



February 14, 2022

Dear Community Member:

Help us secure more flights and better airfares for Great Falls! You have probably heard the news that the Chamber of Commerce and the Airport Authority are working together to develop a local financial guarantee for new flights at GTF. This letter is intended to answer questions that you may have and describe why now is a critical time for our community to invest in new air service. We would also encourage you to contact us directly, either John Faulkner at the Airport or Shane Etzwiler at the Chamber to have a personal discussion.

Q: Why is this an urgent concern now:

A: Regional Airports face the double threat of a massive pilot shortage that is preventing airlines from flying historically profitable routes, combined with the retirement of the 50-seat jet fleet which is now more than 30 years old. As a result, in the past ten years, over 40 small airports have lost all their air service as show in the table below:

When regional airports ended commercial service

2013		2014		2015	
Airport	State	Airport	State	Airport	State
Inyokern*	California	Gulf Shores	Alabama	Muscle Shoals	Alabama
Chicago	Illinois	Bullhead City	Arizona	Kingman	Arizona
Gary	Indiana	Chico**	California	Macon	Georgia
Lewistown	Montana	Modesto**	California	Tupelo	Mississippi
Miles City	Montana	Telluride	Colorado	Teterboro	New Jersey
Ely	Nevada	Athens	Georgia	Los Alamos	New Mexico
Westerly	Rhode Island	Topeka**	Kansas	Moab**	Utah
Del Rio*	Texas	Tunica	Mississippi	Vernal**	Utah
Eagle River	Wisconsin	Klamath Falls**	Oregon	Port Angeles	Washington
Minocqua	Wisconsin			Sheridan	Wyoming

Note:
 1. All airports listed were served exclusively by regional airlines.
 2. Airports with "*" indicate United as marketing carrier and "**" indicate Delta as marketing carrier.

More recently, the capital of South Dakota, Pierre and nearby Waterton airport both lost all of their air service. In addition to the airports that lost all of their flights, the onset of the pilot shortage has caused airlines to eliminate routes in over 80 additional airports with the majority of the affected routes impacting small communities as show in the chart below:

Alaska Airlines	JetBlue Airways	Delta Air Lines	Sun Country Airlines
Charleston, South Carolina	Albuquerque, New Mexico	Aspen, Colorado	Madison, Wisconsin
Columbus, Ohio	Palm Springs	Bangor, Maine	Philadelphia
El Paso, Texas	Sacramento, California	Erie, Pennsylvania	Portland, Oregon
New Orleans	Sarasota/Bradenton, Florida	Flint, Michigan	Sacramento
San Antonio, Texas	Worcester, Massachusetts	Fort Smith, Arkansas	St. Louis, Missouri
Allegiant Air	Seaborn Virgin Islands	Great Falls, Montana	United Air Lines
New Orleans	Charlotte Amalie, Virgin Islands	Helena, Montana	Allentown/Bethlehem/Easton,
Ogdensburg, New York	Christiansted, Virgin Islands	Lincoln, Nebraska	Charlotte Amalie
Palm Springs, California	Culebra, Puerto Rico	New Bern/Morehead/Beaufort, North	Chattanooga, Tennessee
San Antonio	San Juan, Puerto Rico	Peoria, Illinois	Fairbanks, Alaska
Springfield, Illinois	Vieques, Puerto Rico	Santa Barbara, California	Hilton Head, South Carolina
Tucson, Arizona	Silver Airways	Scranton/Wilkes-Barre, Pennsylvania	Ithaca/Cortland, New York
American Airlines	Charlotte Amalie, Virgin Islands	Williston, North Dakota	Kalamazoo, Michigan
Aspen, Colorado	Huntsville, Alabama	Elite Airways	Key West, Florida
Eagle, Colorado	Key West, Florida	Sarasota/Bradenton, Florida	Lansing, Michigan
Montrose/Delta, Colorado	Tallahassee, Florida	Frontier Airlines	Myrtle Beach, South Carolina
Worcester, Massachusetts	Tampa, Florida	Greenville/Spartanburg, South	Rochester, Minnesota
Corvus Airlines	Spirit Airlines	Mobile, Alabama	Cape Air
Goodnews Bay, Alaska	Asheville, North Carolina	Palm Springs	Portland, Maine
Kodiak, Alaska	Charlotte Amalie, Virgin Islands	Portland, Maine	
Napakiak, Alaska	Christiansted, Virgin Islands	Tyler, Texas	
Napaskiak, Alaska	Greensboro/High Point, North Carolina	Sun Air Express	
Platinum, Alaska	Plattsburgh, New York	Nashville, Tennessee	

