pay a premium for travel by air compared to using the car.

Since business flyers have a vested interest in local air service, they are frequently willing participants in air service development programs. Additionally, since business flyers are considered high-value customers by airlines, their participation in air service improvement efforts has a lot of sway with airline managers. In any air service initiative, a key community leader (e.g. economic development director, chamber of commerce, city council transportation chairman) is needed to spearhead the effort, monitor progress, and follow-up with the airline.

## BARRIERS TO ENTRY

In all markets, there are barriers to entry that inhibit the success of air service initiatives. Understanding and addressing the barriers to entry can make the difference between success and failure of an air service initiative. The following sections describe the typical air service barriers to entry.

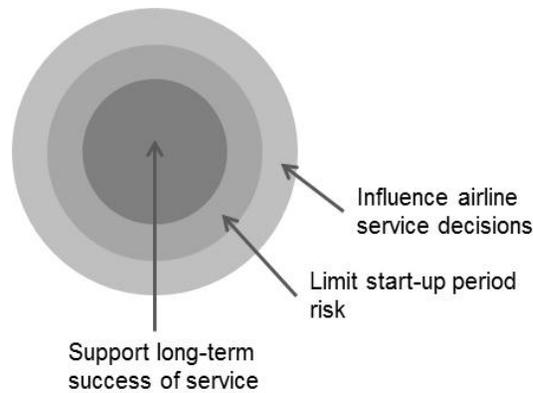
### Travel Habits

People who travel by air often have developed related habits that may continue to influence their travel decisions even after new service is in the community. They may, out of habit, have used a particular airline or flight many times and do not consider new air service options. Likewise, travel agents have booking habits that influence how clients travel. Travel habits are an important driver of air travel purchase decisions. With intrastate travelers today all using the automobile to go to or from Boise, this travel habit will be especially hard to break the shorter the drive. Trying to overcome the cost versus time savings will be a significant challenge.

### Name or Service Awareness

Air service initiatives have failed because potential customers do not know that the service is available. This happens because airlines spend little if any marketing resources to promote service in smaller markets. Their marketing budgets are aimed at larger, high-density markets where the bulk of their customer base resides. The promotion of air service initiatives in smaller communities is a critical element for successful air service development programs. Often, airlines look to the local community to promote the service. For independent airlines, the lack of brand awareness will impact traveler's understanding and willingness to book travel intrastate.

EXHIBIT 7.1 AIRLINE INCENTIVE GOALS



In addition to the typical barriers to entry described above, air service initiatives can face other obstacles that affect success. Whatever the situation, community involvement in understanding and addressing the issues head-on is often the determining factor in successful air service ventures in smaller communities.

## AIRLINE RISK MITIGATION

In every air service market there are conditions and barriers to entry that tend to inhibit the success of air service initiatives. Limited airline resources and the need for communities to maintain or improve local air service have increased competition for air service. These factors have spurred interest in community sponsored air service support programs and related airline incentives. Generally, airline incentives should have one or more of the following three goals (**Exhibit 7.1**):

1. Influence the target airline to improve local air service
2. Minimize the airline ramp-up or break even period
3. Support the long-term success of air service improvements in the local market

The idea that communities can leverage various types of incentives for air service improvements is not new. Shortly after the deregulation of the airline industry in 1978 (Airline Deregulation Act), communities began to dabble in attracting commercial air service. For example, in the early 1980s, Washington Dulles International Airport, 19 miles from Washington, DC, hired its first air service marketing staff and began to court airlines. In 1981, this airport was underserved, enplaning approximately 2.3 million passengers per year. Airlines responded to Washington Dulles International Airport's marketing efforts by adding service. At least in part because of marketing, by the end of 1989, its passenger traffic had jumped to 10.4 million passengers.

Today, many airports in the U.S. engage in air service development efforts and marketing. Airline incentives are a tool that can be used by a community in an air service development program, but it must be applied in the right situation to be effective. What works for one community will not necessarily work in another community. Airline incentive programs must bridge the gap and address the needs of both the airline and the community.

With regard to airport support for air service development efforts, it is important to understand the restrictions placed by the federal government on the use of airport-generated funds. Federal regulations limit the use of airport-generated revenue to expenditures associated with the operation of the airport. Within this limitation, an airport can use airport-generated revenue for conducting air service related research, air service proposals, and marketing the airport's air service. However, airports are restricted from using airport revenue to pay for airline operating costs. The regulations

*In return for an airline providing service, airline incentives often include minimum revenue guarantees, cash payments and/or subsidies, marketing support and/or airport fee waivers among others.*

allow airports to temporarily waive airport related fees (e.g., landing fees) in return for air service improvements. The federal restriction on the use of airport revenue is, in many cases, the reason that non-airport funds and/or Small Community Air Service Development Program (SCASDP) funds must be used to fund certain types of airline incentives.

