



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: April 15, 2014

TO: Mayor and Councilmembers

FROM: Airport Administration, Airport Department

SUBJECT: Presentation And Amended Contract For Air Service Development

RECOMMENDATION: That Council:

- A. Receive a presentation on air service development at the Airport; and
- B. Authorize the Airport Director to execute an Amendment to Contract No. 24,677 with InterVISTAS Consulting LLC to amend the scope of services to include a passenger leakage study for the Santa Barbara Airport, increasing the contract amount from \$40,000 to \$62,500.

DISCUSSION:

The Airport has contracted for specialized air service development services since 1979 to assist the Airport staff in maintaining and enhancing airline service and pursuing new air service opportunities. During the last decade the airlines have taken major steps to reduce costs by shifting types of aircraft, cutting back on capacity, and through mergers consolidated route structures.

The presentation will address the status of the airline industry, impacts to Santa Barbara's service, and actions being taken to maintain and enhance service.

Background

In 2013, the Airport solicited Statements of Qualifications (RFQ) from experienced firms providing air service development consulting services. On December 17, 2013, Council approved a contract with InterVISTAS Consulting, LLC, to provide air service consulting services for the Airport.

Scope of Services

The original scope of services outlined consultant support for the Airport to implement an effective, comprehensive passenger development program to maintain and improve domestic air service.

The loss of American Eagle flights to Los Angeles on April 1, 2014, will result in a 13% decrease in enplaned passengers and a related reduction in associated revenue including parking, food and beverage sales, gift shop sales, and rental car usage.

Staff is proposing an increase to the scope of services of the InterVISTAS contract to include a "leakage study" assessing the passenger volume from an expanded catchment area of the Santa Barbara Municipal Airport including passengers that utilize neighboring airports. The results of the leakage study will provide specific data to assist the Airport in presenting business proposals to the airlines by identifying market sizes and projecting profitability for new and/or expanded air service.

BUDGET/FINANCIAL INFORMATION:

Funds for the contract amendment are available and appropriated in the Airport Department's Fiscal Year 2014 operating budget.

