

WILLARD AIRPORT GOVERNANCE AND SUSTAINABLE AIR SERVICE
ADVISORY TASK FORCE

Meeting Summary

3:00 p.m.–5:00 p.m. on January 9, 2014

2nd Floor, Airport Terminal Building

Members Present: Steve Carter (Chair), Tom Berns, Deb Busey, Dorothy David, Mike DeLorenzo, Jayne DeLuce, John Frasca, Karl Gnadt, Bumsoo Lee, Al Nudo, Laurel Prussing, Seamus Reilly, Chris Schroeder, Dan Sholem, Bill Volk, Kristin Williamson

Others Present: Bill Ferguson, David Foote, Jack Penning, Bruce Walden

Members Absent: Lori Cowdrey Benso, William Dick, Dick Helton

1. Call to Order – The meeting was called to order at 3:07 p.m. by Chair Steve Carter. Chair Carter welcomed and thanked everyone for attending.
2. Introductions – Chair Carter asked all attending to speak their name and place of employment.
3. CMI Industry Update (Jack Penning, Sixel Consulting Group, Inc.)
Chair Carter introduced Jack Penning from Sixel Consulting Group to the committee. Penning has worked with the Champaign County Economic Development Corporation in the past and has an ongoing working relationship with the University of Illinois to provide advice of the current state of the airline industry. Sixel Consulting is the consultant of record to the University for Willard Airport for air service development. They work on the recruitment and retention of air service primarily for the University at the airport.
 - a. State of the Industry
 - Price of jet fuel: Today, over 1/3 of an airline’s expenses are on jet fuel. In past decades, this jet fuel was only 10% of a company’s operation costs. This increase in cost has forced airline carriers to increase ticket prices and decrease the amount of flights available to consumers.
 - Consolidation of the airline companies: In 1978 at the start of deregulation of the airlines industry, there were 18 major carriers serving the United States. Today there are only 4 major airline carriers. Because of the decrease in competition, these major airline companies now have the ability to set the price of flights.
 - Available seats by airline type: The largest 5 airlines in 2000 controlled 2/3 of the available seats. Today, they have 88% of the seats in the U.S. The smaller companies only hold 12% of the seats and have virtually no impact of the pricing power of the larger airlines. There is no commercial competitive reason why an airline would want to add a new route. As for international travel, there are three global alliances – Star Alliance, Skyteam and Oneworld – that carry 60% of all passengers travelling internationally.

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Because of all the consolidation, each type of airport has lost flights and seats. Non-hub airports similar to Champaign's Willard Airport have lost 42% of available seats and 30% of the flights offered since 2007.

- How CMI compares to its peer market: When comparing the departure change in the peer market, it is evident Willard Airport has been disproportionately affected. Since 2009, the number of departure changes decreased an average of 6.5% for the peer market. Willard's departure change is 19 points worse than the peer market's average. This is mainly due to the loss the flights offered by Delta and because American Airlines has decreased their flights in order to keep their margins at the highest possible profit level. The average seats available for the peer market has declined by 7%, but Willard's available seats have decreased by 23%. The average one-way fare without taxes and fees from Willard is \$235 while the peer market average is 22% lower at \$194. Since American Airlines is the only carrier and they are operating at a base level capacity, American has the ability to set the prices.

b. American-US Airways Merger

The American Airlines and US Airways merger was approved on December 9, 2014. These two carriers are one corporation, but currently operating as two separate brands. Over the next 24 months, US Airways will be integrated into American and the US Airways brand will no longer exist. As part of the merger agreement, the Department of Justice has ordered American Airlines to give up 52 slot pairs – 104 flights per day – at Washington National Airport, 15% of the DCA network, and 17 slot pairs – 34 flights per day – at New York's LaGuardia Airport, 7% of the LGA Network. These released flights were acquired by other carriers already serving those hubs.

Others in downstate could see a decrease in flights, but not Willard. The future network for downstate Illinois may include flights to one of the four hubs on the East Coast serviced by American Airlines. Of the four – Charlotte, Miami, New York and Washington – Charlotte is the most likely hub to offer a new route. It is also not yet known which airport in downstate Illinois would get this new route.

c. Champaign-Urbana Market

One of CMI's biggest problems is retention of customers. 2,600 passengers in the downstate region choose to use other airports each day. Retention is less than 25% in each of the top markets with generally better retention rates to the Eastern hubs. University-related travel is a major commodity for Willard. Of the top ten university travel destinations, Washington D.C. was the leading destination. The university generates enough passengers (23.6) to fill up half a regional jet each day of the year.

