

Jobs, Expansion and Transportation (JET) Task Force Meeting

September 26, 2014

THE CITY OF
COLUMBUS
MICHAEL B. COLEMAN, MAYOR



COLUMBUS
REGIONAL AIRPORT AUTHORITY

Agenda

Topic:		
I.	Welcome and Introductory Remarks	Dan Rostenthal
II.	Current State of the Aviation Industry and Future Trends for the Industry	Bill Swelbar
III.	Break (Non-JET Task Force Members Welcome to Depart)	5 Minutes
IV.	Working Group Updates <ul style="list-style-type: none">- Air Services- Transportation- Economic Development	Geoff Chatas William Murdock Jean Carter Ryan
V.	Economic Development Working Group Featured Presentation	Jean Carter Ryan
VI.	Announcements and Final Remarks	

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InterVISTAS

a company of Royal HaskoningDHV

THE AIRLINE INDUSTRY: It's Evolution Is Causing Airports to Adapt

William S. Swelbar

Executive Vice President



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1978:4 – 1982:4

**I really don't know one plane from the other.
To me they are just marginal costs with wings.**

— Alfred Kahn, 1977

**No one expects Braniff to go broke.
No major U.S. carrier ever has.**

— The Wall Street Journal, 30 July 1980



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1983:1 – 1991:1

If we went into the funeral business, people would stop dying.

— Martin R. Shugrue, Vice-chairman Pan Am

I can't imagine a set of circumstances that would produce Chapter 11 for Eastern.

— Frank Lorenzo



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1991:2 – 2001:4

I think historically, the airline business has not been run as a real business. That is, a business designed to achieve a return on capital that is then passed on to shareholders. It has historically been run as an extremely elaborate version of a model railroad, that is, one in which you try to make enough money to buy more equipment.

— Michael Levine, Executive VP Northwest Airlines, 1996



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2002:1 – 2009:3

The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines. Here a durable competitive advantage has proven elusive ever since the days of the Wright Brothers. **Indeed, if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down.**

— *Warren Buffett, annual letter to Berkshire Hathaway shareholders, February 2008*



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2009:4 – Present

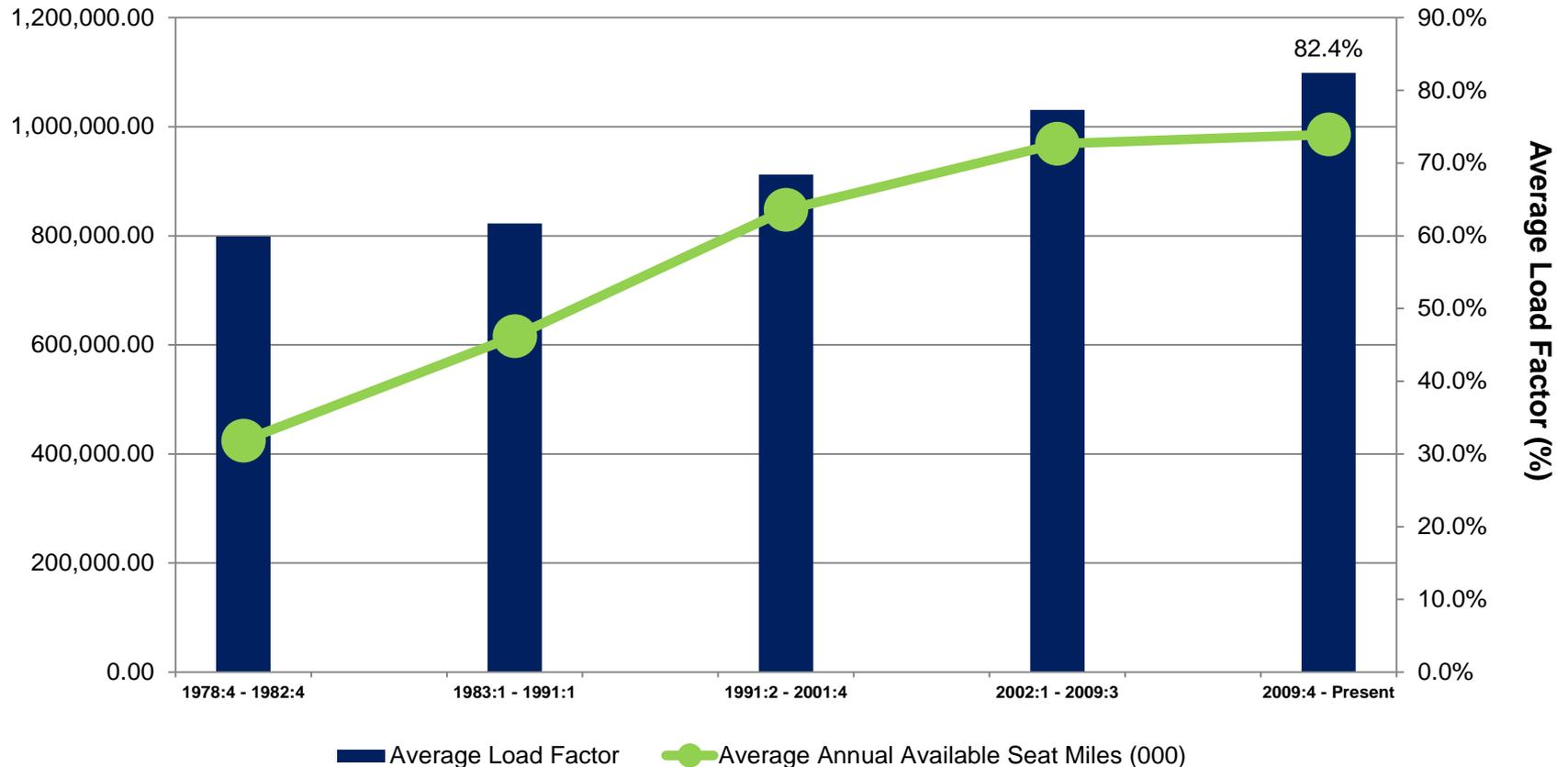
Should we see demand decrease, however, we will respond nimbly and appropriately by decreasing capacity and taking costs out to help ensure we remain profitable throughout the business cycle.

— Jeffrey Smisek, United Airlines CEO

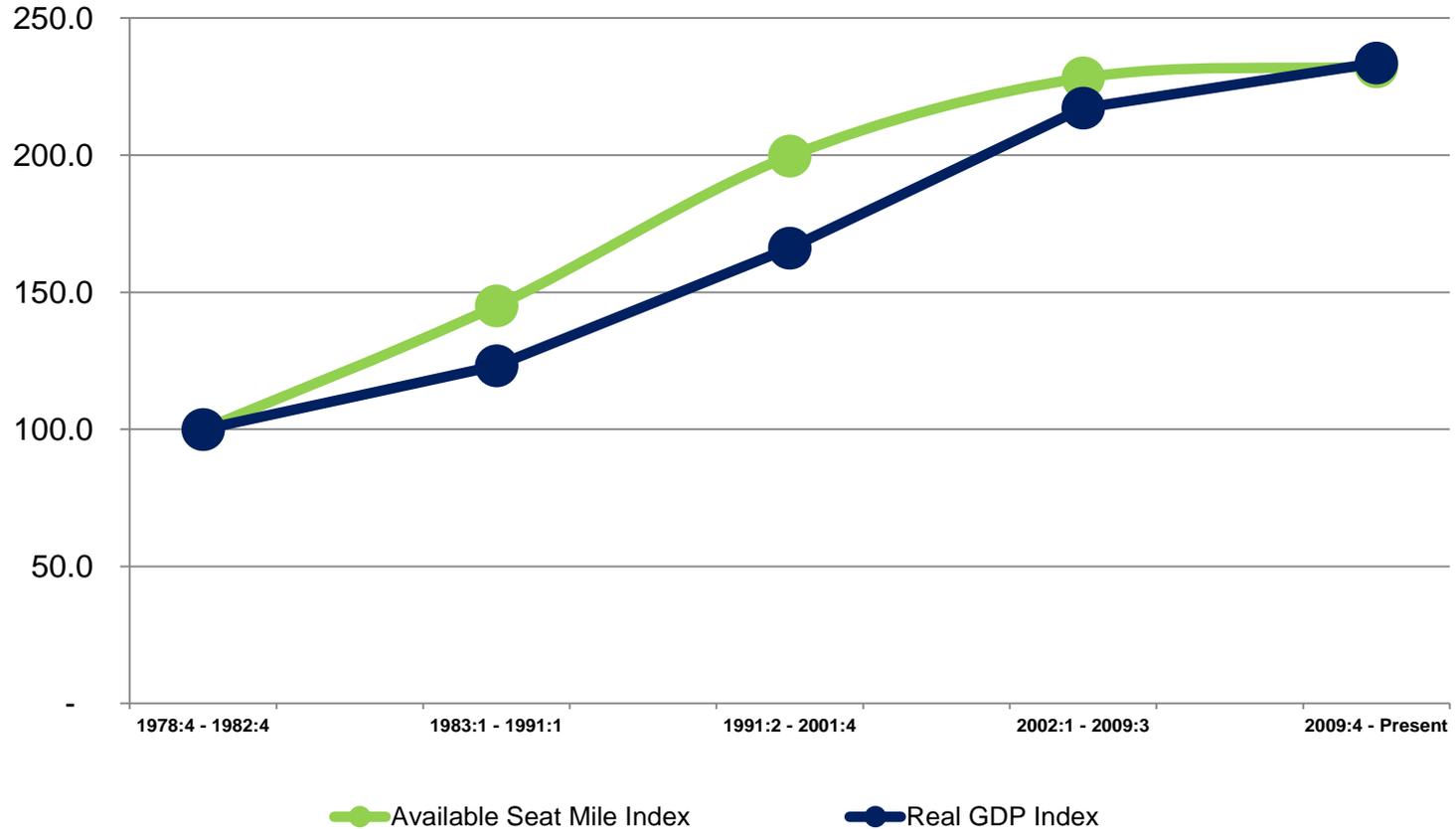
“This [the airline industry] Is No Longer a Hobby”

— Richard Anderson, Delta Air Lines CEO speaking to analysts on 1Q 2012 earnings call

Capacity Growth Across the Business Cycles: Load Factor Increases 14 Points Over the Last Two As Growth Slows