PREPARED BY: Hazel Johns, Acting Airport Director

SUBMITTED BY: Hazel Johns, Acting Airport Director

APPROVED BY: City Administrator's Office



Industry and Air Service Update



April 2014

Agenda

Industry overview

SBA service and performance profile

SBA strategic initiatives

The changing U.S. airline industry

2000

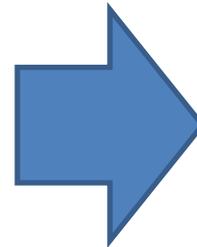


U·S AIRWAYS



The changing U.S. airline industry

2000



2014



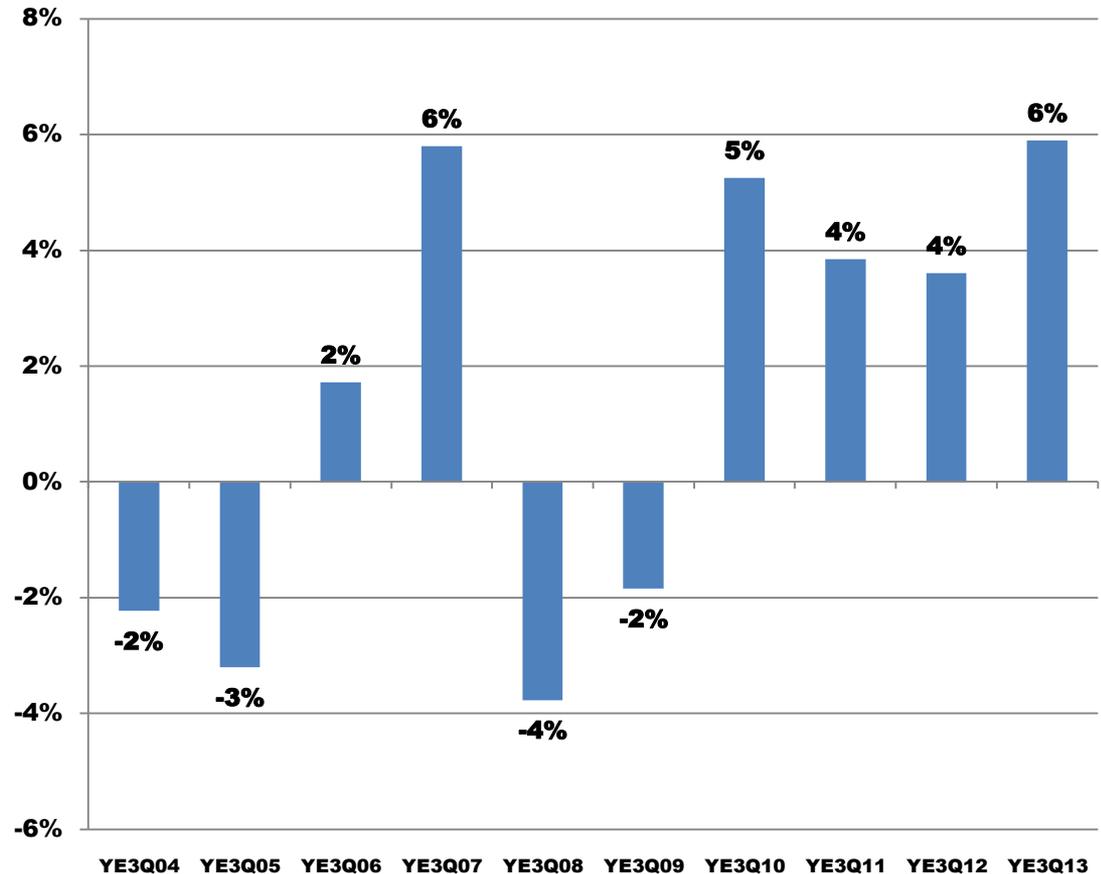
Is the U.S. airline industry profitable?

Industry operating margin currently about 6% - pre-tax running about 3%

YTD industry margins about half of those of the overall S&P 500

Fuel price volatility remains the biggest risk to airline earnings; geopolitical events also present risk

U.S. Major* Passenger Airlines – YE 3Q Operating Margins – Last Ten Years



Source: U.S. DOT Form 41 data via Diio online portal; Air Transport Association; **may not tie to reported carrier earnings**

* Major airlines are currently United, American, Alaska, US Airways, Delta, and Southwest

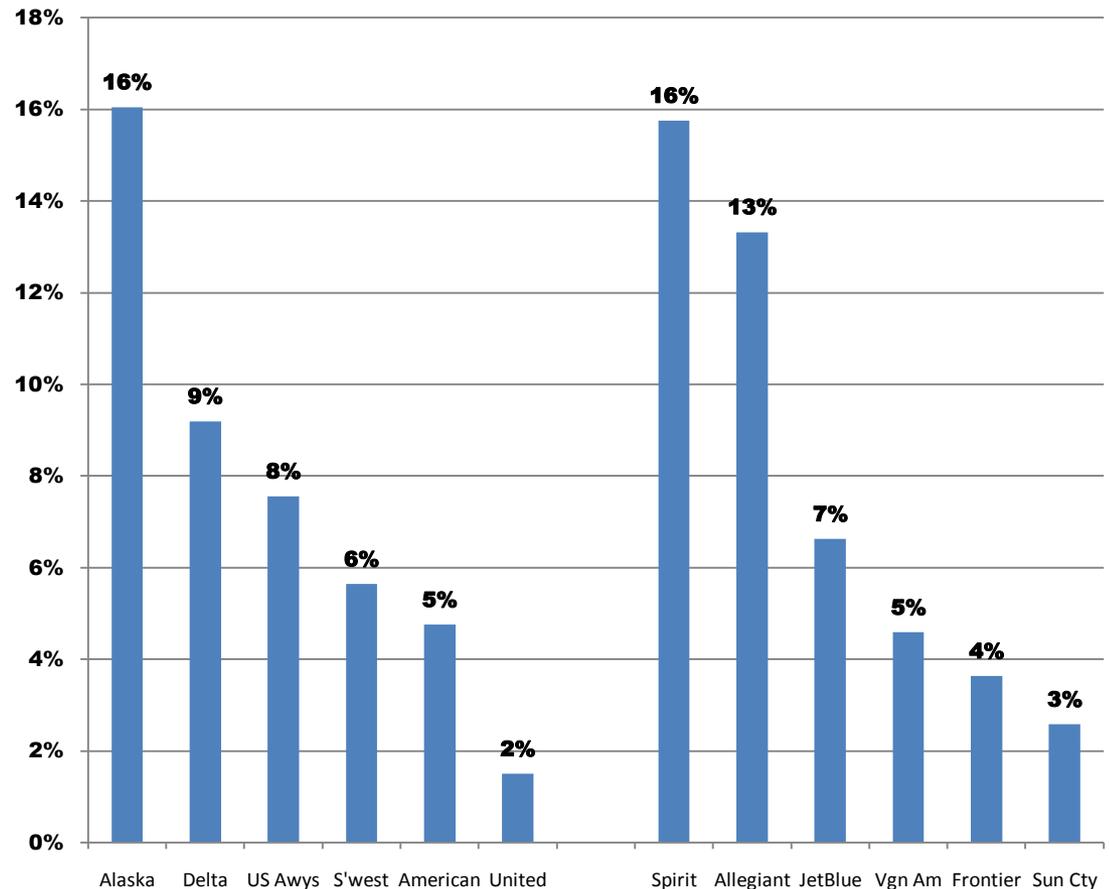
Which U.S. carriers are profitable?