### **Types of Airline Incentives**

Airline incentives take many forms including airline revenue guarantees, cash payments, marketing support, airport fee waivers and facility improvements. Air service development programs often include a mix of incentives that are provided to the target airline or in support of the desired airline service. In return for an airline providing service, these programs often include one or more of the incentives described in the following subsections.



#### **MINIMUM REVENUE GUARANTEE**

With this type of incentive, the airline is guaranteed it will generate a specified amount of revenue from ticket sales associated with the new service. If the airline does not meet the target revenue, the local entity providing the guarantee makes a cash payment to the airline for the shortfall. The terms and guarantee periods associated with these agreements vary widely. Revenue guarantees are provided to limit the airline's risk associated with the service provided. Generally, airline managers favor revenue guarantee incentives. The downside of this type of incentive is that it does not motivate the community to use the new service. The amount of revenue guarantee required varies significantly by airline and by community. Several factors such as proximity of low-cost carriers, aircraft type, distance, expected fare level, and perceived risk are taken into consideration by the airline. Each market is somewhat unique but there is typically a cap to the payments to the airline.

#### **CASH PAYMENT AND/OR SUBSIDY**

With a cash payment or subsidy, the airline is paid a specified amount by the local entity for providing service. The payment is not tied to the revenue generated from the service. The number of cash payments can vary from a single payment to monthly installments. From the community's perspective, the downside of cash payments or subsidies is that the community pays the airline the agreed upon amount regardless of how the airline performs in the market. In addition, this type of incentive does not motivate the community to use the new service.



### *MARKETING SUPPORT*

By far, the most used airline incentive is community and/or airport provided marketing support. Community air service marketing programs range from advertisements in the local newspaper to well-planned multimedia advertising and promotion programs with six figure budgets. In many cases, the local community is responsible for the planning, production and implementation of the entire program. In other instances, the airline handles the production and placement of advertising and a local entity pays the associated invoices. With regard to new air service offerings, these programs provide name and service awareness needed by the general public. This is especially important in smaller markets where airlines do not typically spend money on marketing new service. For some airlines, hub marketing is also important to drive ridership in both directions. In general, programs need to be long-term rather than just a large effort at service start-up.

The weakness of this incentive is that it may reach only half of the market. With the exception of resort areas, typically 40 to 60 percent of the total passengers in a market are inbound passengers who originate outside of the community that has the new air service. When possible, it is desirable to enlist airline assistance in at least highlighting the new service in their frequent flyer communications. Though not without its shortcomings, marketing support remains an important incentive tool. The funding level of marketing programs is highly dependent on the community and penetration of marketing funds.

### *AIRPORT FEE WAIVERS*

Airports can waive airline fees and charges (e.g., landing fees, terminal rent) associated with the use of the airport in return for air service improvements. Such waivers must be for a limited period, typically no longer than 12 to 24 months. Although airport fees are a relatively small part of an airline's total operating cost, as the financial difficulties of the airline industry have evolved, airport fee waivers have become an important and integral part of airline incentive programs, particularly for low-cost airlines like Allegiant Air. For many airlines, airport costs are given high consideration when deciding on entering a market or expanding existing service. There are multiple examples of airlines transferring service from one airport to another to take advantage of lower airport costs.

### *GROUND HANDLING SERVICES*

In order to provide air service to a community, an airline must have provisions for ticketing, baggage, and ground handling of aircraft. All of these require equipment and personnel at the airport. In most cases, airlines elect to provide for these needs with their own equipment and manpower. At smaller airports that are served by smaller regional airlines, these ground handling costs on a per passenger basis may be relatively high. In some cases, from a cost standpoint, it makes sense for a single provider to serve all airlines thereby reducing the duplication of personnel and equipment. As an incentive to airlines, the trend is toward the airport providing more ground handling and airport services. Overall, the

*Communities continue to investigate various ways to attract and support local airline service improvements.*

concept is to reduce airline operating costs at the airport in order to make the airport more attractive (less expensive) to airlines.

