

JET TASK FORCE
Air Services Working Group
Report of Findings and Recommendations

Revisions- 02/11/15

I. Executive Summary

Introduction

In April 2014, Mayor Michael B. Coleman appointed the Jobs, Expansion and Transportation (JET) Task Force to enhance and leverage the Port Columbus airport as an economic hub and the center of transportation for the region. The JET Task Force is comprised of three working groups: air services, economic development, and transportation. This report summarizes the work of the air services working group.

The air services working group's charge was to consider how best to identify and prioritize top air service needs of the community; expand awareness of and support for air service development efforts; and develop tools and strategies to attract targeted airlines to meet the identified air service needs.

To meet this charge, the working group worked with local businesses, State and Local governments, the Columbus Regional Airport Authority and its air services consultant InterVISTAS, to understand the current environment and to determine how best to:

- Add new domestic air service destinations
- Add new international air service destinations
- Enhance service to existing air service destinations

Key Findings

- Industry consolidation makes air service expansion difficult. Over the past 14 years, domestic air service carriers have consolidated from 10 major carriers to 4 and these carriers capture nearly 90% of market.
- Unlike airports with service dominated by one carrier, Port Columbus' market share is balanced among these four remaining carriers;
- Airlines have exercised "capacity discipline" and from 2007-2012, these practices have resulted in cuts of 1.4 million domestic flights and wiped out nearly 100 million domestic seats.
- Medium-sized and smaller airports have felt the brunt of capacity cuts through airline consolidation and the closure of duplicate hubs.
- As part of these trends, Port Columbus, a medium-sized airport, has suffered some air service setbacks, but not to the extent of most peer airports.

- In fact, by comparison, Port Columbus has fared well in recent years with increased seat capacity and quality connections to domestic and global markets.
- Port Columbus serves 32 airports with direct flights on varying frequencies. Port Columbus continuously approaches airlines to expand service.
- Industry experts estimate that daily domestic air service to the west coast from Columbus can generate an annual economic impact for the region of over \$20 million.
- Daily international air service between the region and Europe could generate a \$50 million annual economic impact.
- New Air Service Development is “economic development” that supports the work of the regional growth strategy of Columbus 2020.
- The three best positioned domestic markets for direct service are the San Francisco Bay Area, San Diego, and Seattle. London is best positioned for international direct service.
- Our Community currently does not offer inducements for direct air service beyond traditional airport incentives. Such incentives are limited by regulation or the Airport’s agreements and relationships with other carriers.
- Other communities across the country have worked with the public and private sector to target travel budgets and provide direct incentives, beyond traditional airport incentives to lure more direct air service.
- Air service to key markets also may attract additional investment to a community. Business engagement with high technology companies in the San Francisco Bay Area drives a lot of venture capital investment. In looking at the relationship between venture capital investment and direct air service to the Bay Area, on average, cities with direct air service to the Bay Area are exposed to \$110 million in venture capital funding per year versus \$11 million, annually, for cities without direct service.

Key Recommendations

- Treat air services as an “economic driver,” like technology, retail, financial services sectors, and target economic development efforts and incentives to invest in air service in a manner consistent with other important industries.
- Organize major corporate and institutional air service users to inform airline travel decisions and approach carriers for service improvement discussions.
- Strengthen coordination efforts of travel, tourism, convention, and sports and entertainment leaders to market, promote, and advance the local image and reach.

- Sustain the work of the air services working group by appointing a permanent community “Air Services Committee” to guide local public and private efforts to support air services expansion with the CRAA.
- Understand business and air services operational trends and craft policies and incentives to locate air services companies and other businesses at or near Port Columbus.
- Look to the Port Columbus area as our transportation center and bring all modes of transportation to the area in order to better connect citizens and visitors to the airport, jobs centers, and community attractions.

II. Administration

Air Services Working Group members: Geoff Chatas (Chair) with Mark Patton, Elizabeth Blount, Ted Adams, Steve Lyons, Anthony Precourt, Jonathon Ramsden, and Dan Rosenthal.