Only Alaska and the two ultra low-cost carriers generate double-digit operating margins

All other major carriers generate operating margins between 2-9%

As a point of comparison, Apple generated a 4Q13* operating margin of 30%

Top U.S. Passenger Carriers – YE 3Q13 Operating Margins



Source: U.S. DOT Form 41 data via Diio online portal; **may not tie to reported carrier earnings**

4Q13 refers to AAPL's fiscal 1st quarter, which ended December 28, 2013

Are domestic commercial airplanes “full”?

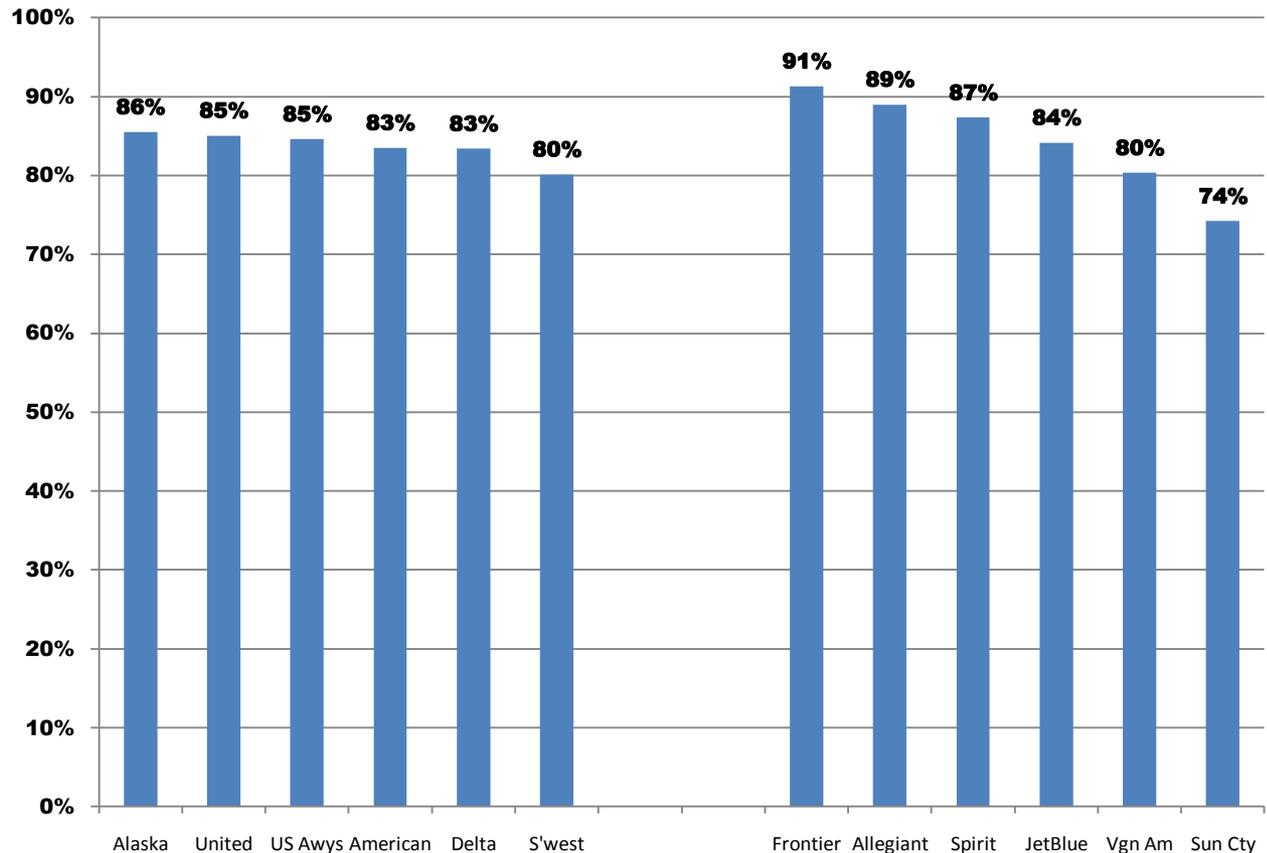
For the full year 2013, overall domestic industry load factor was 84%