#### *FACILITY IMPROVEMENTS*

For most new air service, the airline will incur the cost of upgrading the space that it will occupy in the airline passenger terminal building. These responsibilities vary from airport to airport, but it is typical for the airline to cover the cost of installing phones and computer lines, ticket counter inserts, baggage handling equipment, arrival/departure boards, passenger hold room, equipment, and company logos and signage. Depending on the airline's personnel requirements and/or the layout of the terminal building, the airline may absorb the expense of remodeling their terminal spaces to meet its needs. These costs can be considerable and much of the expense is a sunk cost for the airline. Often, as part of an airline incentive package, the airport will agree to cover all or part of the cost of modifying the airline passenger terminal facility to meet the needs of the new airline. In some cases, airports have also provided financial support for the relocation of airline equipment and personnel associated with new air service offerings.



Communities continue to investigate various ways to attract and support local airline service improvements. The types of incentives detailed above cover the most common types of incentives in use today. However, there is a wide mix of other types of airline incentives that include community funded training programs for airline personnel, locally provided aircraft hangars, airline designation as a "preferred provider" by state agencies, and the purchase of ground support equipment.

### **Examples of Airline Incentive Programs**

Across North America, literally hundreds of communities are engaged in air service development efforts, and the majority of these programs include airline incentives. The following are examples of relevant air service incentives.

#### *AMERICAN AIRLINES*

American has become well known in their interest in revenue guarantees for new market start-ups. They believe revenue guarantees are the best approach to sharing risk. There are multiple examples over the last few years of these types of agreements. Few markets have been entered into without a revenue guarantee component. One example is Stillwater, Oklahoma. The City of Stillwater provided a revenue guarantee to American to begin air service. In August 2016, American began service to Dallas-Ft. Worth with 50-seat regional jets twice daily. The service was supported through local and federal SCASDP funds with a total incentive package greater than \$3.2 million over two years. Stillwater is one of the few markets that had no service in 2009 that was able to secure new legacy airline service.

*Over the years, SCASDP grants have ranged from \$20,000 to \$1.6 million and communities have used funds to support a wide range of initiatives.*

#### **SKYWEST AIRLINES**

SkyWest is one of the largest carriers in the EAS program and participates in numerous state and local incentive programs throughout the country. SkyWest serves numerous Wyoming markets with direct support from the state of Wyoming and has started several routes in 2020 with service to Denver through local minimum revenue guarantees such as Abilene, Texas; Sioux City, Iowa; and Rochester, Minnesota. Each of these routes was supported with a SCASDP grant and had a minimum revenue guarantee of at least \$1 million.

#### **SOUTHERN AIRWAYS EXPRESS**

Southern Airways predominately operates their service supported through the federal EAS program; however, Southern Airways began non-EAS service in 2018 from Pittsburgh to Wilkes Barre/Scranton Regional Airport. The service was supported through a minimum revenue guarantee partially funded through a SCASDP. The service lasted just a few months and was suspended in early 2019 after poor passenger performance.

### **Small Community Air Service Development Program**

In 2001 the U.S. Congress enacted the Small Community Air Service Development Pilot Program as part of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR 21). The program was authorized to fund up to 40 air service development grants per year for airports classified as small hub, non-hub, or non-primary. The intent was to provide cash resources to smaller communities for the enhancement of air service with a supplemental goal of generating creative air service development techniques and methods that could possibly be used by other communities. The program was, in effect, an air service development incubator.

Although the initial legislation authorized funding from 2001 through 2005, money for the program was not realized until 2002. In 2003, new legislation, the Vision – 100 Century of Aviation Reauthorization Act, reauthorized the program titled the SCASDP effectively removing it from pilot program status. Initially the program was funded at \$20 million annually; however, funding since the initial few years has fluctuated with the funding for the current program allocated at \$13 million with an additional \$5 million recently added through the Cares Act extension at the end of 2020.

Two features of this program stand out. First, it is extremely flexible. Communities are encouraged by the U.S. DOT to investigate new ways of acquiring and supporting air service initiatives. Second, program guidelines require a high level of community involvement in the funding and execution of air service development plans. Over the years, SCASDP grants have ranged from \$20,000 to \$1.6 million and communities have used funds to support a wide range of initiatives. The outcome has been mixed, in part due to the volatile airline environment. There have been many successes where communities have acquired new or improved existing air service. However, it is clear that where small community air service development is concerned, there is no magic bullet. Often funding for air service support programs is not the key.