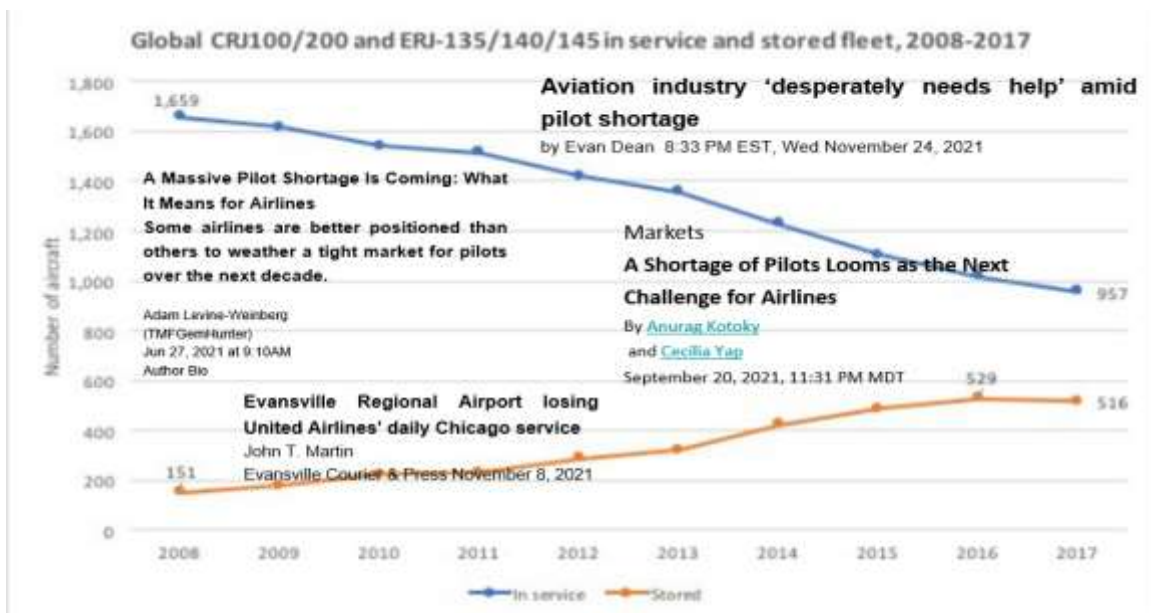
Air service is vanishing from small communities at an alarming rate.

Q: This is a temporary issue, right?

A: Unfortunately, not. The pandemic has massively exacerbated several concerning trends. There was a pilot shortage prior to 2020. New work rules adopted by the FAA in the past five years require significantly more flight time and more book work before a pilot can fly commercially. FAA also enforces a mandatory retirement age at 65. The pipeline for pilots is producing far fewer pilots than retirements and the average age of a US pilot is expected to escalate for another 8 years before trending down due to retirements.

Making matters worse, to help control the hemorrhaging of cash when passengers stopped flying in 2020; most airlines offered senior pilots early retirement. Most of these pilots don't want to fly again and many are prevented by non-compete language. As the headlines below indicate, pilot shortages are a crisis that is expected to last another decade.

Pilots aren't the only problem. The workhorse 50-seat jets are now over 30 years old and no longer in production. The chart below illustrates the number of jets that have been retired in the past 15 years. It is an almost certainty that 2022 will see more 50-seat jets in permanent "mothball" status than remain in active service.



There are a small number of 76-seat jets; and an even rarer model is the 90-seat model. There certainly aren't enough of these regional jets to backfill the 50-seat jet markets that have been lost. The reason for this is that major airline pilot contracts limit or even exclude the airlines from flying these larger regional jets or using a regional airline partner to fly these jets for the major airline. This was a job security measure negotiated by pilot unions. However, what it means for regional airports is that we have to make the leap from 50-seat aircraft to 737 and Airbus 318 size aircraft. The current renditions of these models that are owned in mass by the airlines seat 150 to 180 seats.