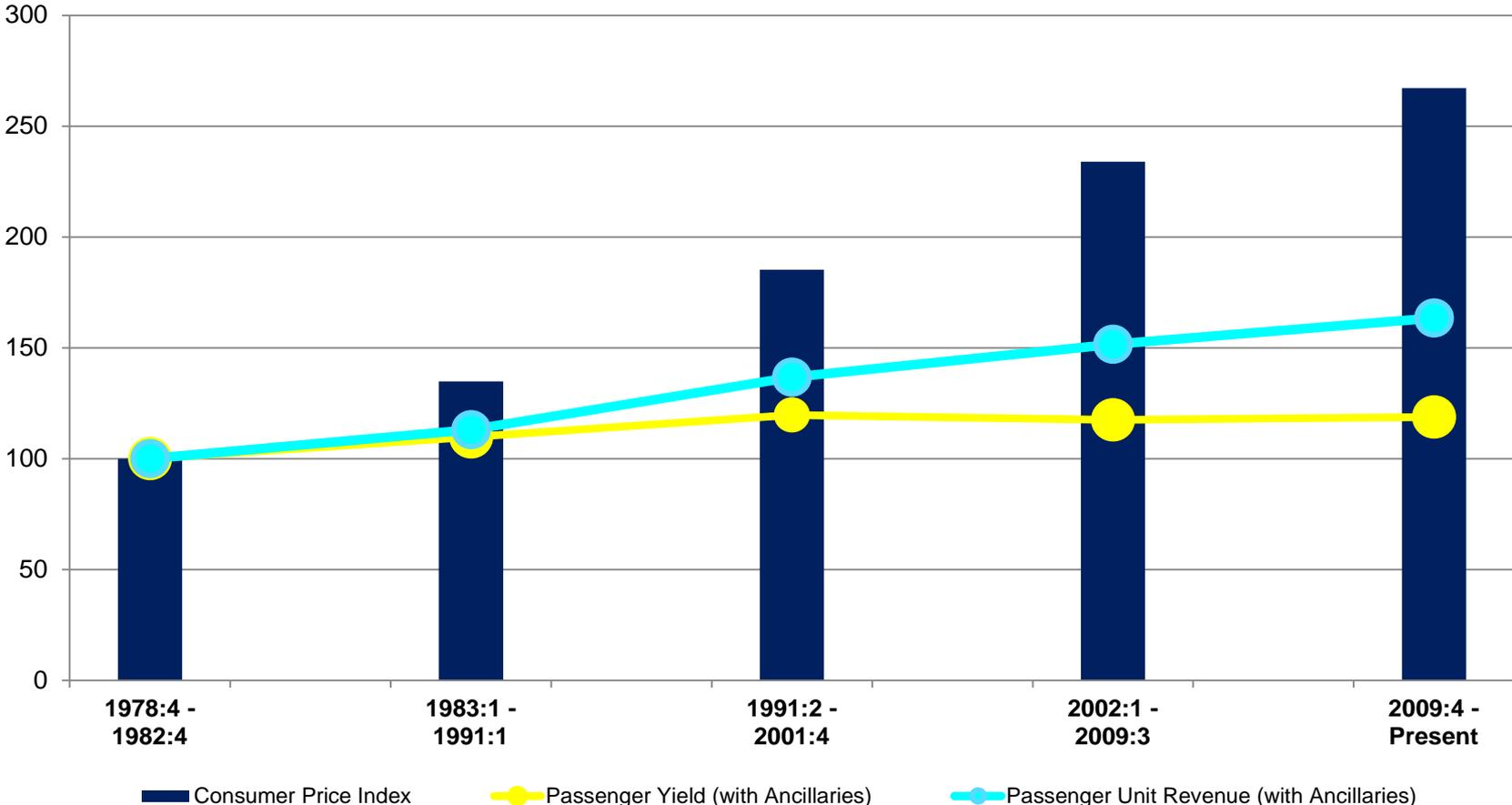


Capacity Grows Faster Than Real GDP: An Industry That Grew Too Big



Note: SAAR, 2009 Chained Dollars
Note: Business cycle 1 = 100

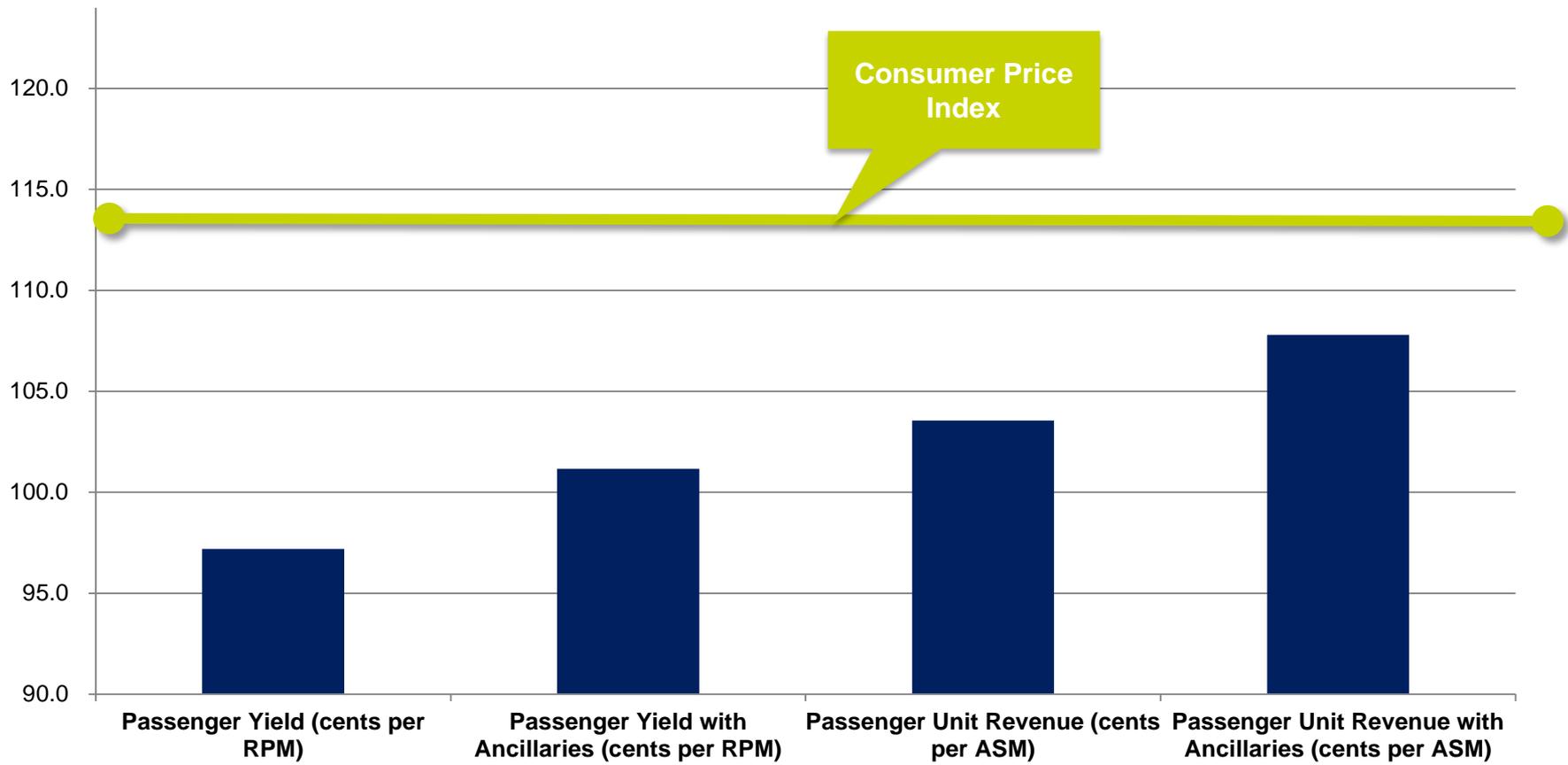
Unit Revenue Does Not Keep Pace With Inflation: The Consumer Benefits In A Significant Way



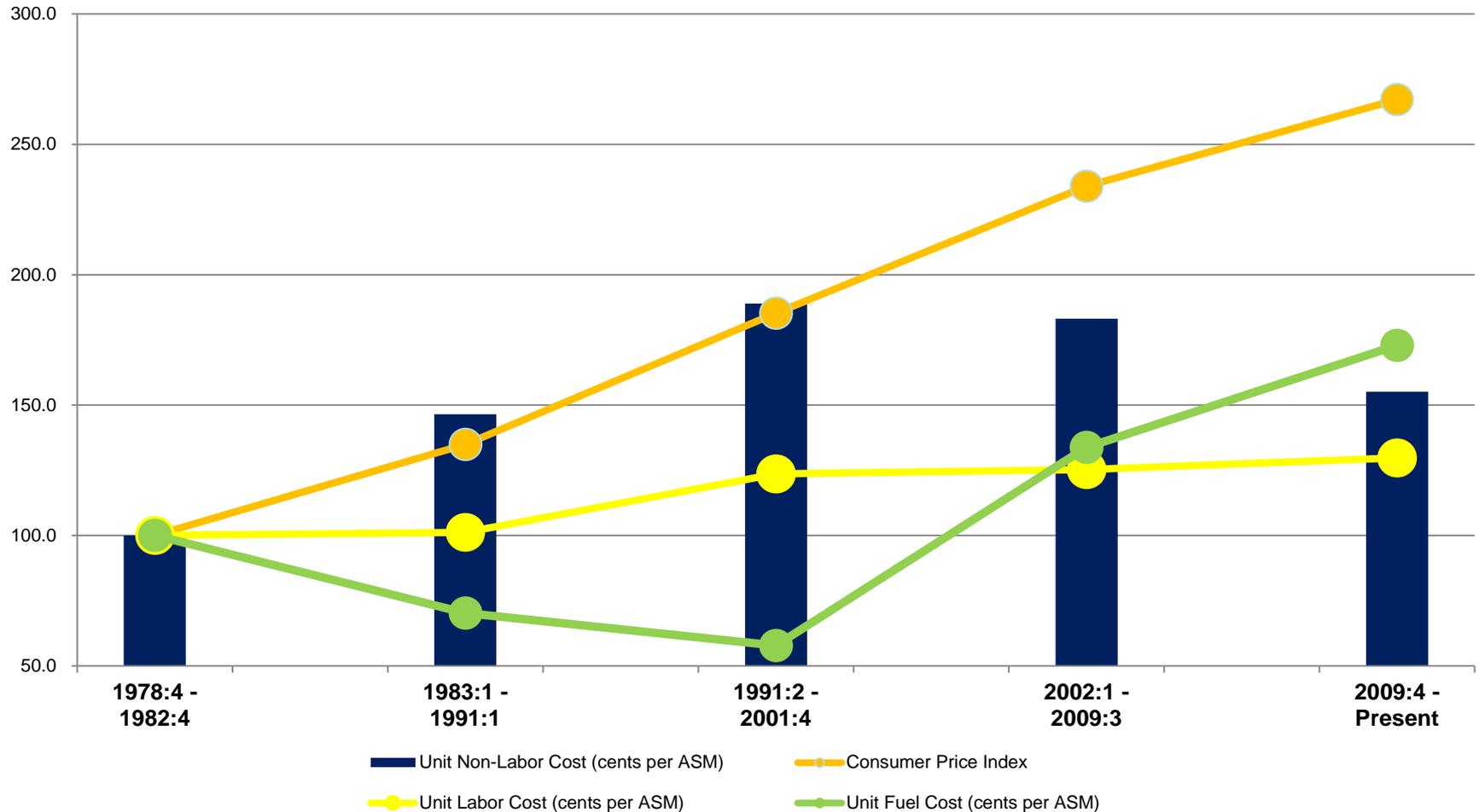
Note: Consumer Price Index SAAR
 Note: Business cycle 1 = 100

This Cycle As Compared to the Last

The Effect of Load Factor Increases and Ancillary Revenue On Sustained Profitability Cannot Be Underestimated

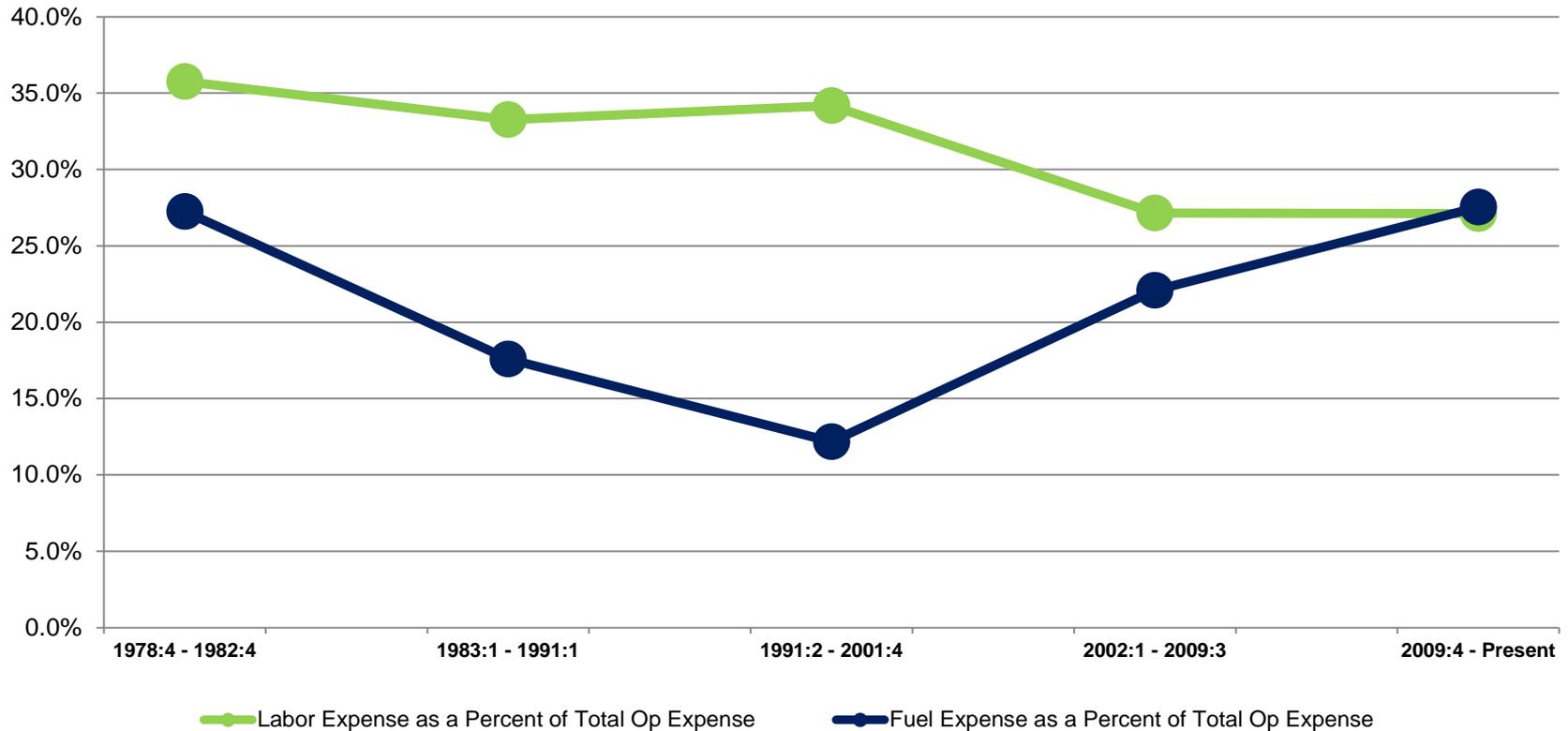


The Industry had Little Choice but to Vigorously Cut and Manage Controllable Costs: Particularly Labor Costs