Aircraft availability, larger financial issues, bankruptcy of carriers, competitive issues and timing are all part of the equation.

### Airport Incentive Policies

Over the past several years many airports have instituted air service incentive policies and/or incentive programs. The primary objective of these policies and programs is to encourage air carriers to improve the quality of air service. Additionally, incentive policies and programs standardize incentive options and offer higher value incentives for priority service improvements. The typical air service incentive policy sets guidelines and limits on what the airport will provide to the air carrier in return for specific service improvements. Marketing support, airport fee waivers, and terminal facility improvements are topics that are commonly addressed in incentive policies. Most often air service incentive programs are provided by airports, but they are also provided by states, local governments, Chambers of Commerce, businesses in the region, and others. Most large airports such as Cleveland, Miami, and Dallas/Fort Worth offer a waiving of landing fees, sometimes a pro-rated waiving of rent, and usually some type of marketing money. Dallas/Fort Worth for example has a tiered approach to providing funds if it is a new carrier, new route in the top 50 origin and destinations or a new international destination.

Importantly, air service incentive policies and programs are also intended to keep airports from violating Federal Aviation Administration (FAA) policy and/or airport grant assurances. Airports that accept Airport Improvement Program (AIP) funding must execute a federal grant agreement. Airport sponsors entering into these grant agreements agree to a set of assurances or conditions related to the operation and administration of the airport. When airports are the provider, there are two issues that the airport needs to consider: revenue diversion and economic nondiscrimination.

#### *REVENUE DIVERSION*

In this context, revenue diversion is the use of airport generated funds for a use not permitted by FAA policy. In short, revenue derived from airport sources can only be used for expenditures necessary to the operation of the airport. With regard to air service incentive programs, FAA policy limits the expenditure of airport-generated funds to expenditures for the promotion of an airport, promotion of new service and competition at the airport, and marketing of airport services.

Airports are allowed to provide fee waivers and discounts (e.g., landing fees and terminal rents) to air carriers for a promotional period for air service improvements. Any fee waiver or discount must be offered to all users of the airport that are willing to provide the same type and level of new service. However, airports are expressly restricted from providing operational support or direct subsidies to air carriers.



### *ECONOMIC DISCRIMINATION*

Where airport incentive programs are concerned, Grant Assurance No. 22 Economic Nondiscrimination provides that air carriers serving the airport shall be subject to nondiscriminatory and substantially comparable rules and regulations, conditions, and fees. Related to air service incentives this means that airports that provide incentives to airlines for air service improvements must do so in a manner that does not unfairly discriminate against other air carriers of the same class providing substantially similar service.

Unfortunately, clearly segregating classes of carriers and defining similar service is often sticky business. Airports have constructed air service incentive policies and standardized their air service incentive programs attempting to provide a fair environment for airlines, stay out of hot water with the FAA, and still compete vigorously for scarce airline resources. Incentive policies and programs vary from airport to airport. Examples of air service incentive programs can be found at Dallas–Fort Worth International Airport, Bill and Hillary Clinton National Airport, McGhee Tyson Airport, and Fort Wayne International Airport to name a few. Airports interested in instituting an air service incentive policy or program should first investigate the guidance on revenue diversion and economic nondiscrimination, collect samples of policies and programs from peer airports, and craft an incentive program that is designed to accomplish the community’s air service goals and keeps the airport clear of complications with airlines and the FAA.

In September 2010, the FAA published the *Air Carrier Incentive Program Guidebook: A Reference for Airport Sponsors* that provides more information on the FAA’s guidelines on revenue diversion and economic discrimination.

### **AIRLINE INCENTIVE SUMMARY**

It is likely that an airline support package for Idaho intrastate air service will require a minimum revenue guarantee at a minimum. Additionally, airlines will likely request airport fee waivers and marketing funds as that has become common practice in the industry. While there are numerous options for local funding for air service, from state support to local generated minimum revenue guarantees to federally supported SCASDP grants, it is likely that any intrastate service will require financial support to start. Depending on how passengers change their travel habits and embrace any new service, financial incentives could last for the first year or two or possibly permanently if a route is unprofitable but considered critical to the state. The lack of other intrastate service throughout the country that does not connect to a traditional hub will impact Idaho’s ability to recruit air service.