With essentially no population growth in the past 30 years in Great Falls, the community has always had demand for about 400 to 500 aircraft seats a day, which supports about 8 to 10 daily flights. Transitioning to larger aircraft with the current demand would leave GTF with 3 or 4 flights a day. Not enough to support more than one airline and in a downturn like a major recession or a pandemic; possibly not enough demand to support air service at all.

Is that possible? Yes, here is a recent quote from United's CEO:

- [The Points Guy by Ethan Klapper Dec 15, 2021](#): *At a Skift Forum last month, Kirby (United CEO) warned of staffing-related impacts to 50-seat regional aircraft operations. "We don't have enough pilots to fly all the airplanes," he said. "So, the 50-seaters are at the bottom of that pile, and markets that rely on 50-seaters are the ones that are going to lose service."*

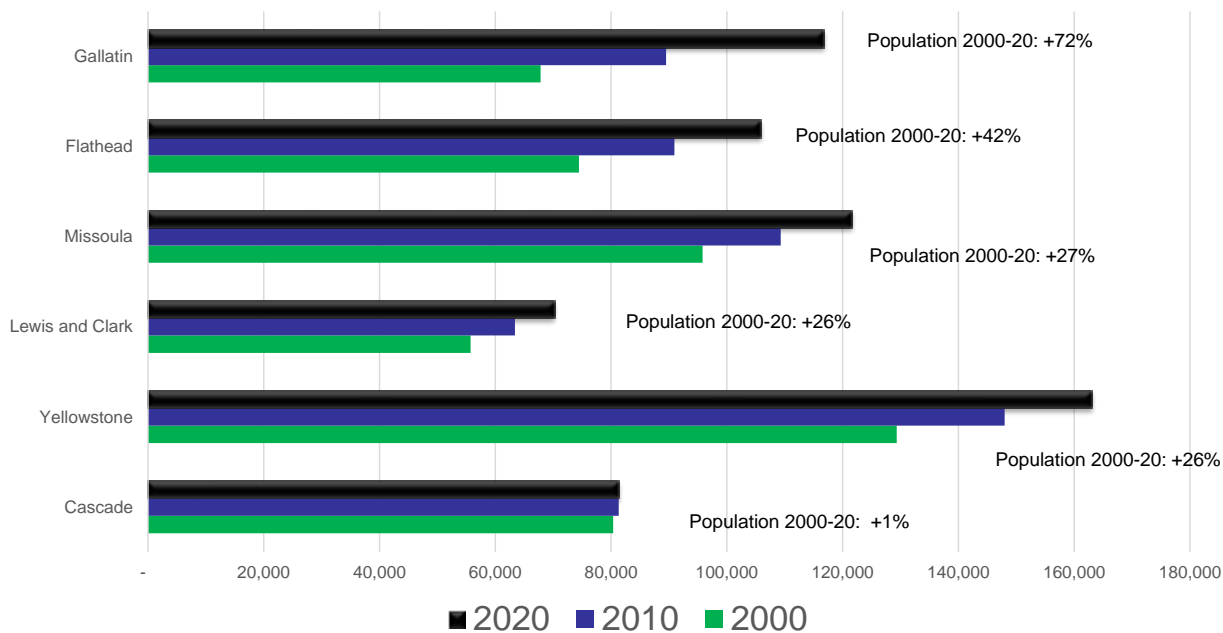
Q: But we will grow into larger aircraft eventually, right?

A: Well, we may not get the chance. None of the forty or so airports above that lost their air service lost have gained it back. There was no other aircraft to serve those markets, when the 15 to 36 seat aircraft all retired. In fact, there are less aircraft seats flying in the US today than there were prior to 9/11/2001. Folks in these small communities are expected to drive to nearby communities that have air service.

Q: Could Great Falls lose flights?

A: Have you noticed how many of the chain stores that move into Montana don't make it to Great Falls? Say Kohls, Lowes, Olive Garden or Costco? The primary reason for this is a lack of population and economic growth.