Note: Consumer Price Index SAAR
 Note: Business cycle 1 = 100

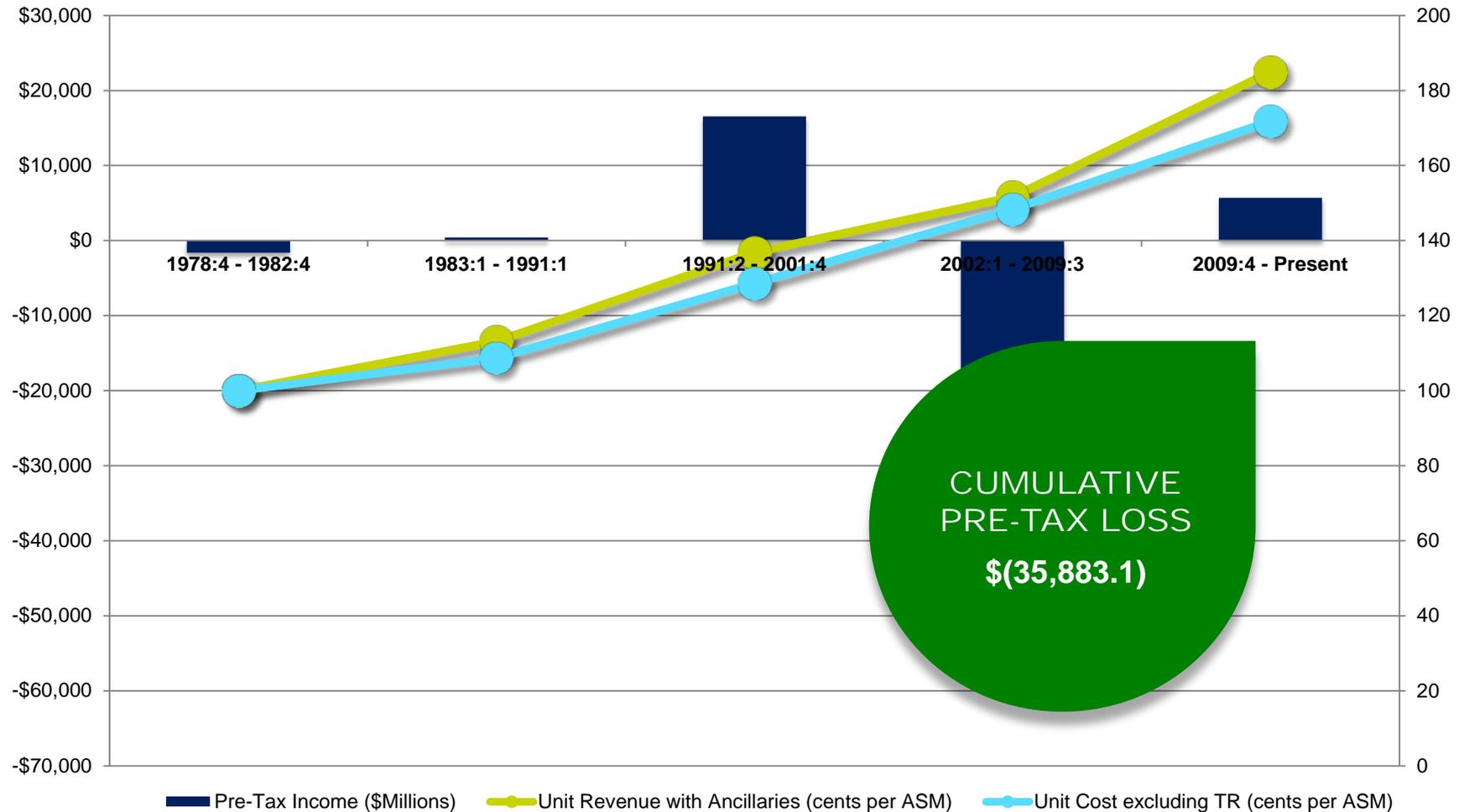
An Uncontrollable Cost: Fuel Was the Catalyst the Industry Needed to Change Its Game



Data Source: A4A Airline Cost Index Tables

For The Industry:

Deregulated Period Resulted in \$36 Billion of Pre-Tax Losses



Note: Business cycle 1 = 100
 Data Source: A4A Airline Cost Index Tables



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Commercial Air Service:

Challenges and Opportunities

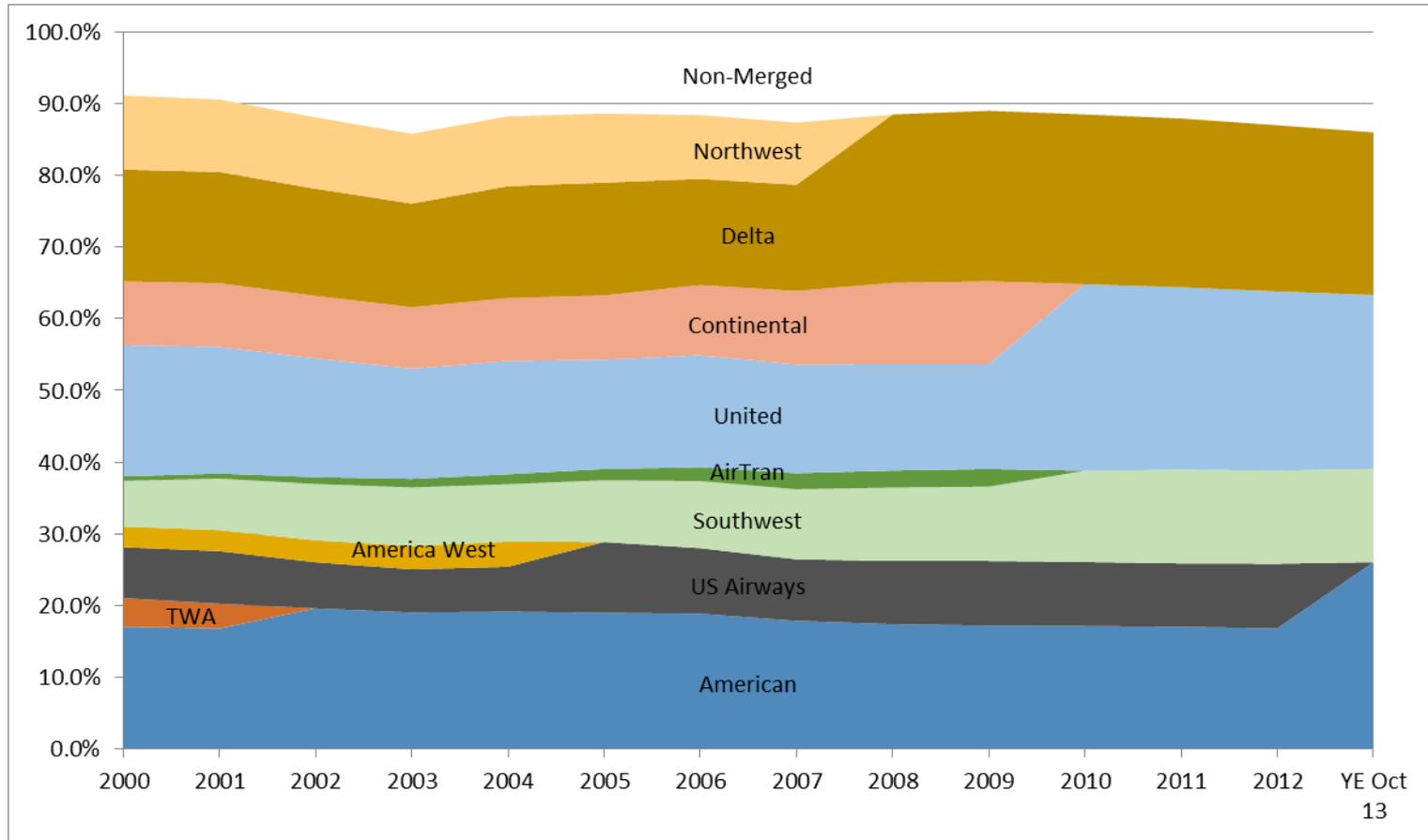
How Did We Get to 2014?

The internet becoming the ticket distribution vehicle, combined with growth by the LCCs, and perpetually rising fuel prices in the mid 2000's, resulted in nearly all the legacy carriers entering bankruptcy.

So what happened next?

1. DL/NW entered bankruptcy on the same day and in effect exited as one carrier.
2. The emergence of the “New Delta”, with lower costs and the strength of fortress hubs, accelerated consolidation of carriers and airports - CVG, MEM.
3. US Airways forced UA/CO to combine by pursuing United.
4. Southwest acted as a legacy carrier and bought AirTran.
5. US Airways forced American to merge.
6. Three carriers plus Southwest now control 87% of the US domestic industry.

Consolidation in the U.S. Makes Air Service Expansion Much More Difficult



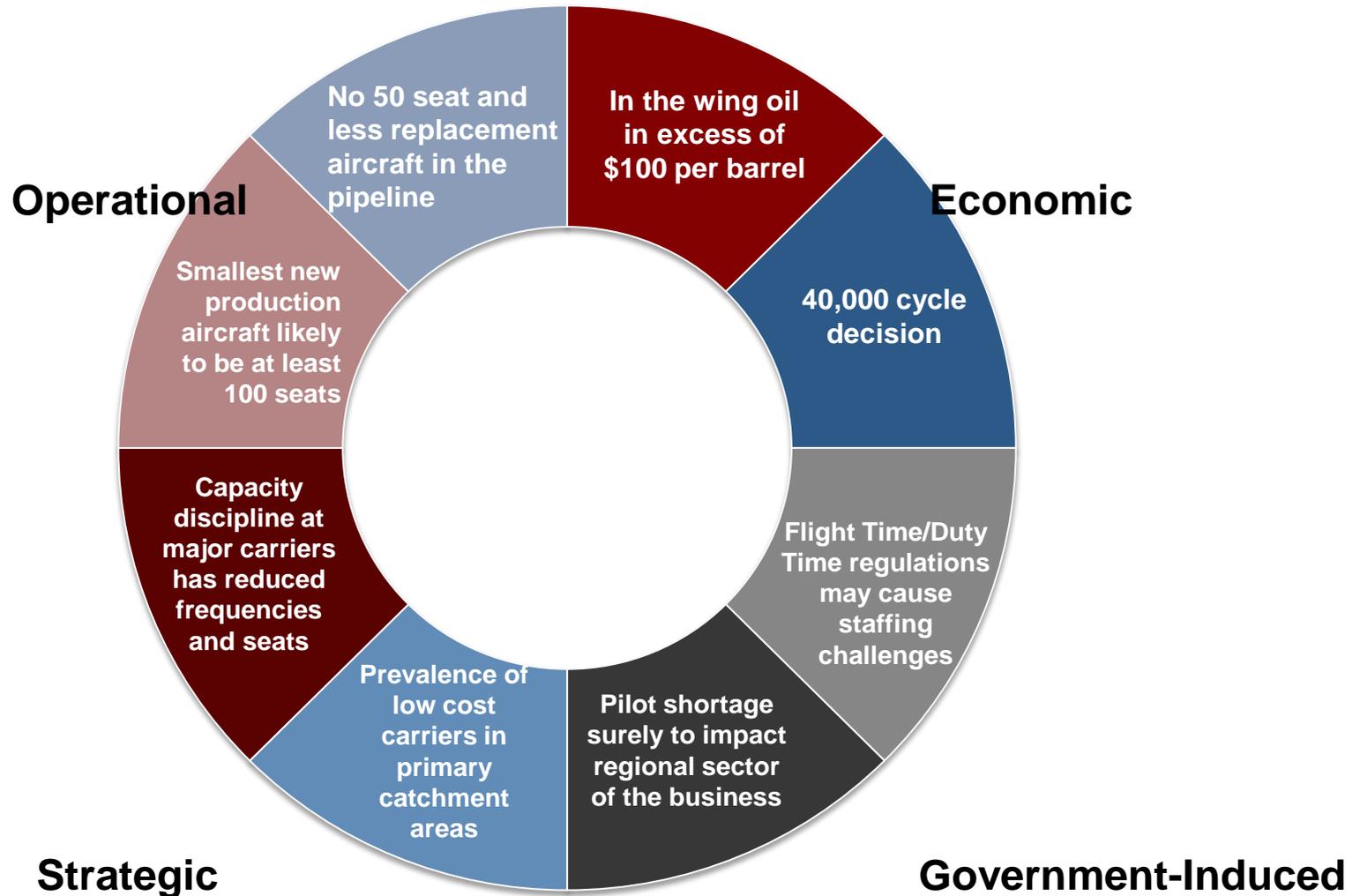
The historic relationship of airline industry growth and GDP is broken. Is the break in the pattern the future?