# CONCLUSIONS AND NEXT STEPS

While significant demand has been identified for travel between Boise and the eight Study airports, many factors affect the potential for scheduled commercial passenger air service, such as drive time, population and local services. Three of the markets, Hailey-Sun Valley, McCall and Twin Falls, are likely too short of a drive to the Boise area to be able to support passenger air service. The drive times for each market, under 2.5 hours, are shorter than what a passenger could realistically fly between the cities, and the cost difference makes it that much more of a challenge. Without significant connections beyond Boise, which do not exist today due to the nature of Boise's current air service, air service from McCall, Twin Falls and Hailey-Sun Valley to Boise is not economically viable. The proximity to Boise means the ability to convert the current drive visitors to airplanes is unlikely.



Of the remaining five markets that are a further drive from Boise, two had route forecasts that were projected to be profitable in a mature market, Idaho Falls and Pullman-Moscow. While both markets had a profitable mature market forecast, this does not consider the typical time for a market to mature or the immediate COVID-19 impacts to passenger demand, which has undoubtedly reduced the demand for relatively short flights. The time for market maturity varies greatly from market-to-market, with some markets maturing as quickly as a few months or as long as a few years. It is during this start-up phase that incentives will be needed to help offset the risk for the airline to start service. The decision on whether long-term air service subsidies can be obtained, either from a local, state or federal level, could also help to support service to Pocatello or Lewiston in the future. Though both markets had negative route forecasts as part of this Study, they have potential if they can be supported with long-term subsidies to the airline similar to the Wyoming case study. Coeur d'Alene was estimated to have a large amount of travel to/from Boise, but the market size is not large enough to be split between Coeur d'Alene and Spokane International Airport. Due to the proximity to Spokane and Spokane's current service to Boise, air service to Coeur d'Alene is greatly challenged.

The next step is to discuss the potential services with targeted airlines. Discussions should include the anticipated level of support that would be needed for each market during the start-up phase.

# GLOSSARY

## AIRLINE CODES

AS	Alaska Airlines
DL	Delta Air Lines
G4	Allegiant Air
UA	United Airlines

## AIRLINE DEREGULATION ACT

Act, signed into law on October 28, 1978, designed to remove government control from commercial aviation.

## AIRPORT CATCHMENT AREA

The geographic area surrounding an airport from which that airport can reasonably expect to draw passenger traffic. The airport catchment area is sometimes called the service area.

## AIRPORT CODES

ATL	Atlanta, Georgia
AZA	Phoenix-Mesa, Arizona
BOI	Boise, Idaho
CLT	Charlotte-Douglas, North Carolina
COE	Coeur d'Alene, Idaho
DEN	Denver, Colorado
DFW	Dallas-Fort Worth, Texas
DTW	Detroit, Michigan
IAH	Houston-Intercontinental, Texas
IDA	Idaho Falls, Idaho
LAS	Las Vegas, Nevada

## AIRPORT CODES (CONTINUED)

LAX	Los Angeles, California
LWS	Lewiston, Idaho
MSP	Minneapolis, Minnesota
MYL	Mc Call, Idaho
OAK	Oakland, California
ORD	Chicago-O'Hare, Illinois
PDX	Portland, Oregon
PIH	Pocatello, Idaho
PUW	Pullman, Washington
SEA	Seattle, Washington
SFO	San Francisco, California
SLC	Salt Lake City, Utah
SMN	Salmon, Idaho
SUN	Sun Valley, Idaho
TWF	Twin Falls, Idaho

## ARC

Acronym for Airline Reporting Corporation.

## AT-RISK FLYING

A type of marketing agreement where a regional airline flies a city-pair route at its own expense with no guaranteed payment and assumes all the risk of success or failure, often involving a revenue-sharing agreement with a major airline.

## AVERAGE AIRFARE

The average of the airfares reported by the airlines to the U.S. DOT. The average airfare does not include taxes or passenger facility charges and represents one-half of a roundtrip ticket.

## CODESHARE(S), CODESHARE PARTNERS, CODESHARE AGREEMENTS

A marketing practice in which two airlines share the same two-letter code used to identify carriers in the computer reservation systems used by travel agents.

## DESTINATION AIRPORT

Any airport where the air traveler spends four hours or more. This is the FAA definition.

## ENPLANEMENT

A passenger boarding a commercial aircraft.

## ESSENTIAL AIR SERVICE

Government subsidized airline service to rural areas of the U.S. for communities that had air service prior to the Airline Deregulation Act of 1978, but subsequently lost air service.

**FAA**

Acronym for the Federal Aviation Administration.

**FREQUENT FLYER PROGRAM**

Airline marketing programs designed to win customer loyalty by giving them points for each mile flown. Points can be cashed in later for free flights or upgrades in cabin service or, in some instances, non-airline services or items.