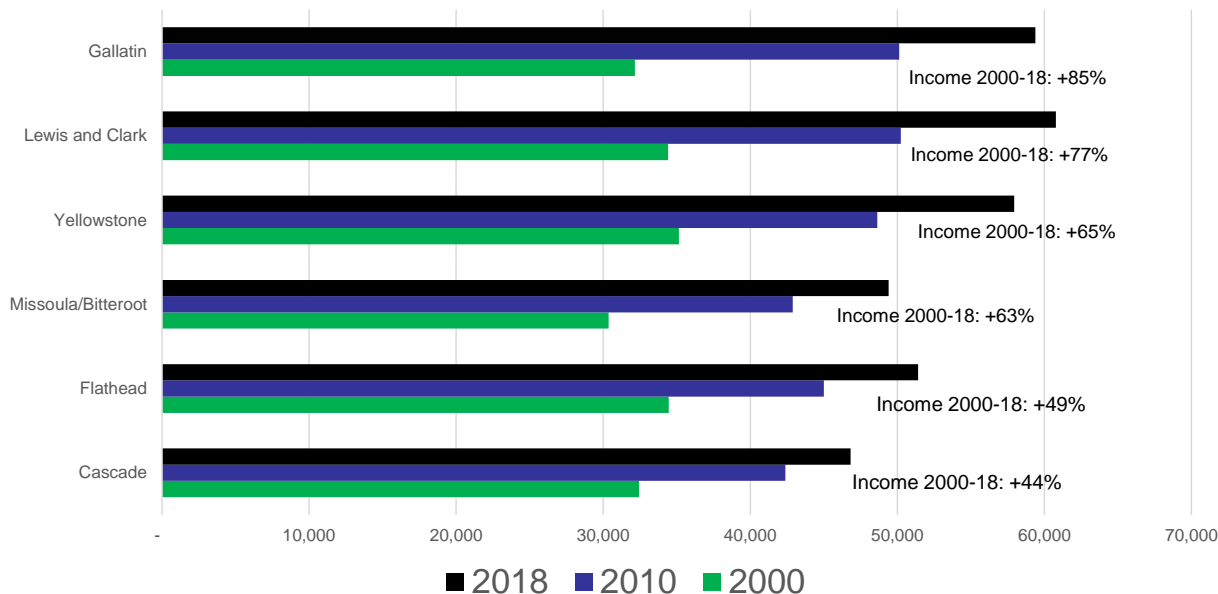
Airport Base Population Comparison 2000 to 2020



Twenty years ago, Cascade County was the third largest county in Montana. Since that time, we have grown only 1% in population. Meanwhile, the next slowest growing large county **grew at 26 times that rate!** Galatin grew an amazing 72 times our growth rate. Based on these growth rates, Helena is likely to outgrow Great Falls over the next ten years.

The picture isn't much better economically. Once Great Falls was in the middle of the pack of household income, Cascade County now has the lowest and slowest growing median household income of the larger counties as shown on the chart below.

Airport Service Area Economic Base Comparison Median Household Income Growth 2000 to 2018