Mission: Identify and prioritize top air service needs of the Community; expand awareness of and support for air service development efforts; and develop tools and strategies to attract targeted airlines to meet the identified air service needs.

The working group explored how best to:

- Add new domestic air service destinations
- Add new international air service destinations
- Enhance service to existing air service destinations

III. Approach:

The working group broke its work into two streams: short/medium term and long term.

Short/Medium Term

Our immediate work stream is to continue progress towards adding air service domestically to two identified destinations, San Francisco Bay Area and Seattle, and to continue to assess the viability of an international destination in the medium term.

Because there are identified priorities, the work stream looked at tactics to “fill seats” and methods to establish service, working with State and Local governmental agencies as well as Corporations who will benefit from the increased services.

With Columbus 2020, we have begun to look at the possibility of providing Community incentives for the San Francisco Bay Area as a non-stop destination; using this as a ‘test-case’. The San Francisco Bay Area is Columbus’ top domestic air service target and largest un-served market in terms of passenger demand. Columbus does not currently have nonstop air service to this key market for our region. Further, Columbus is the third largest market from San Francisco without nonstop service. As of the 12 months ending June, 2014 Columbus to the Bay Area demand (the sum of daily

passengers to San Francisco, Oakland and San Jose airports) is 202 passengers daily each way, with demand to San Francisco in particular increasing 24% in the past two years.

From an economic development standpoint, 15 Bay Area-based firms have economic base operations in the Columbus Region. This is the third highest representation in Columbus after New York and Chicago (important to note, New York and Chicago have 23 and 25 direct flights respectively each day to/from Columbus). These 15 firms employ more than 3,000 in the Region. Additionally, there have been 9 economic development project announcements since 2011 from Bay Area-based companies.

Key to the Bay Area market analysis is the connecting opportunities to other western U.S. destinations which enhance the success of a Bay Area flight. Bay Area- connecting cities without existing nonstop Columbus service include:

City of Columbus Demand (passengers daily each way)

Seattle	94
San Diego	85
Portland	49
Orange County	37
Ontario	27
Spokane	11
Burbank	11
Boise	8

The “test-case” group reviewed the aforementioned data and the methods for providing necessary funding to start up and promote this new service.

Long-Term

Ultimately, the Air Services Working Group focused on our short/medium term work and chose to recommend how best to address long-term efforts.

In the Recommendation section, the working group proposes that long term work stream requires the creation of a “standing committee” of Community leaders to develop strategies and assess future needs and destinations. Further, we will work to engage a broad cross section of constituencies around the region to provide a road map for implementing long term air services that will foster economic development.

By creating another group to continue to assess destinations and incentives, we will be able to continually grow Port Columbus based on the most current situations and research available to the team. In addition, this team will be able to analyze incentives required to partner with airlines to build network maps that include Columbus as a central destination.

IV. Findings and Recommendations

Findings:

- Industry consolidation makes air service expansion difficult. Over past 14 years, our nation's airlines have consolidated from ten major carriers to four. These surviving four carriers capture nearly 90% of the domestic air market.
- Unlike airports with service dominated by one carrier, Port Columbus' market share is balanced among these four remaining carriers
- Port Columbus serves 32 airports with direct flights on varying frequencies. Port Columbus continuously approaches airlines to expand service.
- Airlines have reduced the number of domestic flights and also have restricted capacity growth in a strategy known as "capacity discipline." From 2007-2012, these practices have resulted in cuts of 1.4 million domestic flights and wiped out nearly 100 million domestic seats.
- Medium-sized and smaller airports have felt the brunt of capacity cuts through airline consolidation and the closure of duplicate hubs. Columbus has suffered some air service setbacks – but not to the extent most airports have.
- In recent studies, Port Columbus ranks well in comparison to peer airports in: available domestic seats; and the quality of its connections to the global air transportation network.
- Certainly, businesses, institutions, and the traveling public understand the benefits of direct air service- convenience, time, and access to markets- but our Community now better understands the significant annual economic impact of direct air service, driven by its facilitation of commerce.
- Industry experts, for example, estimate that daily domestic air service to the west coast from Columbus can generate an annual economic impact for the region of over \$20 million. Even more impressive, daily international air service between the region and Europe, for example, could generate a \$50 million annual economic impact.
- Air service to key markets also may attract additional investment to a community. Business engagement with high technology companies in the San Francisco Bay Area drives a lot of venture capital investment. In looking at the relationship between venture capital investment and direct air service to the Bay Area, on average, cities with direct air service to the Bay Area are exposed to \$110 million in venture capital funding per year versus \$11 million, annually, for cities without direct service.
- The three best positioned domestic markets for direct service are the San Francisco Bay Area, San Diego, and Seattle. London is best positioned for international direct service.
- With air service industry consolidations and the marked economic impact of direct air service, airports are pressed to retain service, then work to expand and enhance service. Communities across America, led by state and local government, businesses, institutions,

economic development groups, and convention and visitor bureaus, are playing an increasingly important role in supporting airport efforts to improve service.

- Communities are facilitating discussions between major corporate and institutional users of air services and the airlines. They are coordinating marketing and promotional activities to advance the local image and reach. They also are working to understand the marked economic impact direct flights have on the local economy and investing directly in efforts to secure new service.
- Our Community currently does not offer inducements for direct air service beyond traditional airport incentives. Such incentives are limited by regulation or the Airport's agreements and relationships with other carriers.
- New Air Service Development is "economic development" that supports the work of the regional growth strategy of Columbus 2020.

Examples of Return on Community Investment

The working group looked at how other communities have estimated the value of community investment in direct air service and their return on investment. Examples include:

British Airways: - Baltimore to London- Estimated \$124M total annual state economic impact - \$18.8M paid between term 2005-2010. The State renewed for additional two year term capped at \$5.5M annually;

Delta Air Lines: - Pittsburgh to Paris- Estimated \$130M annual economic impact- Two year term paid \$5M Y1 and \$4M Y2 State & Allegheny Conference on Community Development;

United Airlines:- Indianapolis to San Francisco- \$1.5M revenue guarantee, one year term - Flight started Jan. 8, 2014 Indiana Economic Development Corporation;

Consultant Guidance

The JET Task Force and Community leaders had the opportunity to meet with CRAA's air services consultant. The consultant provided excellent insight on trends in the air services industry and the positioning of Port Columbus in these transformative times in the industry.

He generally affirmed the approach and efforts of the Air Services Working Group and provided the following observations on our interest in exploring the use of community investment to help pursue more direct flight services:

- "Carpet Bombing" is not the way to target markets- CMH is not desperate and desperate markets carpet bomb;
- Continue our approach of prioritizing domestic and international markets and consider incentives only on markets being realistically evaluated;
- Understand that CMH is not the only community targeting these markets and incentives can differentiate CMH from other competitors in this "zero sum game" air service environment;

- Just like it is a Net Present Value decision for the airline to fly or not, it is a Net Present Value proposition for the community to invest or not.
- CMH is a “have market” and any investment should incrementally improve CMH’s place on the air service grid.

Recommendations

Target Air Service as an Economic Driver

- As the above findings illustrate, our direct air services at Port Columbus not only connect our Community to the world; they have a marked economic impact on our region. Like all economic drivers though, we cannot take our position in air services for granted. Recent air industry trends point to further consolidation of service in our domestic market and increase competition between airports for services—with winners and losers.
- For our future, it is critical for our Community to better treat air services as a jobs center, like the technology, retail, financial services sectors, and engage our Community in understanding and investing in air service like we do these other important industries.
- The Community needs to:
 - Target markets best positioned for new direct flight service based upon current demand, future projections and understanding the overall economic impact new service for these markets would provide our Community;
 - Align key business, institutional and community marketing and convention recruiting efforts to leverage demand for new service to these target markets;
 - Partner with state and local government and business community to develop economic incentives to help secure new direct service and also to attract more air maintenance and other air service-related activities at Port Columbus to further position our Community for direct flights.