- What will cause the legacy carriers to grow?
- Where will that growth be?
- What is the future of LCCs? What happens as their costs increase—does WN return to growth?
- What is the future of ULCCs?
- WILL THERE BE A REGIONAL INDUSTRY?
- What does all this mean for airports? Or for passengers?

Overview: A Challenging Era for Air Service

- Airlines have restricted capacity growth over the last six years in a strategy known as “capacity discipline.”
- Medium-sized and smaller airports have felt the brunt of capacity cuts through airline consolidation and the closure of duplicate hubs.
- Like the rest of the country, Columbus has suffered some air service setbacks – but not to the extent most airports have.
- Creativity and intelligent planning will be necessary to maintain and grow air service in Columbus.

Challenges Facing Air Service in the United States





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Smisek said he expects United Continental, a merger in 2010 of United Airlines and Continental Airlines, to shrink in the U.S.

***We'll have the domestic
[operations] sized solely to
feed the international traffic***

CERA Conference, Houston, TX.
March 11, 2011

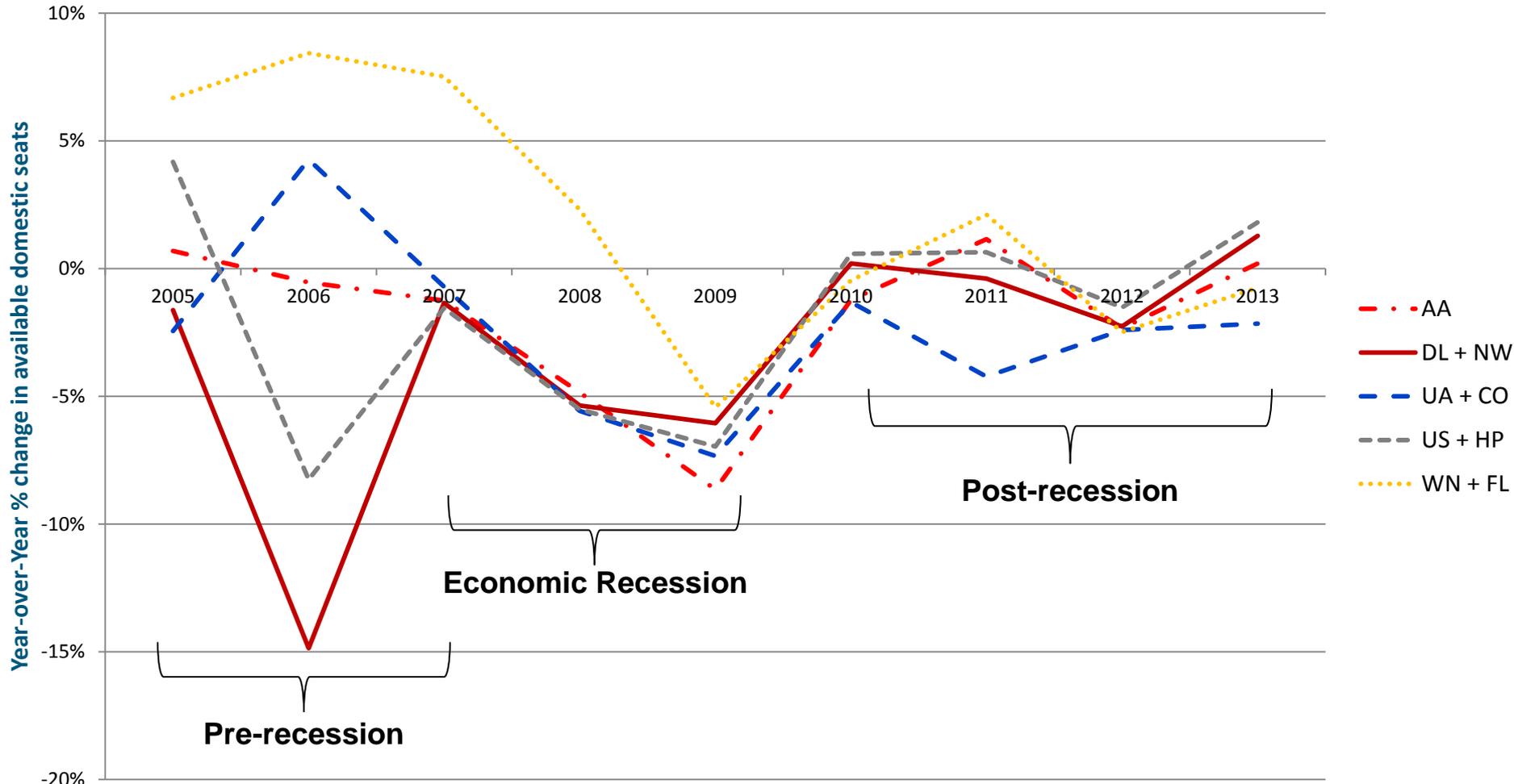


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The National Picture:

How Has Capacity Discipline Affected Air Service?

The last nine years of domestic aviation can be divided into three time periods



Source: InterVISTAS analysis of Innovata schedule data via Diio Mi

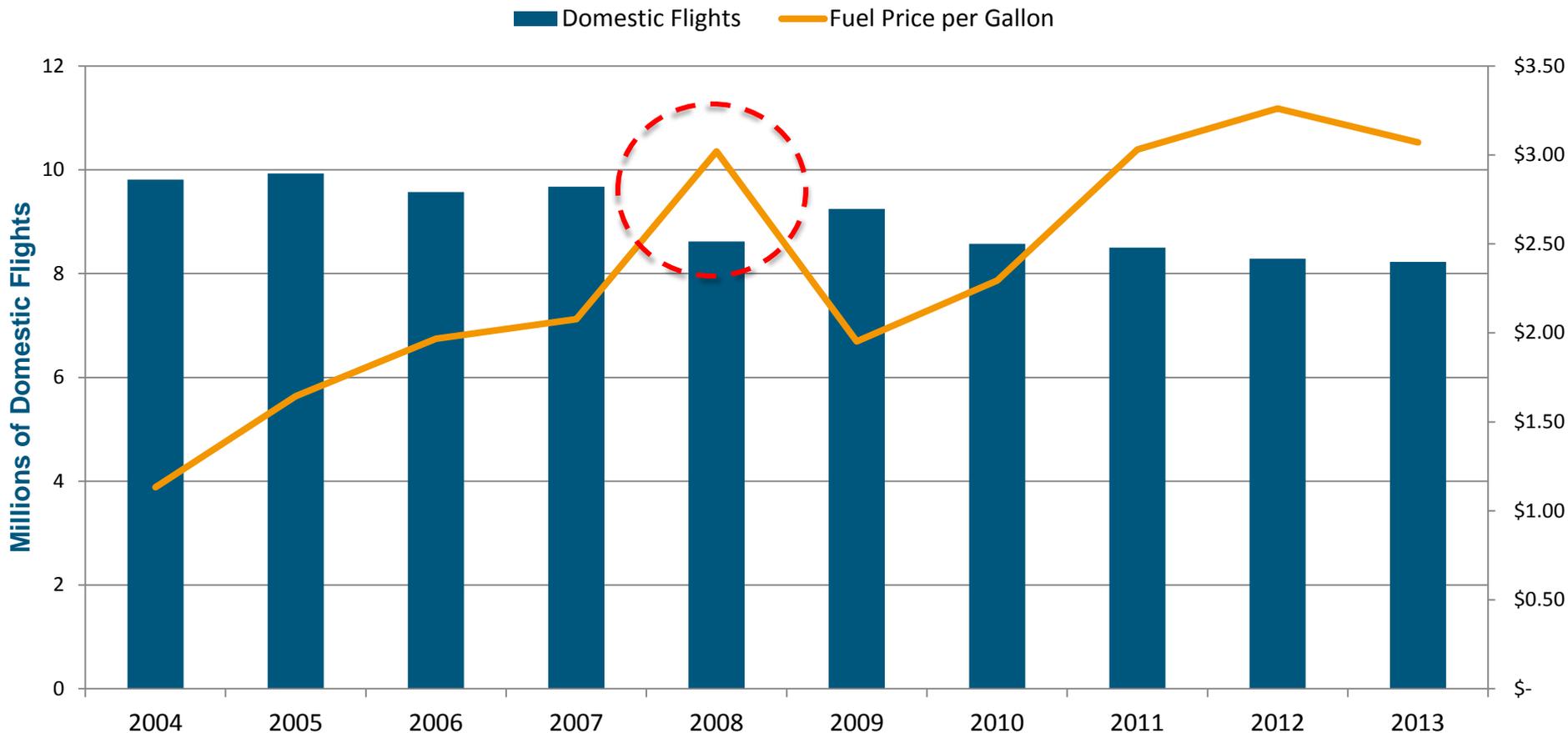
What are Schedule Rationalization and Capacity Discipline?

- **Rationalization** (2007-2009): an *active reduction of available seat capacity* as a result of macroeconomic shocks to the airline industry and a “new normal” of higher fuel prices.
- **Capacity discipline** (2010 – present): a *restriction of seat capacity growth* by network carriers (and Southwest) even as passenger enplanements have continued to increase.
- **“[Yield growth between 2007-2012] would have been impossible without capacity discipline.”**

–John Gebo, SVP Financial Planning, United Airlines, August 2013

An upward shock to the price of fuel in 2008 caused airlines to quickly pull back capacity

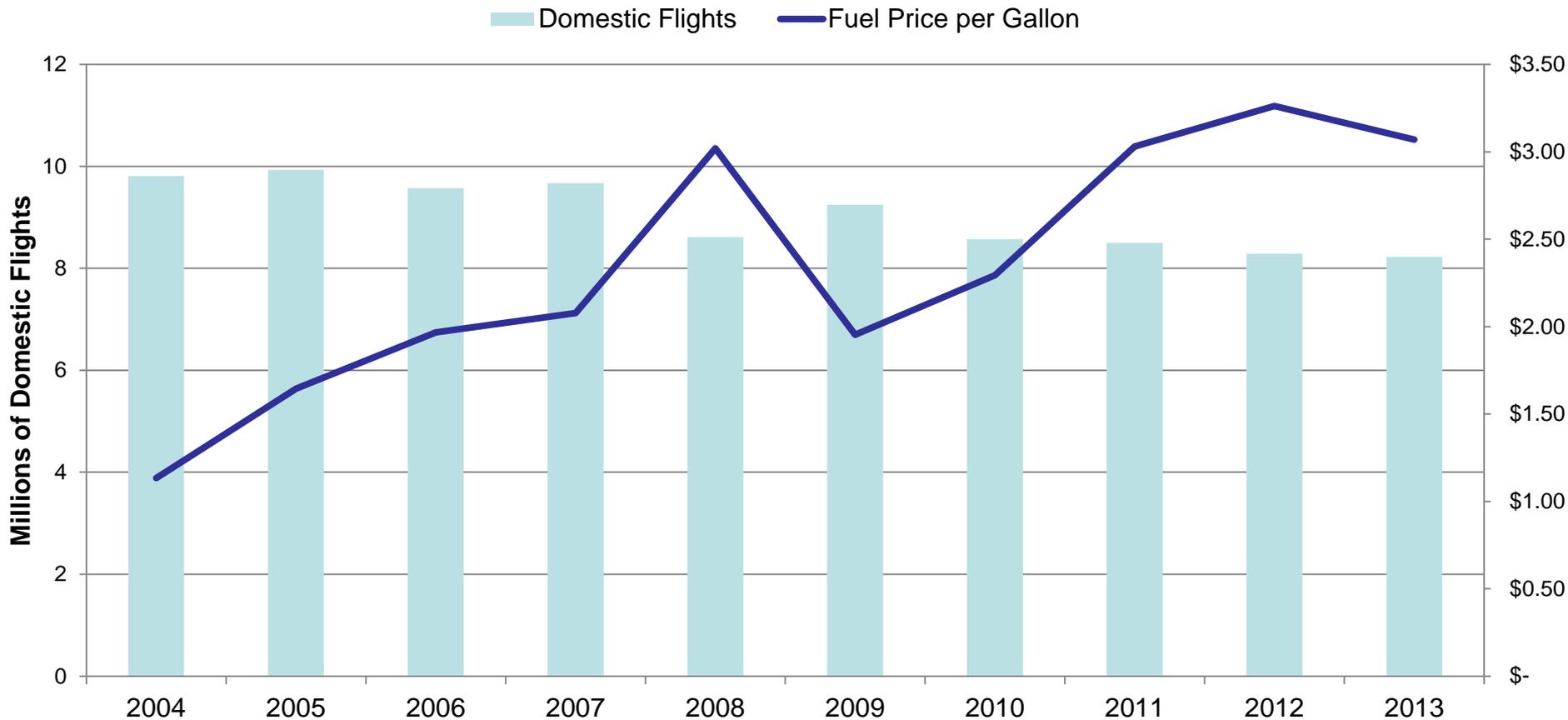
Scheduled Domestic Flights and Fuel Price per Gallon