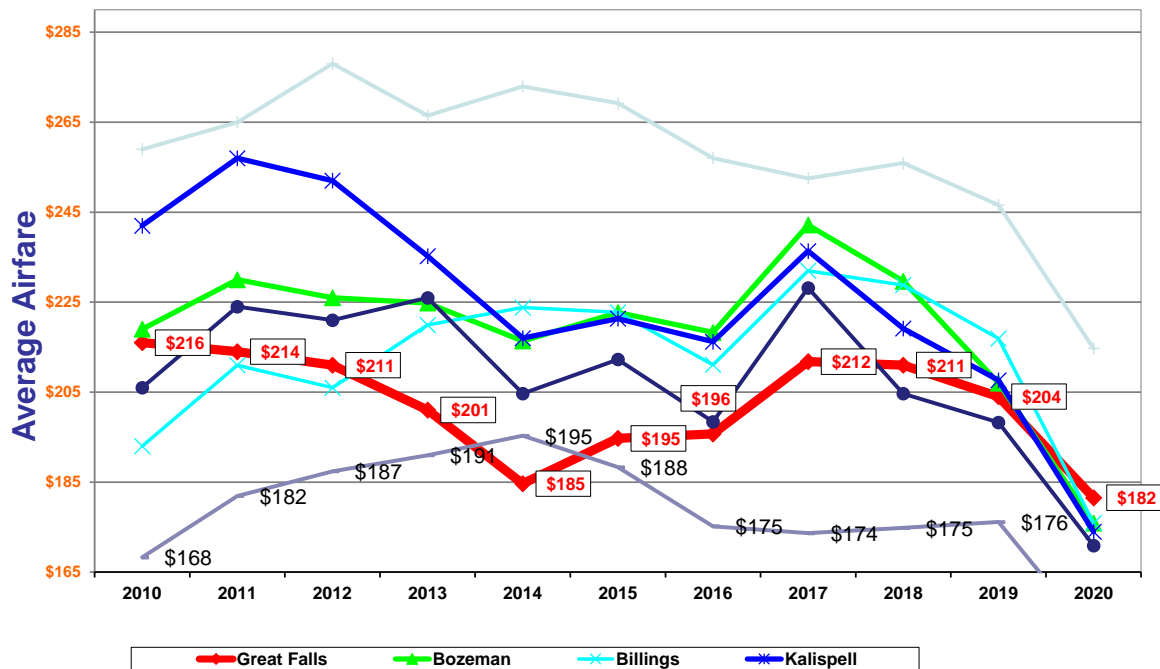
The airlines can't rely on growth in Great Falls. In fact, they can see the market is stagnant which makes them reluctant to invest in more flights, larger airplanes or new routes. For any of that to happen, there needs to be some stimulus. As the airline industry moves to 150+ seat aircraft, that means that our demand must grow from the current level to support service to more than one city. Communities that have only one airline will be at extreme risk of losing all service as communities like Toledo (OH), Klamath Falls (OR), Pierre (SD) and Santa Maria (CA) found out in the past decade. Toledo was able to attract a new carrier but not before two years of no service.

As the communities around us grow exponentially faster, they will get more routes and flights and this will continue to cause leakage from Great Falls as people drive to fly elsewhere. Once that leakage reaches a critical point, we may not be able to sustain flights. Butte currently operates under that scenario. Their air service was lost in the past decade. They have two remaining daily flights as part of the federally-subsidized Essential Air Service program. This program is under constant threat of federal defunding and nearly ended during reauthorization recently.

Q: What is the plan to preserve flying in Great Falls?

A: We have a multifaceted plan to address the challenges facing our flying community:

- **Drive down Airline costs:** GTF has retired all debt, we plan to use our Infrastructure dollars to modernize the Terminal to reduce cost for the airlines. Over the past ten years, we have lowered our airline fees by more than 30% and now have some of the lowest airport fees in the state.
- **Diversify our Air Service:** As mentioned above, both supply of airline seats and demand for seats at GTF have been largely stagnant for twenty years or more. When additional seats have been added like from Frontier (2012) ticket prices drop quickly as shown in the chart below.



When ticket prices drop, GTF sees more demand like in 2014 which was both the busiest year in GTF history and the lowest average fare in Great Falls since deregulation in 1978.

The Low-Cost Airfare Initiative seeks to use supply-side economics to lower fares and increase traffic by increasing seats. This is exactly what has occurred at most of the larger MT airports. The reduction in their airfare cost in 2017/18 coincides with the introduction of American Airlines and they experienced dramatic boarding growth in the same period.

In short, we need to attract American Airlines to create competition and bring traffic from the Southwestern US where American has a very strong network. We also need to attract one or two ultra-low-cost carriers to operate in our market. These carriers like Frontier, Aha, Avelo and Breeze offer extremely low fares to limited geographic destinations. These carriers will help generate discretionary travel from the broader central Montana region as well as southern Canada.

- **Build a Local Incentive Pool:** New flights to small communities simply does not occur without a profit guarantee. There is not enough capacity in the airlines and too much risk aversion for it to happen any other way. The airlines can see how much traffic we generate but they can't gauge if Great Falls passengers will put their favorite frequent flyer card in their shoe and try a new airline; so, they want us to take some risk too.