Community Air Service Incentives will Position Port Columbus for Better Service

As we consider economic incentives, keep in mind that the more connected the Columbus Area is to the “air services grid” the better are chances to stay connected. Maintaining and expanding direct air service will better position our businesses, institutions, and citizens for economic success in the 21st Century.

- To do this the Community needs to develop the best mechanisms for sustained and focused engagement; making markets by understanding our business needs, directing travel, and attracting visitors; and locating more air service and transportation connections at or near Port Columbus.
- The working group calls for a more thorough review the traditional types of incentives that the Community offers for business attraction and job creation and consider how best to employ the lessons learned in these experiences to that of the attraction of new air direct service for our Community. In sum we should explore:
 - What state, local, and private sector incentives should we bring to bear to enhance direct service?

- What are the optimal conditions or parameters we should consider as we develop and employ these incentives?
- Are there lessons or innovations from other communities that we can learn from and adapt here?

Sustaining Efforts over Time

- As with our other economic development efforts, the Community also must explore how best to sustain these flight attraction initiatives over time to permit ongoing efforts to improve direct service.
- The working group believes the community attention given to direct air service over the past 8 months, needs to be sustained. The working group recommends the appointment of standing Air Services Committee, consisting of public, community, and business leaders with the stated goal of aligning the community to assist CRAA's efforts to enhance air service and sustaining these efforts over time.
- This Committee will work with CRAA Leadership, Board of Directors and staff to understand:
 - The current state of air service, frequency of markets served, and how our service compares with peer cities across America; what are the most promising markets to expand or pursue direct air service which support our regional economic growth strategy?
 - Understanding airline service trends and our customer base, what opportunities or concerns should we have regarding our current service and expanded or new service? What can we learn from other communities?
 - How does CRAA currently use incentives to enhance direct flight service? How do other communities assist their airports with community incentives? What incentives our Community should consider?
 - How best to inform the Community on these matters and sustain them over time.
- Airlines make markets for direct air service by evaluating and forecasting travel demand to and from local markets. Our Community can better position ourselves to help make the case for new markets by:
 - Understanding the ties between local businesses and institutions with desired markets, the depth of these relationships and how they may impact current and future travel between our Community and these markets;
 - Understanding and directing travel decisions by local businesses and instructing current and future travel to support our direct air services efforts;
 - Continuing to align our Community promotional events, and attractions to leverage efforts our efforts to attract or enhance services to desired markets.

Air Service Related Activities and Transportation Modes at or near Port Columbus

The CRAA, business community, and state and local government need to better understand business and air services operational trends and craft policies and incentives to locate air services companies and other businesses at or near Port Columbus.

Additionally, as the Community contemplates other modes of regional and intercity transportation, we should look to the Port Columbus area as our transportation center, connecting citizens and visitors to the airport, jobs centers, and community attractions. Again, the CRAA can be very informative on this effort, but the public and private sector need to pursue these matters and sustain these efforts over time.

Here our Community must:

- Look at airline operational trends and explore whether we enhance direct service by pursuing airplane service maintenance and other operational services?
- Look at business and explore trends whether we enhance direct service by pursuing certain business attraction strategies?
- Determine the business case for creating a multimodal center at or near the airport to bring air, car, bus, and passenger rail modes together to connect people to our jobs centers, attractions, and the world.
- Understand best practices and consider using airport and community lands, investment, and incentives to attract these businesses, operational services, and transportation modes to airport area.

With our Community backing to prioritize air service needs, Columbus will see a significant positive economic impact as we continue to grow the Port Columbus area.

V. Record of Proceedings