Sources: BTS Form 41 cost data (via MIT Airline Data Project) and Diio Mi schedule data

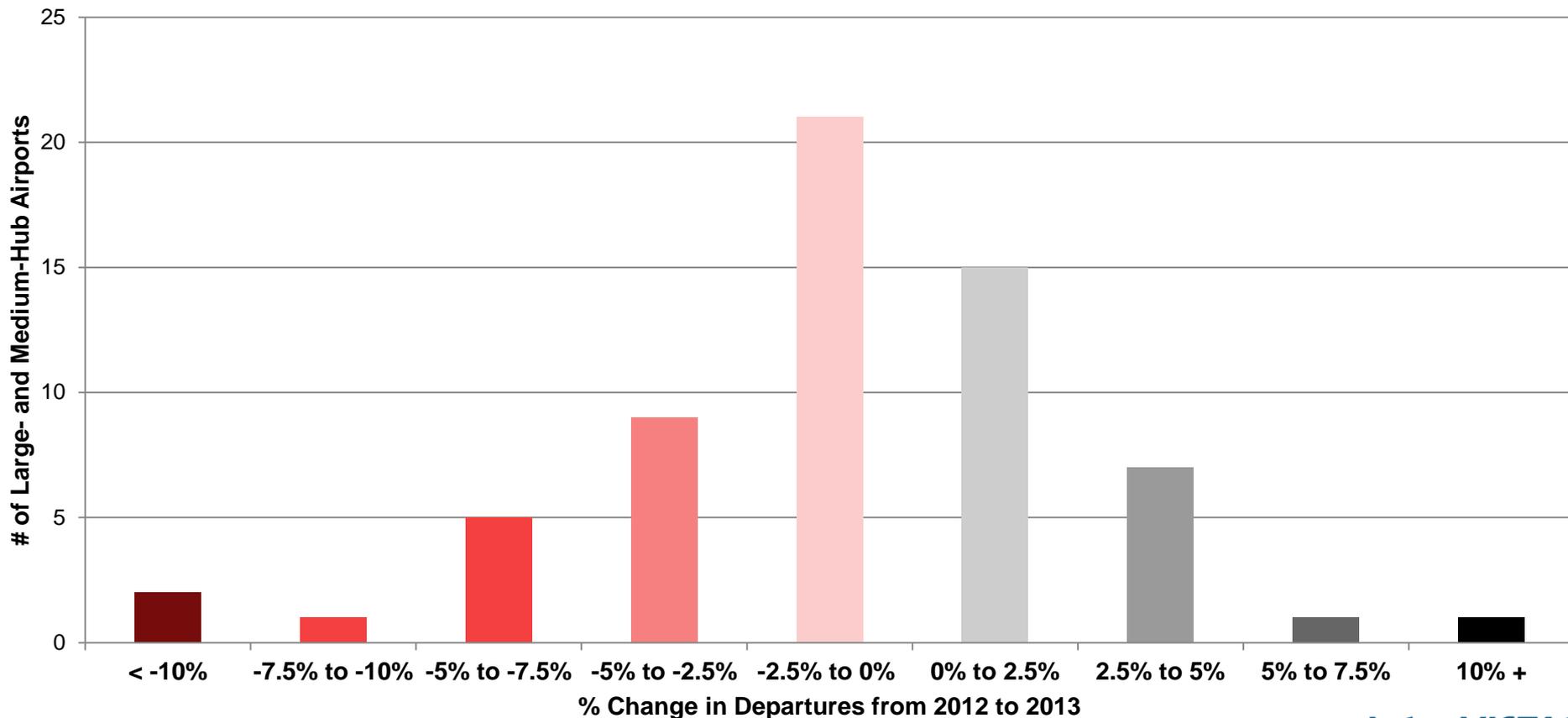
Fuel Prices and Capacity Rationalization

- According to the MIT Airline Data Project, airline fuel prices have stabilized, yet scheduled domestic flights have not rebounded.



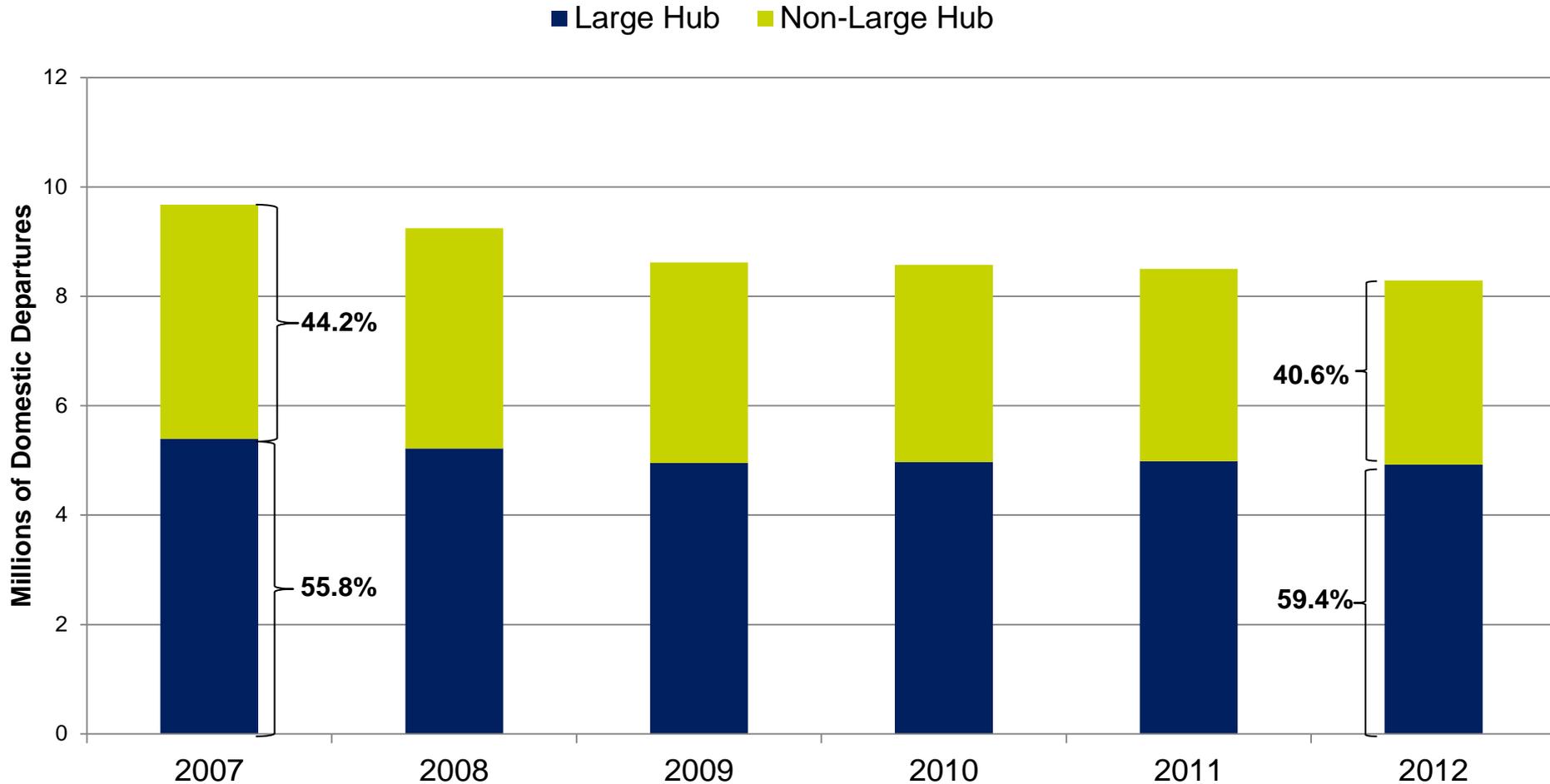
Most Medium- and Large-Hub Airports Saw Negative or Minimal Growth in Departures

- 38 large and mid-sized airports saw decreases in departures from 2012-2013, whereas 24 airports saw departure growth.



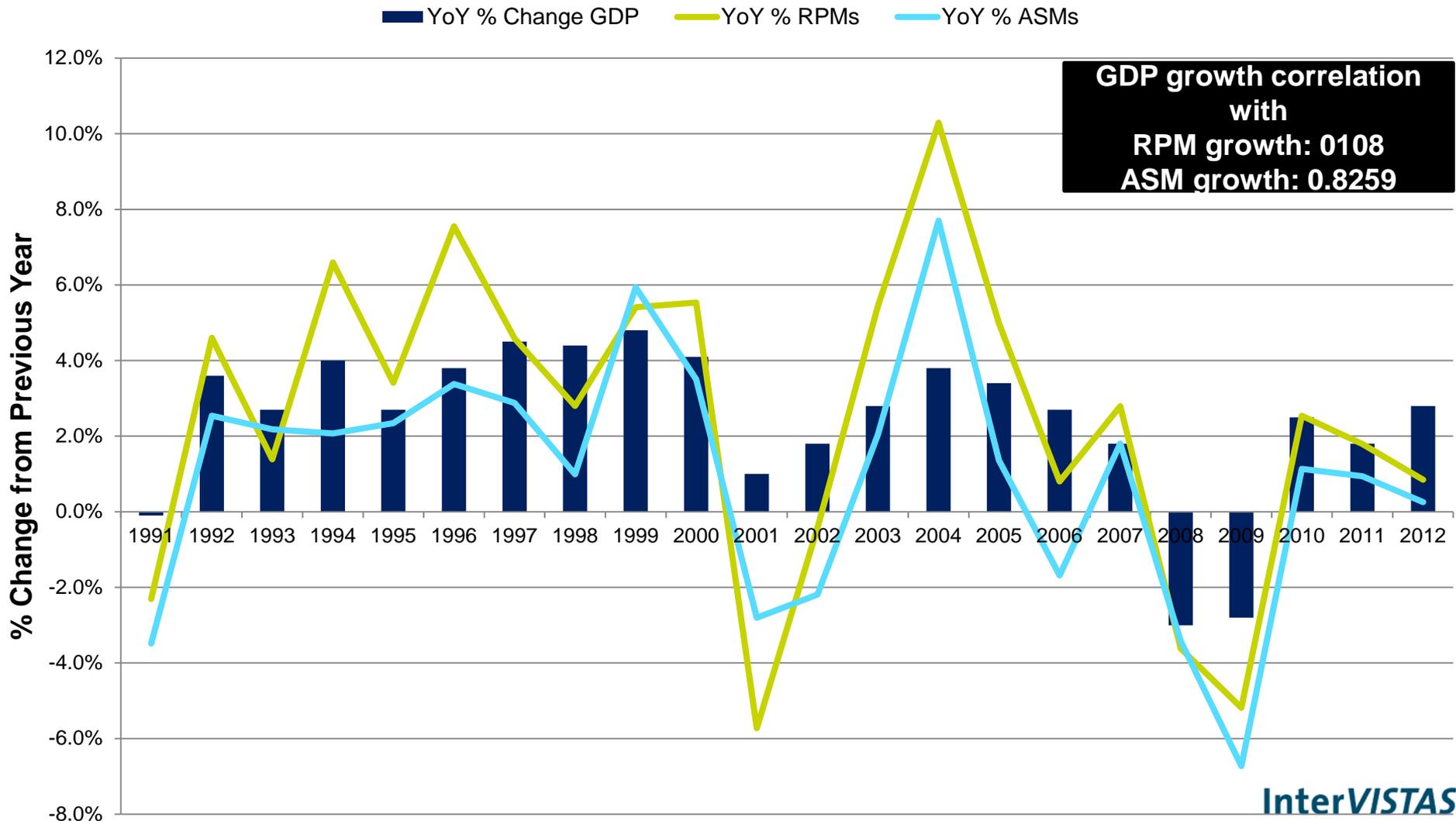
From 2007-2012, U.S. Airlines Cut 1.4 million Domestic Flights from the National Airspace System