US law prohibits airports from contributing to profit guarantees, but communities can and do use these programs to attract flights. Montana is one of the biggest users as shown below:

- **Bozeman:** \$10 million in new community incentives in past ten years brought new direct markets, American Airlines and Jet Blue. One of fastest growing in US. Now MT's #1 Airport by more than double volume!!!
- **Kalispell:** Estimated \$2 million in incentives for American Airlines to Dallas, Chicago, Los Angeles Now MT's #2 Airport by volume!!
- **Missoula:** \$1.4 million in community incentives for American Airlines to Dallas and Chicago. Now MT's #3 Airport by volume!
- **Billings:** \$1.6 million in community incentives for American Airlines to Dallas. MT's #4 Airport by volume.

COVID is causing a redistribution of travel patterns. Some cities like San Francisco which has lost a lot of population and gained a reputation for crime and prolific lockdowns are not going to recover traffic quickly. Montana on the other had has become a popular refuge for family vacations. The airlines are keenly aware that Montana is one of the most popular travel searches on the web and that nearly all new service to Montana has been successful. At the same time, gateways like Bozeman and Kalispell saw lodging rates double last year. We believe that now is the ideal time for Great Falls to attract new service and grab our share of the expanding Montana travel market.

- **Secure an Air Service Grant:** The Department of Transportation oversees the Small Community Air Service Development program which offers competitive grants each year based on local community incentives. This program would essentially double our local match. **Applications are due March 4, 2022!** The award of these grants is based on the likelihood of new service and the size of our local match. Currently, we have two airline letters of support for our grant. We are confident if we can get a grant, we can get a flight to a new city.

Q: Can we preserve and grow our air service if we have more airline seats:

A: In short, yes there are a number of growth factors that will contribute to the success of this plan to grow traffic and lower ticket prices:

1. **Leakage:** Based on credit card ticket purchase data, about 40% of the air traffic in the Great Falls catch basin flies out of alternative airports. Much of this lost traffic is likely in communities on the edge or our trade area like Lewistown, Lincoln and Browning. However, we all know stories of people flying out of Bozeman to save money. With more flight destinations and lower fares, we can reclaim some of this leakage and actually begin attracting leakage from other MT cities. For example, Frontier and Allegiant flights have attracted many from the nearby Helena market to fly from GTF.
2. **Canada:** As travel restriction ease, we expect to see our Canadian traffic back. In fact, Air Canada has eliminated Lethbridge service and WestJet, the discount carrier in Calgary; has reduced more flights than any other carrier in North America. So, we expect even more traffic from our Canadian neighbors to support new routes at GTF.
3. **Tourism:** Montana is one of the hottest destinations for leisure travel. Every time we get service to a new city it attracts tourists to use GTF as a gateway. For example, the Chicago flight operated by United was 70% inbound traffic to Great Falls. We saw tremendous growth in places we didn't expect like over 20% growth from Cleveland and Cincinnati. We saw over 40% from Raleigh, NC. New routes stimulate new traffic from parts of the country that didn't have good connections or a lack of competition in airline routing to Great Falls. One of the carriers that has provided a letter of support told us that they believe they can fill all the seats with passengers from their hub flying into Great Falls. This rings true, as both Bozeman and Kalispell have seen passenger traffic grow at

several multiples of their impressive population growth. However, to make this strategy successful, we will need to invest in destination marketing as a community.

4. **Pricing Impact of Supply and Demand:** As shown in the average fare chart above, fares never returned to the level they were in 2010 and prior. Ever dollar reduction in the average fare saves our local flying community about \$180,000. In fact, the community's investment in the initial Low-Cost Airfare Initiative saved about \$32 million in local travel costs. Lower prices and travel savings will increase demand for additional travel in our market like it did in 2014, which was both the busiest year and cheapest year in GTF history.
5. **Competitive Response:** At the Great Falls Airline Rendezvous last fall, an airline planner from a major airline made the comment that they had to add additional flights into Bozeman to "remain competitive". This is an example of the second order competitive response, which is typically seen at US airports when there is an increase in service. Other airlines at the airport increase the size of aircraft or lower price or add a city to responds to a new entrant. This creates even more demand for flying both in and out

We ask you to support this important initiative by considering a pledge to the Low-Cost Airfare Initiative. Feel free to contact either Shane or John today with any questions or to make a pledge. Please join us in securing the future of flight in Great Falls.

Sincerely,



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