This figure was as low as 69% just twelve years ago

We may be approaching structural capacity for industry-wide load factor totals

Load factor represents the % of seats filled adjusted for trip length

U.S. Carrier Domestic Load Factors: Full Year 2013



Majors

LCCs/others

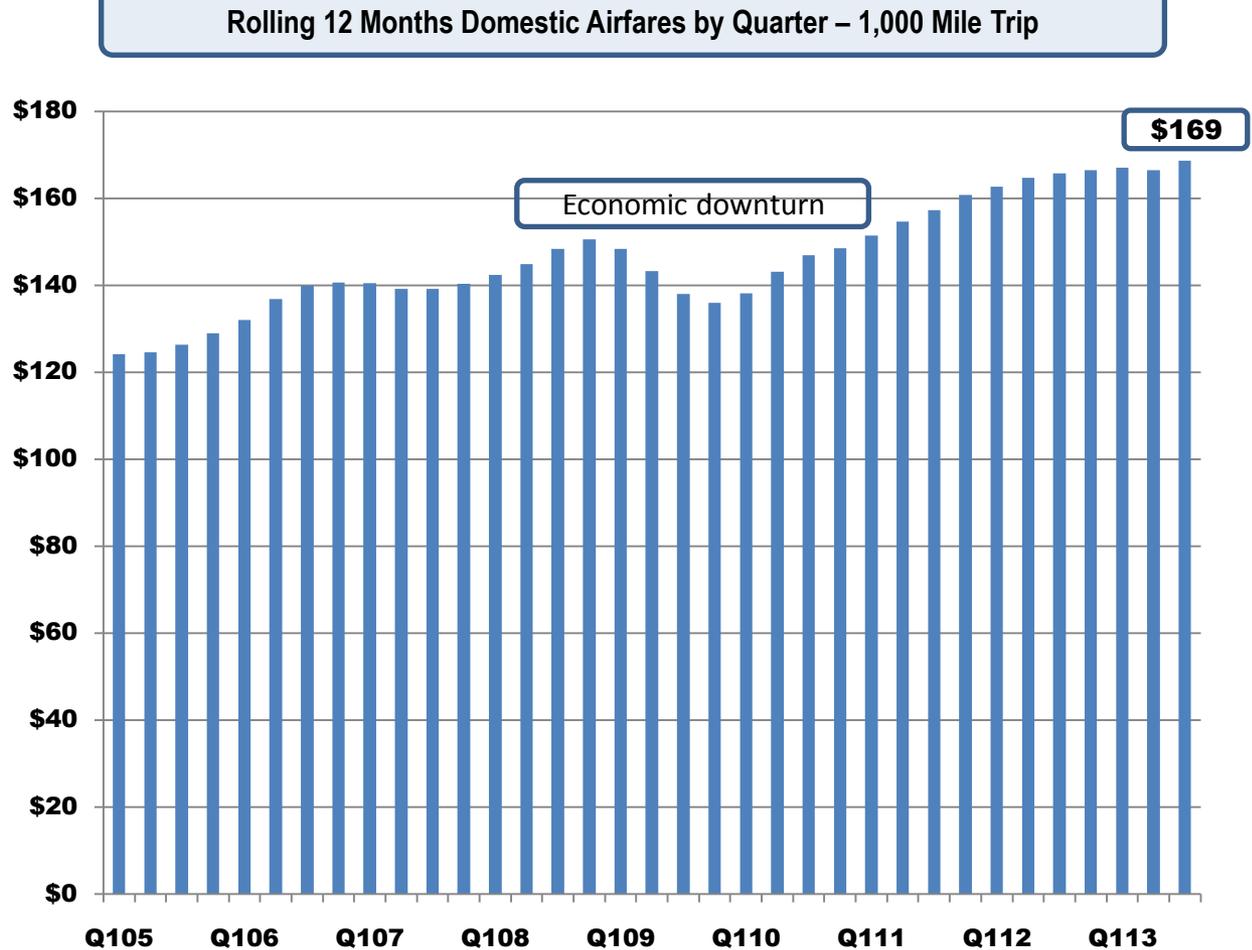


Are domestic airline fares increasing?

Figures represent the average one-way fare for a 1,000 mile domestic trip

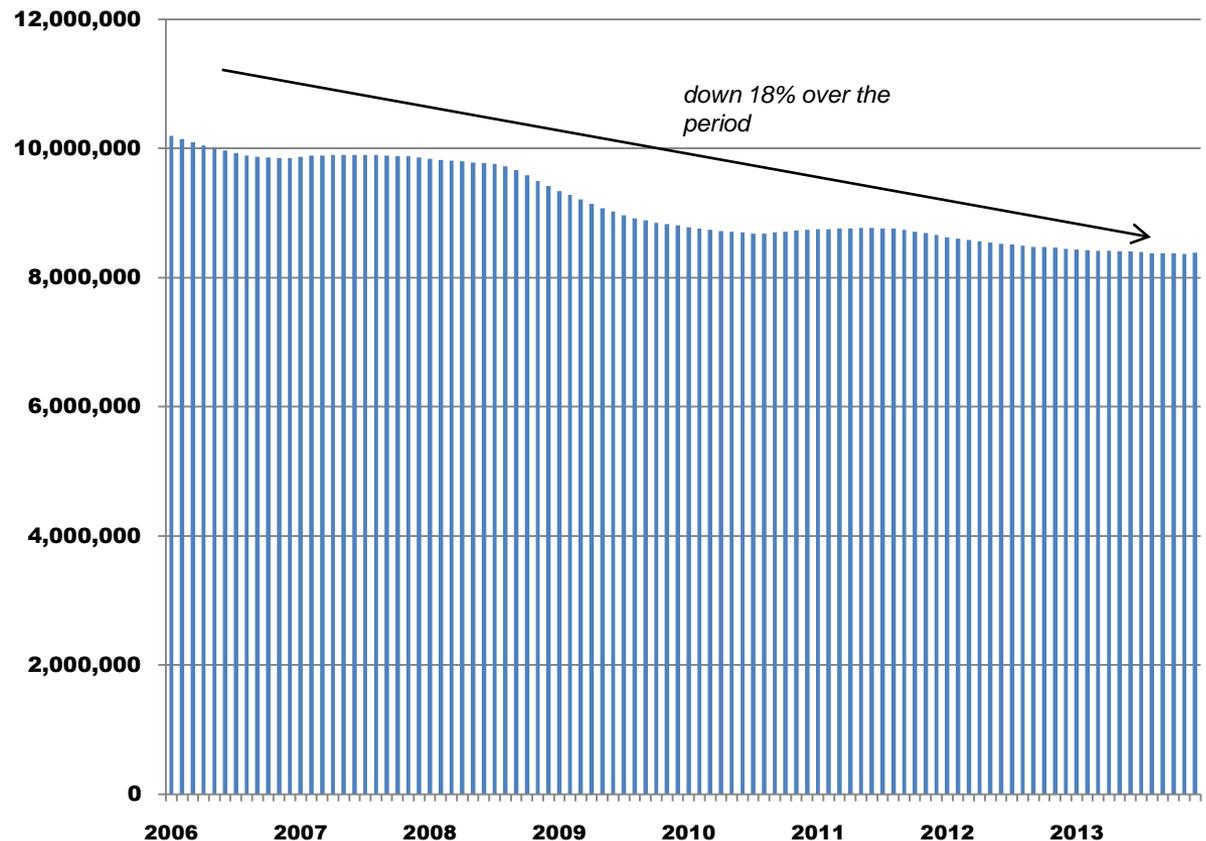
YE 3Q13 figure of \$169 represents a 24% increase from low point of the recession