Scheduled Domestic Departures from U.S. Airports



Source: InterVISTAS analysis of Innovata schedule data via Diio Mi

Growth in Domestic ASMs and RPMs has been Historically Tied Closely to GDP

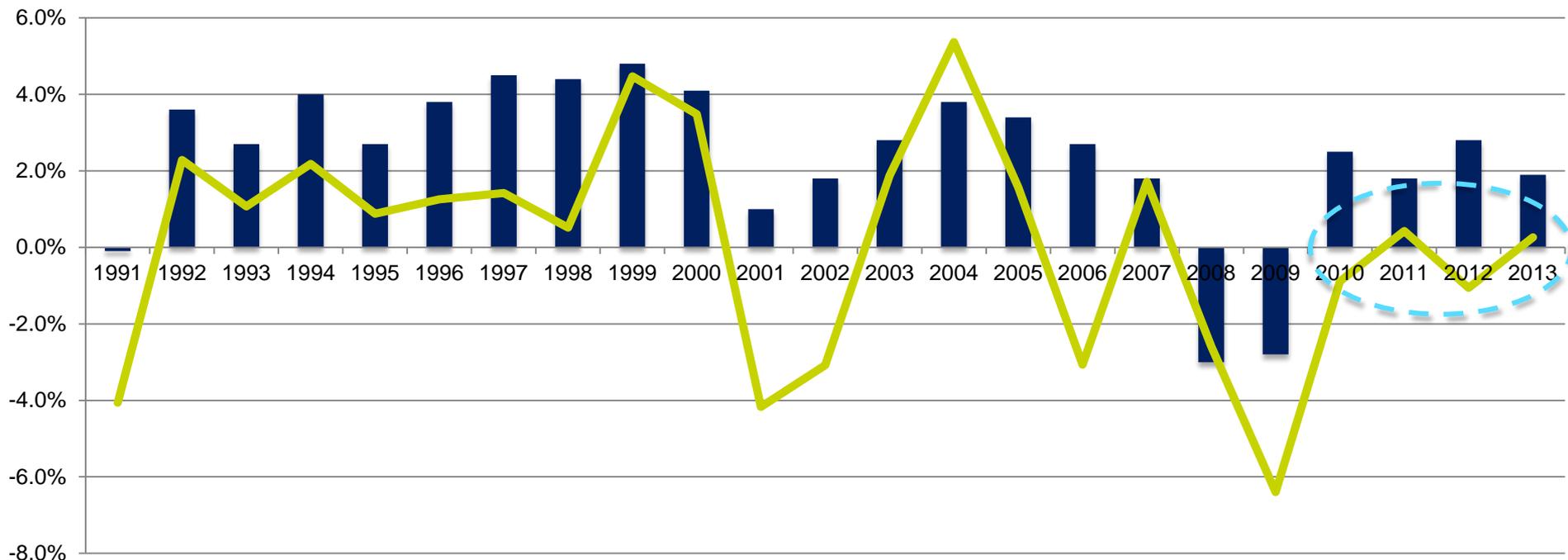


Domestic Seat Capacity has Remained Stagnant Despite Economic Growth

- Represents a recent shift in airline strategy; typically, airlines grow capacity in times of domestic economic growth.

Year-over-year % Changes in U.S. GDP and Domestic Seat Departures

■ YoY % Change GDP ▲ YoY % Change Domestic Seats

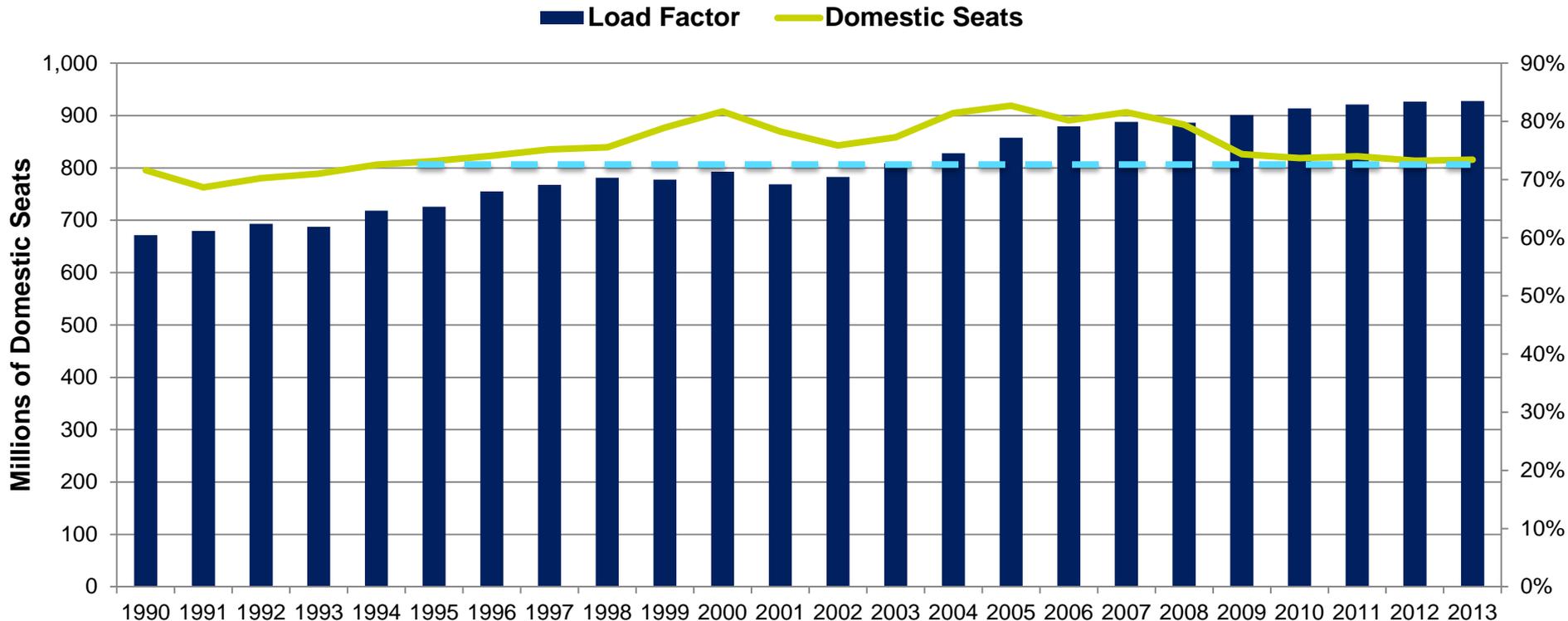


Source: BTS T-100 via Diio Mi, BEA

Capacity Discipline and Schedule Rationalization Wiped Out Nearly 100 million Domestic Seats

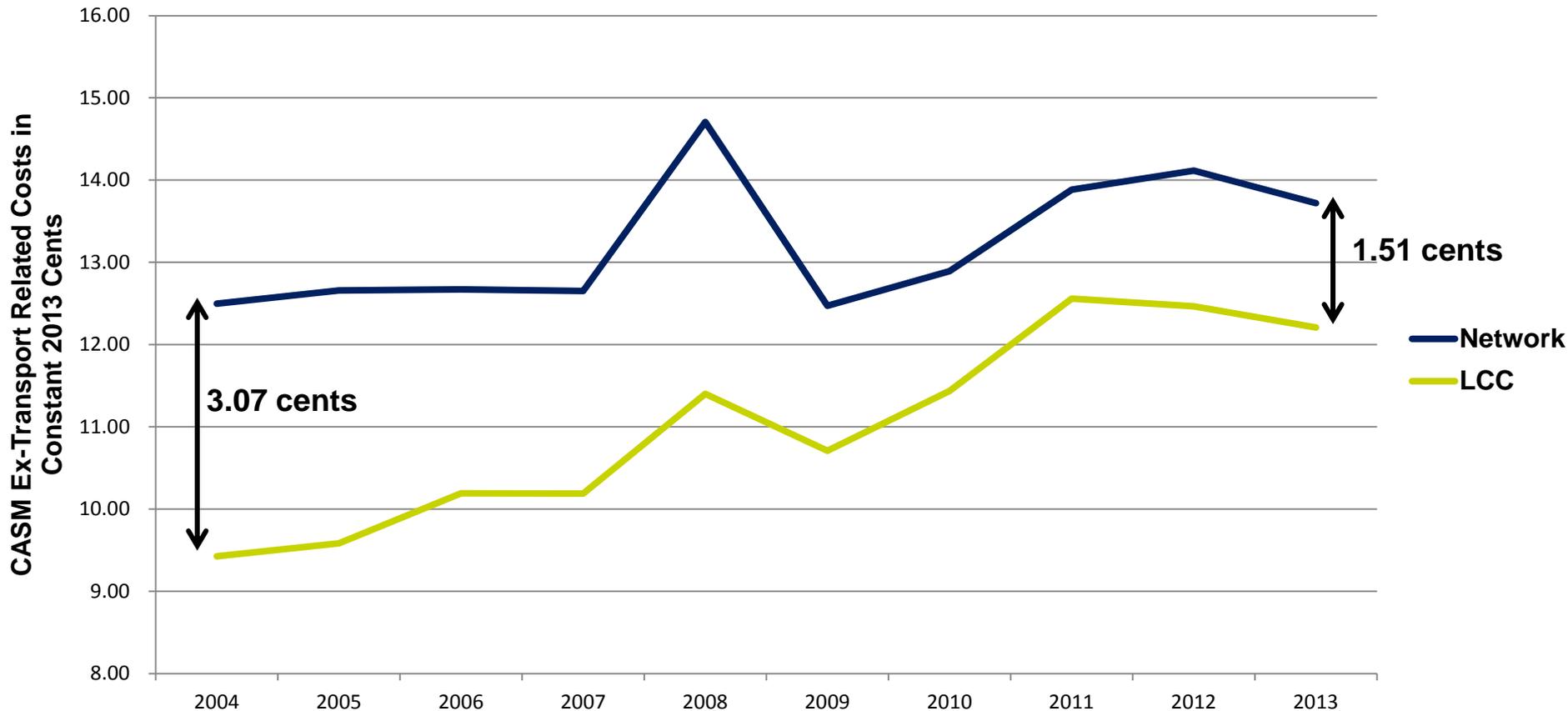
- Available domestic seats are at their lowest level since 1995

U.S. Average Load Factor and Available Domestic Seat Departures



Rising Real Unit Costs Have Made It Harder for all Carriers to Justify Uneconomic Flying

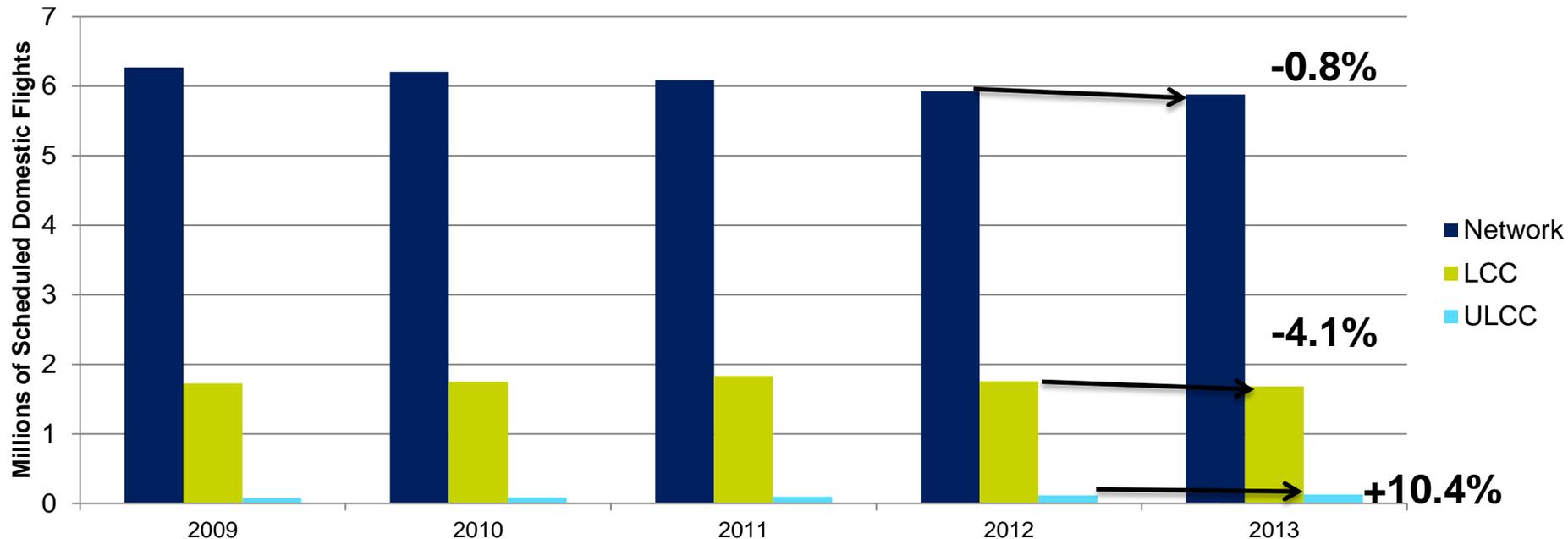
- The unit cost gap between “low-cost” carriers and network carriers has also shrunk, adjusting for inflation.