**HUB**

An airport used by an airline as a transfer point to get passengers to their intended destination. It is part of a hub and spoke model, where travelers moving between airports not served by direct flights change planes en route to their destination. Also an airport classification system used by the FAA (e.g., non-hub, small hub, medium hub, and large hub).

**HUB AND SPOKE SYSTEM**

A system for deploying aircraft that enables a carrier to increase service options at all airports served by the system. It entails the use of a strategically located airport (the hub) as a passenger exchange point for flights to and from outlying towns and cities (the spokes).

**INTERLINE AGREEMENT**

Contractual or formal agreements between airlines governing such matters as ticketing and baggage.

**LEGACY AIRLINE**

The category assigned to the four large hub and spoke airlines with nationwide route networks, including American Airlines, Delta Air Lines, Southwest Airlines and United Airlines.

**LOAD FACTOR**

The percentage of airplane capacity that is used by passengers.

**LOCAL MARKET**

The number of air travelers who travel between two points via nonstop air service.

**LONG-HAUL FLIGHTS**

Long-haul flights are typically defined as s being longer than 2,500 to 3,000 statute miles.

**LOW-COST/ULTRA-LOW-COST CARRIERS**

A category of airlines that has emerged since deregulation which offer low fares, minimal amenities, and serve primarily high volume markets.

**MINIMUM REVENUE GUARANTEE**

Type of incentive used to bring new air service into a community. The airline is guaranteed it will generate a specified amount of revenue from ticket sales associated with the new service. If the airline does not meet the target revenue, the local entity providing the guarantee makes a cash payment to the airline for the shortfall.

**MSA**

Acronym for Metropolitan Statistical Area. MSAs have at least one urban cluster with a population of at least 50,000 plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties.

**NON-HUB**

An airport with more than 10,000 but less than 0.05 percent of the total U.S. annual passenger boardings.

**NON-PRIMARY AIRPORT**

An airport with at least 2,500 and no more than 10,000 annual US passenger boardings.

**NONSTOP FLIGHT**

Air travel between two points without stopping at an intermediate airport.

**ONBOARD PASSENGERS**

The number of passengers transported on one flight segment.

**ORIGIN (INITIATED) PASSENGERS**

Origin and destination passengers who began their trip from within the catchment area.

**ORIGIN AND DESTINATION (O&D) PASSENGERS**

Includes all originating and destination passengers. In the context of this report, it describes the passengers arriving and departing an airport.

**ORIGINATING AIRPORT**

The airport used by an air traveler for the first enplanement of a commercial air flight.

**PASSENGER FACILITY CHARGE**

Fee imposed by airports of \$1 to \$4.50 on enplaning passengers. The fees are used by airports to fund FAA approved airport improvement projects.

**PAX**

Abbreviation for passengers.

**PDEW**

Abbreviation for passengers daily each way.

**REGIONAL AIRLINE**

Airlines that specialize in serving smaller markets with smaller aircraft normally in association with a larger airline.

**REGIONAL JET**

A jet aircraft with a single aisle designed for seating fewer than 100 passengers.

**SHORT-HAUL FLIGHTS**

Short-haul flights are typically defined as being shorter than 400 to 600 statute miles.

**SMALL COMMUNITY AIR SERVICE DEVELOPMENT PROGRAM (SCASDP)**

Grant program administered by the U.S. DOT to address air service issues in small communities.

**SMALL HUB**

An airport with at least 0.05 but less than 0.25 percent of the total U.S. passenger annual boardings.

**TRUE MARKET**

Total number of air travelers, including those who are using a competing airport, in the geographic area served by an airport. The true market estimate includes the size of the total market and for specific destinations.

**TURBOPROP AIRCRAFT**

A type of engine that uses a jet engine to turn a propeller. Turboprops are often used on regional and business aircraft because of their relative efficiency at speeds slower than, and altitudes lower than, those of a typical jet.

**U.S. DOT**

Acronym for U.S. Department of Transportation.

**WIDE-BODY JET**

A jet aircraft with two aisles designed for seating greater than 175 passengers.



FOR MORE INFORMATION, PLEASE CONTACT  
MEAD & HUNT | 2440 DEMING WAY | MIDDLETON, WI 53562-1562  
AIRSERVICE@MEADHUNT.COM | WWW.MEADHUNT.COM

**Mead  
& Hunt**