Upward trends have plateaued after a period of sharp post-recession increases



What have been departure trends over recent history?

Rolling 12 Months Domestic Departures by Month (2006-13)



2013 domestic departures were down 1% from 2012

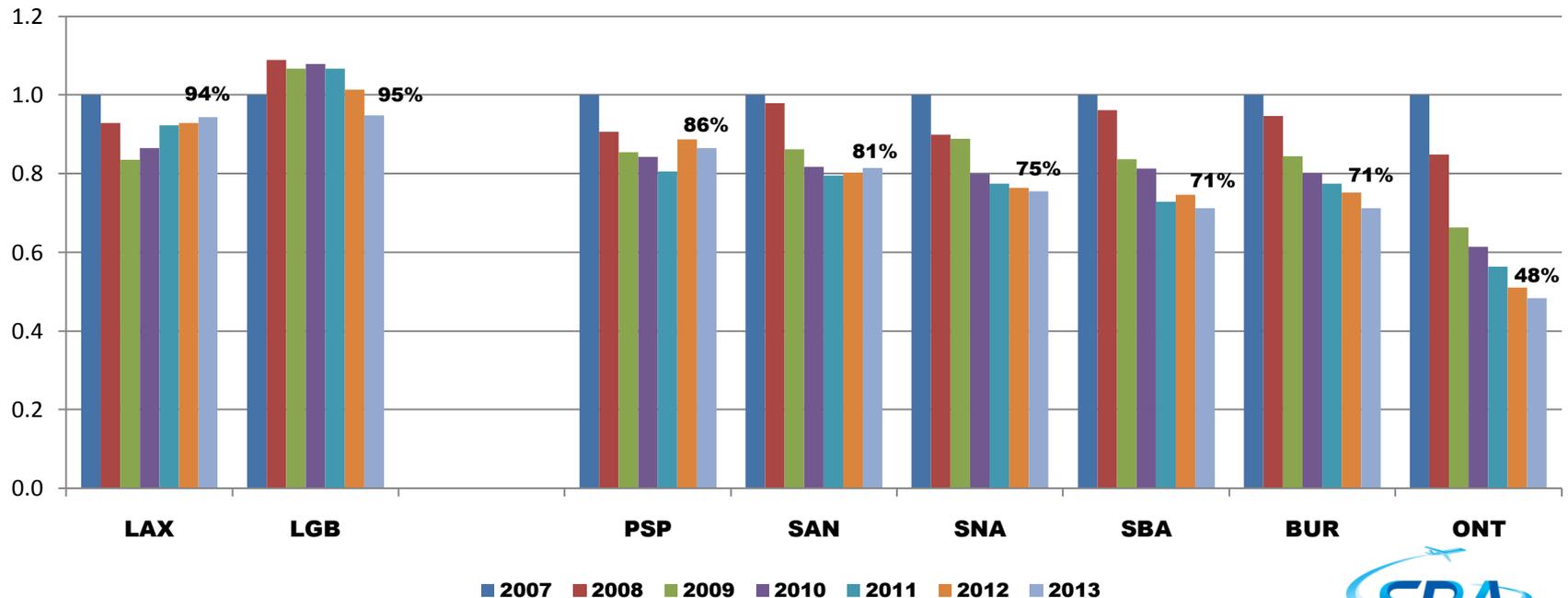
This is part of a broad, multi-year decline in domestic departures totaling 18% since the YE 1Q2006

Recent seat and ASM trends are a bit more positive

How have service trends impacted Southern California?