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This should be enough demand to convince a company to start new service to and from Willard.

d. New Service Targets

- A route to Charlotte would provide service to 76 one-stop destinations and there is little overlap with the current flights provided by American Airlines through Willard.
- Washington, D.C. would be the most desirable new route because most people are already flying to Washington. Unfortunately it is very unlikely this route will be created because of the yearly cost associated with the route and the flights already offered through American Airlines to Washington, D.C. from other locations. The cost for a daily route would be an estimated \$6-\$7 million per year and the airline carrier would expect a guarantee of \$6-7 million to begin a new route from Willard to Washington.
- On average, the university personnel meet with 20 carriers per year to try and create new routes from Willard Airport.

e. Questions from the Task Force answered by Mr. Penning:

- *How is customer retention at the other downstate Illinois airports?* Bloomington and Peoria have better retention rates than Willard, especially in their non-stop service. Springfield has a lower retention rate than Willard.
- *How does the process work for creating a new route? Are all the downstate Illinois airports trying to get the new Charlotte route?* Every airport is constantly recruiting for new services. The relationship between an airline company and an airport is a continual dialog. Some airports have the advantage of local tax dollars to use as a way to entice an airline carrier. In regard to the Charlotte route, American Airlines is interested expanding the operations at the Charlotte hub and not just to Central Illinois. Willard is competing with other airports that are their peers throughout the United States and not just other downstate Illinois airports.
- *How does the FlightStar service affect the ability to get a new route?* Four American Airlines jets are maintained every night by FlightStar. This is another reason why it is beneficial for American to maintain routes with Willard Airport. Airlines are moving away from in-house maintenance on their jets. One of the ways to increase an airport's sustainability is to provide the airline carriers with access to a maintenance company.
- *How does the grant received last year help acquire a new route?* The grant can be used to help underwrite a guarantee for the creation of an eastbound flight. The grant was \$500,000 and will be only a portion of the amount needed for a guarantee to an airline company. The rest must come from other sources.

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- *What have you seen other communities do to reduce leakage or to increase customer retention?* This is mainly caused by the availability of seats to the region's consumers. One of the biggest problems is that current flights from Willard are running full and there is no need to increase the number of flights. Current options are limited because of the high-margin desired by the airline company.

4. Air Service Consultant Scope of Services (Bill Volk)

The Request for Qualifications (RFQ) document draft was shared with the task force members. Comments on possible revisions to the document are welcomed and should be sent to Bill Volk by next Thursday, January 16. The goal is to have the document ready for distribution in early February. The university and C-U MTD have been working on an Intergovernmental Agreement (IGA) to hire a consultant. This IGA will go before the MTD board for approval on Jan. 29.

The hired consultant will assist the group in creating a business plan and other recommendations for operation that will be submitted to the Chancellor. The goal is to take a business approach toward the sustainability and possible expansion of service offered through Willard Airport.

5. Task Force Information (Walden)

Bruce Walden provided an overview of the reports and surveys recently made available through the Task Force webpage.

a. 2011 Airport Governance Structure Review

This study was prepared for the Champaign County Economic Development Corporation by Sixel Consulting Group, Inc. It provides a detailed analysis of the current operations at Willard Airport and comparisons to similar airports. There is also a section that reviews possible options for governance of Willard Airport.

b. 2012 Economic Impact of Willard Airport

This report was prepared for the Illinois Department of Transportation, Division of Aeronautics by CDM Smith and Applied Real Estate Analysis. The report explains the impact of Willard Airport in terms of employment, payroll and output. The direct economic impacts related to on-airport business tenants and the impacts associated with visitor-related expenditures are explained.

c. 2010 Airport Layout Plan Update Report Landside Improvements

A report required to be completed in order to review possible future use of the airport and its ability to accommodate an increase of airplane use. Mr. Walden highlighted the sections describing the key users of the airport and development alternatives for future economic expansion.

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6. Tour of the Terminal Building (Time Permitting)
Several members accompanied Ted Gonsiorowski for a tour of the terminal building.
7. Next Meeting: 3:30-5:00 p.m. on Thursday, February 6, 2014
Meeting adjourned at 11:39 a.m.