- Patterns across Southern California airports reflect the industry-wide trends highlighted on previous pages
- Palm Springs/PSP has absorbed some of the slack from Ontario/ONT and picked up service additions from multiple niche leisure carriers

Domestic Departure Levels From Southern California Airports – 2007 calibrated to a base of 1.0 (through 2013)



Challenges for smaller airports

Challenges

- ✓ Regional fleet transitions (35 states receive the majority of their departures with regional aircraft)
- ✓ Pilot availability
- ✓ Long-term impact of industry consolidation
- ✓ Concentrated airline focus on year-round profitability
- ✓ \$80-\$120 oil

Opportunities

- ✓ Regional fleet transitions (return of the prop?)
- ✓ Under performing routes primarily gone
- ✓ Creative approach to cooperative planning
- ✓ Niche carrier opportunities expanding to broader range of airports
- ✓ (Legislative?)

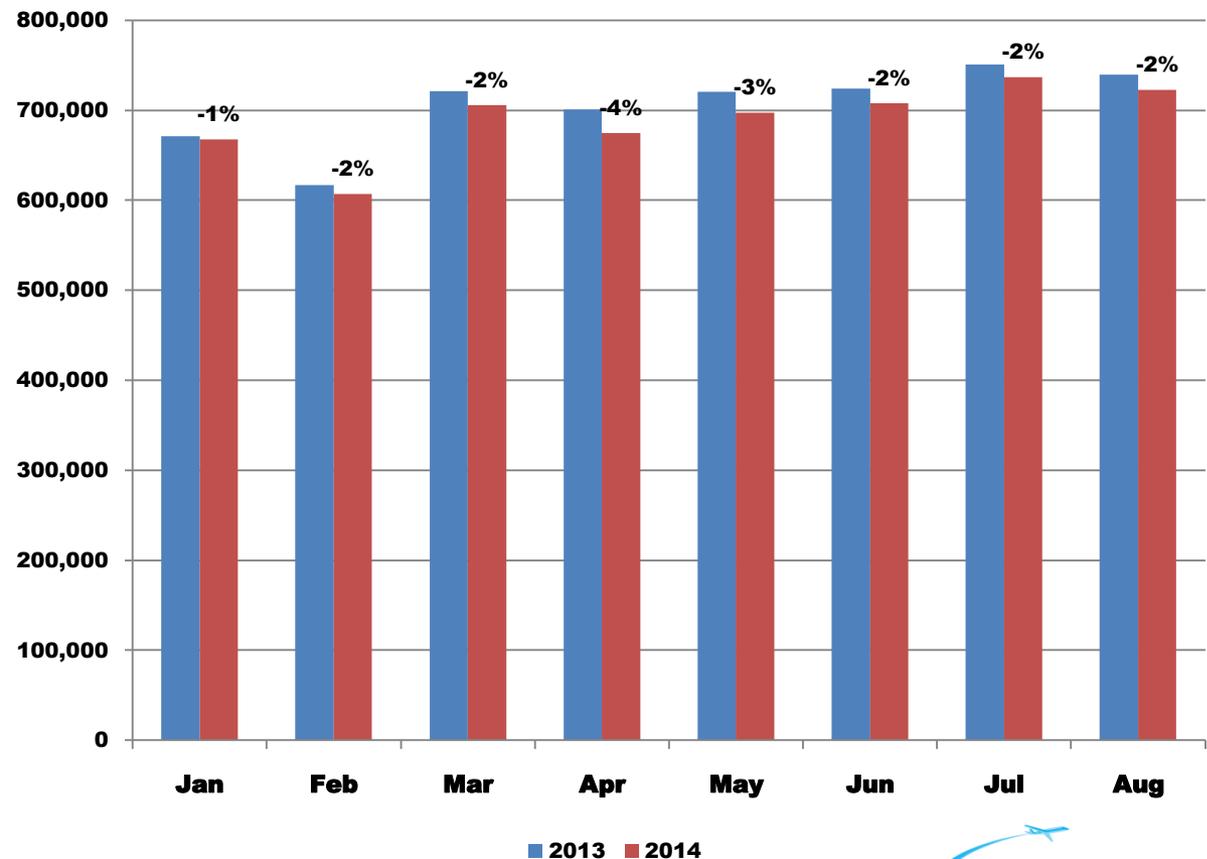
In the long run, airlines will focus on economically viable opportunities

Is domestic capacity increasing in 2014?

Domestic departures are down just over 2% through the first eight months of 2014

Information is only presented through August to ensure schedule integrity

2014 vs. 2013 Scheduled Domestic Departures
January - August



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SBA catchment area and traffic leakage

The results of a previously performed “leakage study” provided estimates for the amount of core SBA catchment area was traveling from other airports

Previous study was prior to the opening of the new terminal

Roughly 35% of primary catchment area traffic was traveling from SBA

In addition to keeping local traffic at SBA, we see significant opportunity in expanding our reach to the south

This data is key in defining our market sizes for airline planners



Study planned for update

Current SBA performance profile

American Airlines 

April 2014 service

Phoenix/PHX (5x/58)

Annual load factor: 75%

Fare premium: +2%

(includes US Airways)

Alaska Airlines

April 2014 service

Seattle/SEA (1x/70)

Portland (1x/70)

Annual load factor: 87%

Fare premium: +16%

UNITED 

April 2014 service

San Francisco/SFO (10x/30)

Los Angeles/LAX (7x/30)

Denver/DEN (2x/50)

Annual load factor: 81%

Fare premium: +3%

Load factor does not include LAX service;
fare premium includes all AA/US passengers

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April 2014 service

Denver/DEN (4x weekly/138)

Annual load factor: 85%

Fare premium: +5%

Top markets from SBA

Top 20 Markets from Santa Barbara – YE3Q14 (ranked by overall O&D traffic)

Indicates markets currently served non-stop

Indicates markets currently NOT served non-stop

Daily round-trip market sizes from SBA range from 106 (Denver) to 35 (Dallas-Fort Worth) to 10 (Washington-Dulles)



Note that this map does not include intra-state routes such as Sacramento, San Jose, San Diego, and others as they currently do not generate tangible air traffic from SBA

Key in-state market opportunities

Sacramento/SMF

ExpressJet service 2007-08

Alaska/Horizon service 2009-10

Peak market size (estimated): 70+ PDEW

San Jose/SJC

United service through Summer 2010

Peak market size (estimated): 35-40 PDEW

Oakland/OAK

Low fare Bay Area airport

No recent SBA service history

San Diego/SAN

ExpressJet service 2007-08

Peak market size (estimated): 40+ PDEW

Recent service expansion by Alaska/Seaport



PDEW = passengers per day each way

Source: InterVISTAS analysis of Innovata schedule and US DOT data via Diio online portal

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Key 2014 goals and initiatives

Development of current routes:

Ensure satisfactory performance in existing non-stop markets and look for opportunities to enhance service patterns

Additional hub connectivity:

Pursue enhanced capacity to key eastbound hubs, either through existing markets or new hub opportunities

Additional in-state service:

Continue to explore strategic alternatives to obtain additional non-stop California service

New carrier discussions:

Maintain and enhance discussions with potential new entrant carriers (including LCCs) across a variety of markets; this is often a multi-year process

Utilize results from updated leakage study to refine and expand our local market

How we work with carriers

Conferences

Industry “speed dating” conferences remain crucial as events to maintain dialogue with both incumbent and potential new entrant carriers

- ✓ March domestic event cancelled for 2014
- ✓ Primary event will be in June in Edmonton
 - Virtually all relevant carriers in attendance
 - Short meeting times allow for discussion of high level business case and “ground work”
 - This event will be particularly important
- Routes World event in Chicago (October)

Headquarters meetings

Airline headquarters meetings are very important, as they typically offer an opportunity to present the full SBA business case to key airline personnel

- ✓ Typically utilized to “close” on a potential new route or discuss existing route performance
- ✓ Scheduling can be at the whim of airline personnel, but we maintain ongoing relationships

Contact Information

- For clarification or any additional information, please contact:

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Sourcing notes

* Fares adjusted for stage length based on standard industry cost curves and internal InterVISTAS analysis

* All fare and traffic data based on U.S. DOT information via Diio online portal; Innovata schedule data also via Diio portal