Source: MIT Airline Data Project, adjusted for inflation using BLS CPI

LCCs Now Lead Network Carriers in Cutting Capacity

- Ultra-Low Cost Carriers departures continue to grow (+10.4% from 2012-2013), but they only represent 1.4% of the total domestic capacity in the United States.
- Network carriers (-0.8%) and Low Cost Carriers (-4.1%) continued to cut scheduled flights from 2012-2013.

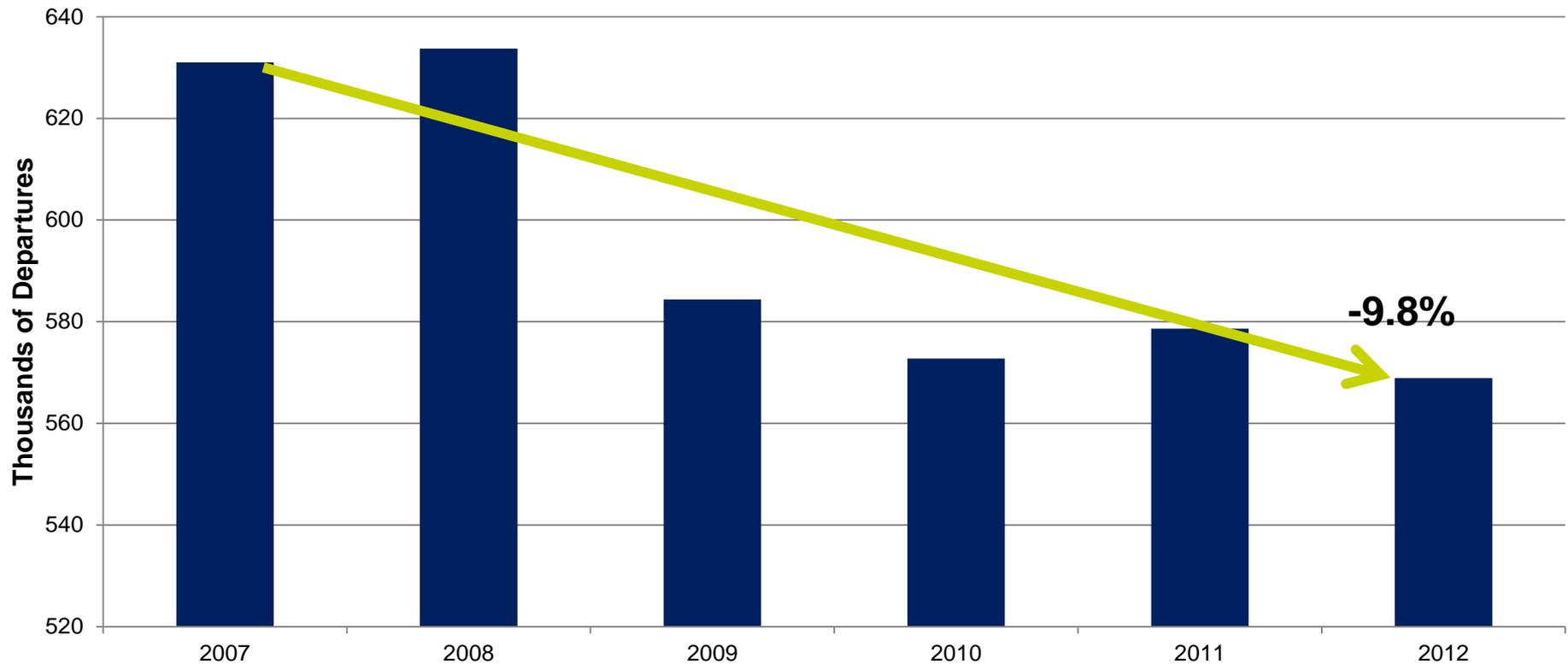


Source: InterVISTAS analysis of Innovata schedule data via Diio Mi

Is It Finally Time to Call Southwest a Legacy Carrier?

- Southwest cut flights from smaller airports by 10% since 2007 while increasing its presence at large-hub airports (6% increase in flights).

Southwest Airlines Departures from Smaller U.S. Airports



-9.8%

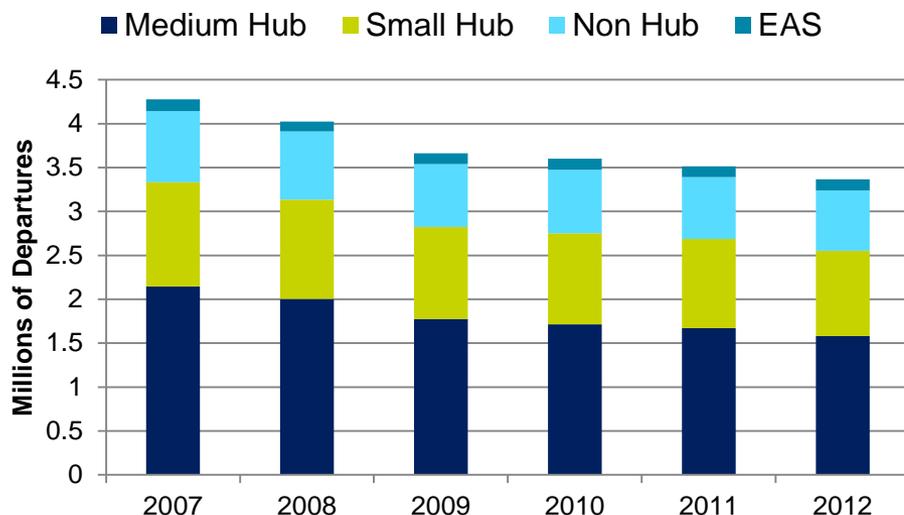
Capacity Discipline is the “New Normal” for Airports of All Sizes

- **Rationalization (2007-2009):** an *active reduction of available seat capacity* as a result of macroeconomic shocks to the airline industry and a “new normal” of higher fuel prices.
- **Capacity Discipline (2010 – present):** a *restriction of seat capacity growth* by network carriers (and Southwest) even as passenger enplanements have continued to increase.
- Capacity discipline started as early as 2010 as carriers held seat capacity at lower, “rationalized” levels despite an economic recovery.
- Capacity discipline has “locked-in” lower levels of available seats and departures at smaller airports.

Capacity Discipline Has Not Been Applied Evenly

- Smaller airports saw a disproportionate share of the cuts in flights and available seats as a result of capacity discipline.

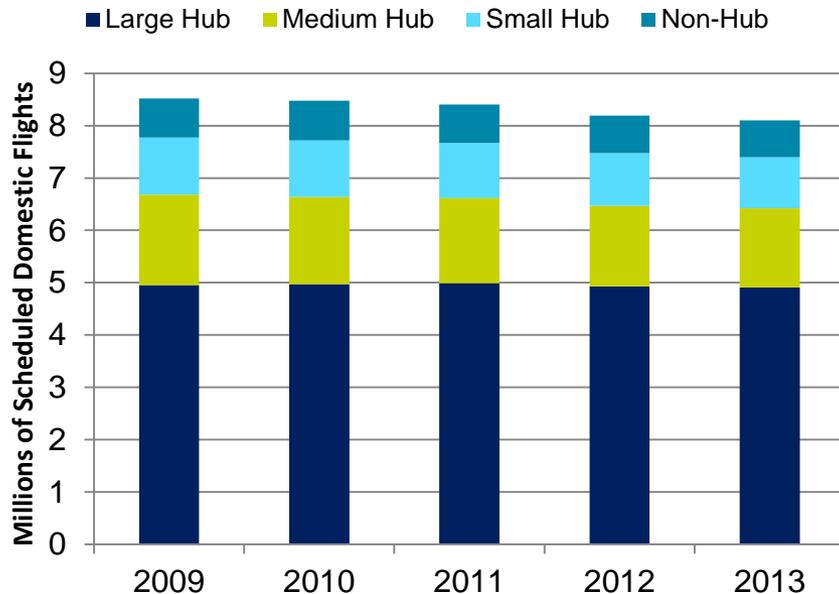
Scheduled Domestic Departures at Smaller U.S. Airports



Airport Type	% change in domestic flights (07- 12)
Large Hub	-8.8%
Medium Hub	-26.2%
Small Hub	-18.2%
Non-Hub	-15.4%
EAS	-5.0%
All Smaller Airports	-21.3%
All Airports	-14.3%

Smaller Airports Are Still Seeing the Largest Cuts In Service

- Although all airport types saw net decreases in domestic flights from 2012-2013, once again, smaller airports saw larger decreases in flights than large-hub airports.
 - Large-hub and medium-hubs saw seat growth of 1.0% and 0.3%, respectively.



Airport Type	% change in domestic flights ('12-'13)	% change in domestic seats ('12-'13)
Large Hub	-0.2%	1.0%
Medium Hub	-2.2%	0.3%
Small Hub	-3.0%	-1.4%
Non-Hub and EAS	-4.2%	-2.5%
All Smaller Airports	-2.9%	0.6%
All Airports	-1.1%	0.4%

For How Long Will Capacity Discipline Remain the Status Quo?

- The short-term future will depend on how long airlines continue to practice capacity discipline.
- Is capacity discipline a stable equilibrium?
- **Prisoner's dilemma:** there appears to be an incentive for airlines to break with capacity discipline and gain more market share, but if all airlines do so, there will be too much capacity in the market.
- Which airline will be the first to break with capacity discipline, and when will that break occur?
- Expansion opportunities are limited so long as capacity discipline is in effect.

3 Guiding Principles in the “New Normal” of Air Service Development

- **Retain It:**

- Airline mergers and capacity discipline have been relatively kind to CMH
- CMH service has been stable since 2009, not true of all airports

- **Expand It:**

- Capacity Discipline continues
 - It's a Zero Sum Game
- Consolidations and growth of airline hubs serving CMH increases connectivity to the world

- **Enhance It:**

- Upgrading of aircraft brings better passenger comfort

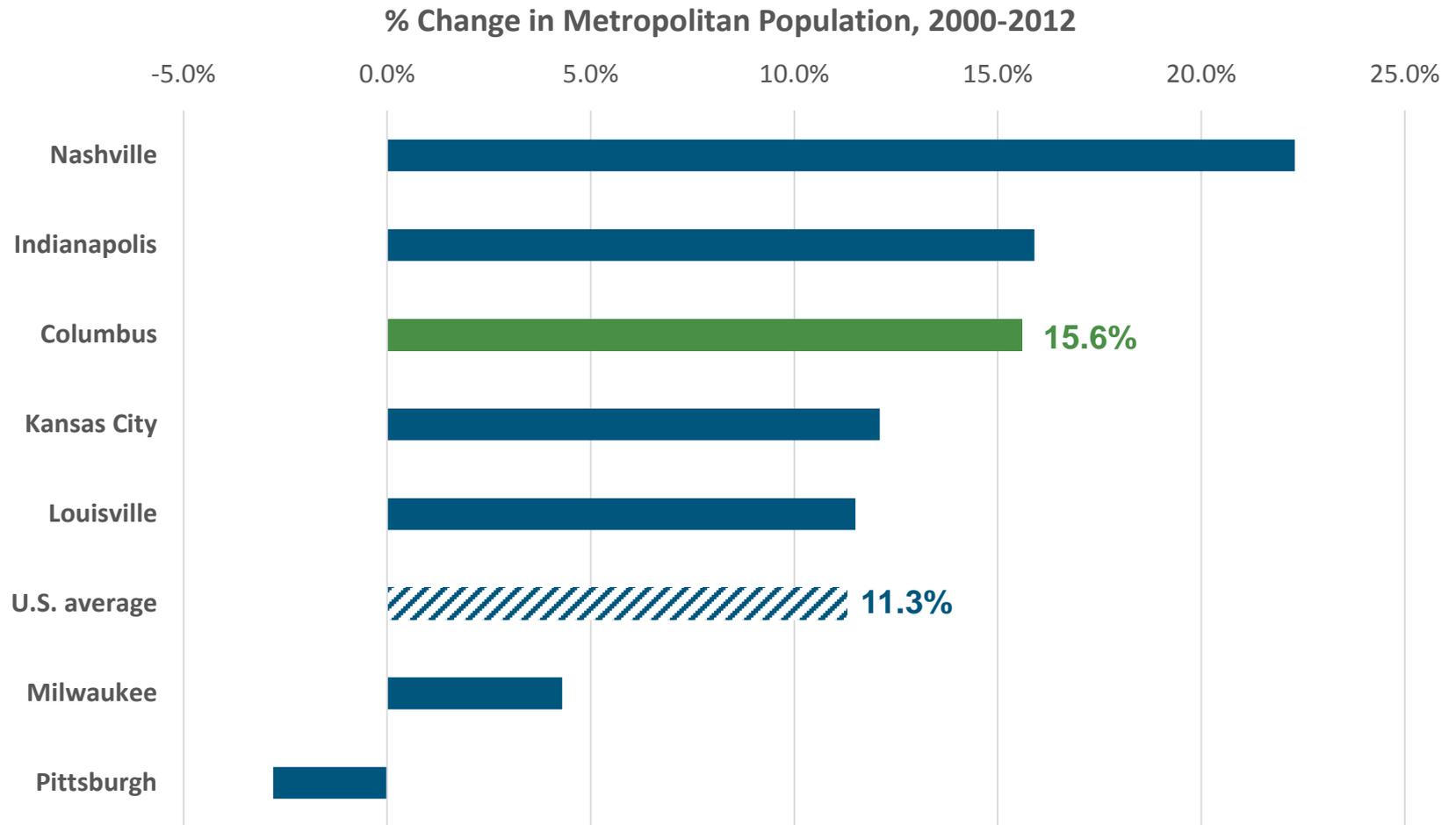


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The Columbus Market:

Better connected than most

Columbus' Population Has Grown Faster than the U.S. Average over the Last 12 Years

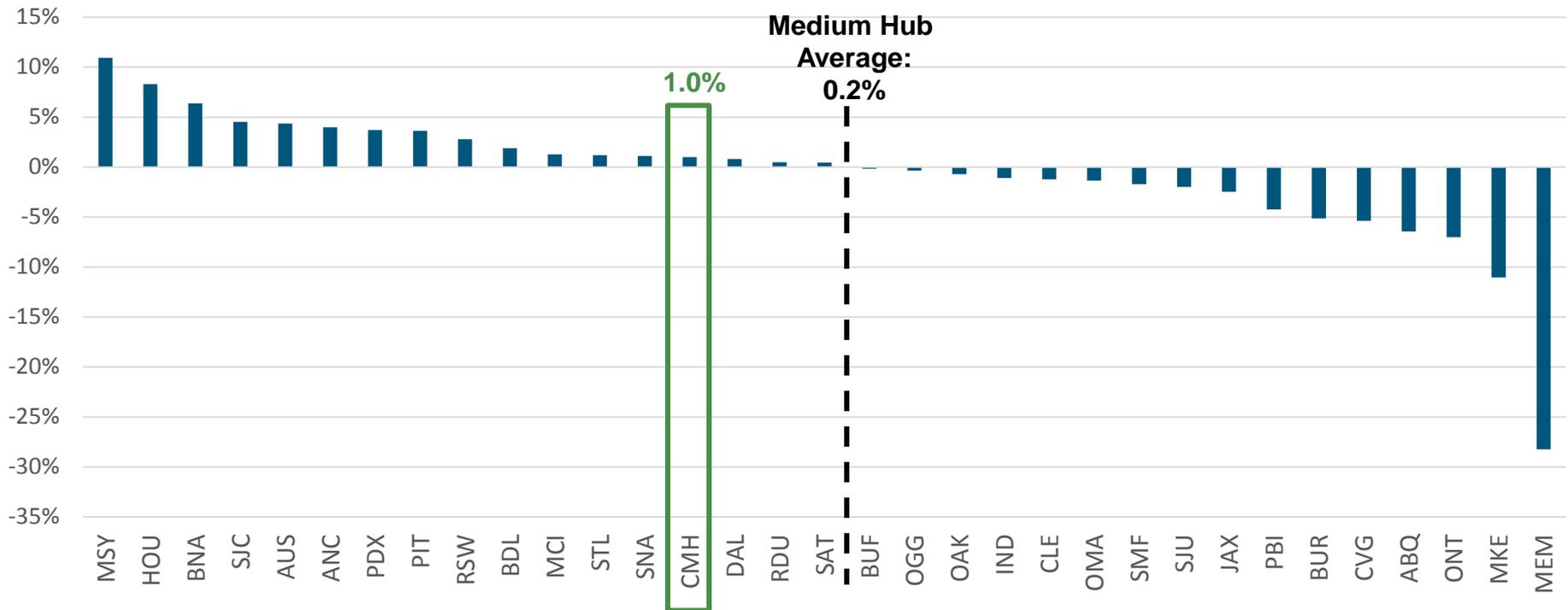


Source: Columbus 2020

The Recovery from Capacity Discipline Has Begun at CMH

- CMH's growth in available domestic seats from 2012-2013 ranked above 19 other Medium Hub airports and the Medium Hub average.

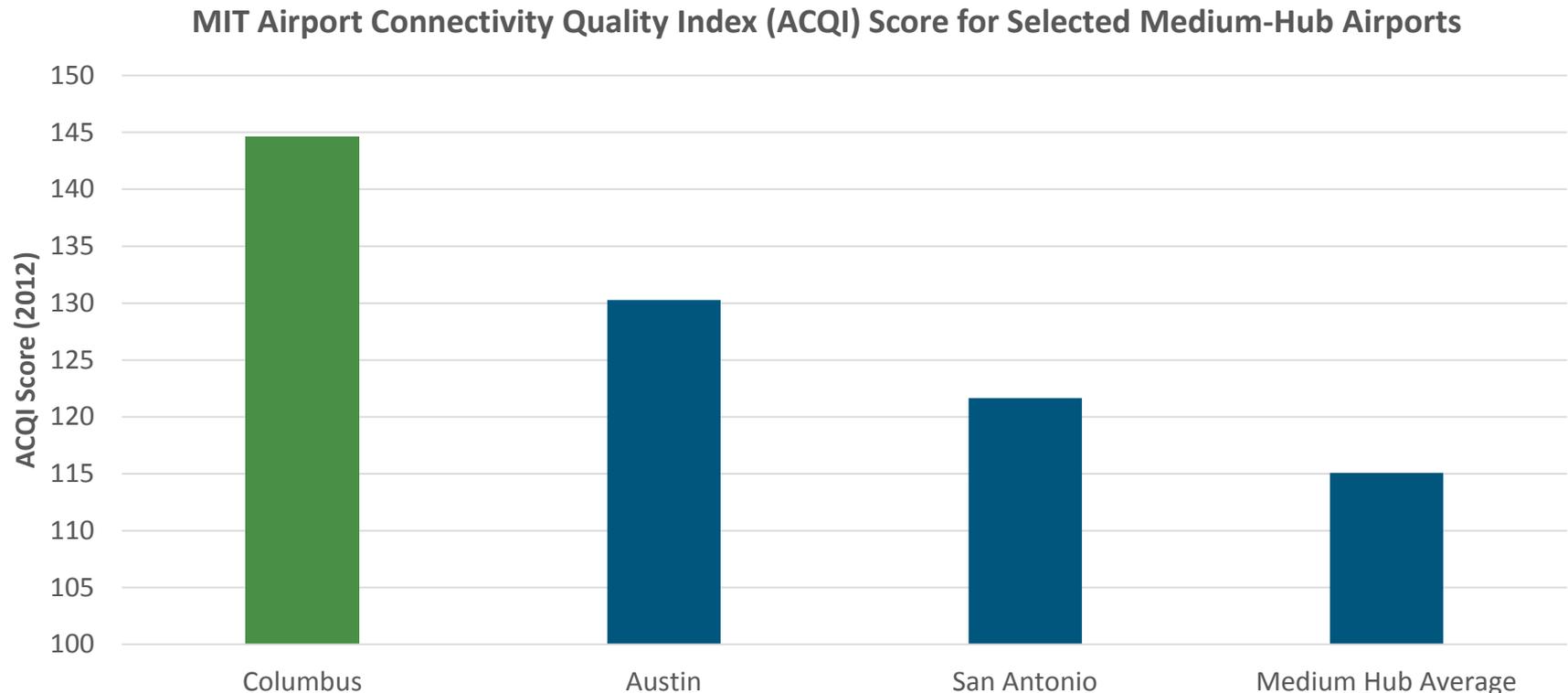
% Change in Available Domestic Seats at Medium Hub Airports, 2012 - 2013



Source: Innovata SRS via Diio Mi

CMH is Very Well Connected for its Size

- CMH was ranked 10th out of 33 Medium Hub airports by an MIT study for the quality of its connections to the global air transportation network.

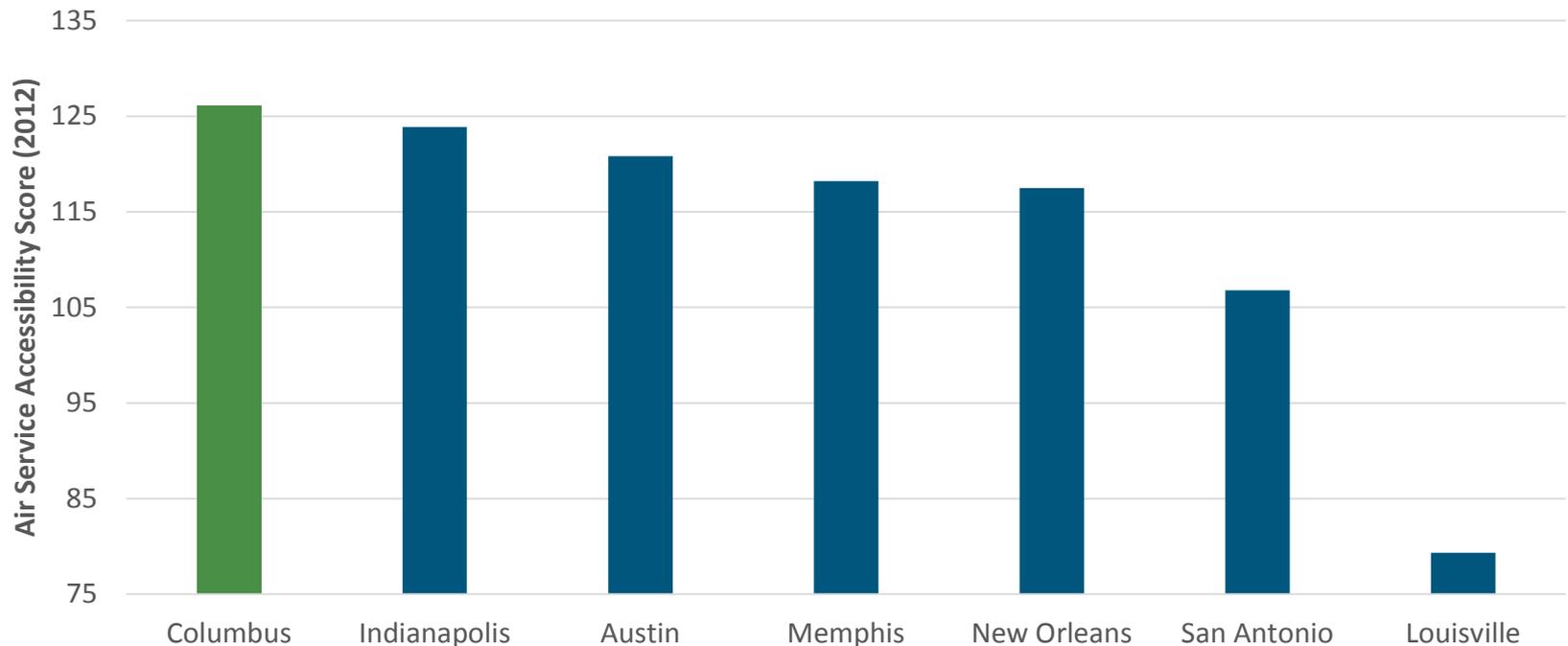


Source: Wittman, M. and Swelbar, W. Measuring Connectivity at US Airports. MIT Int'l Center for Air Transportation Report No. ICAT-2013-05.

Air Service Accessibility in Columbus Is Among the Best in the Country

- In a recent MIT study, the Columbus region ranked 31st among all U.S. metro areas for access to well-connected air service—above Indianapolis, Austin, Memphis, New Orleans, and San Antonio.

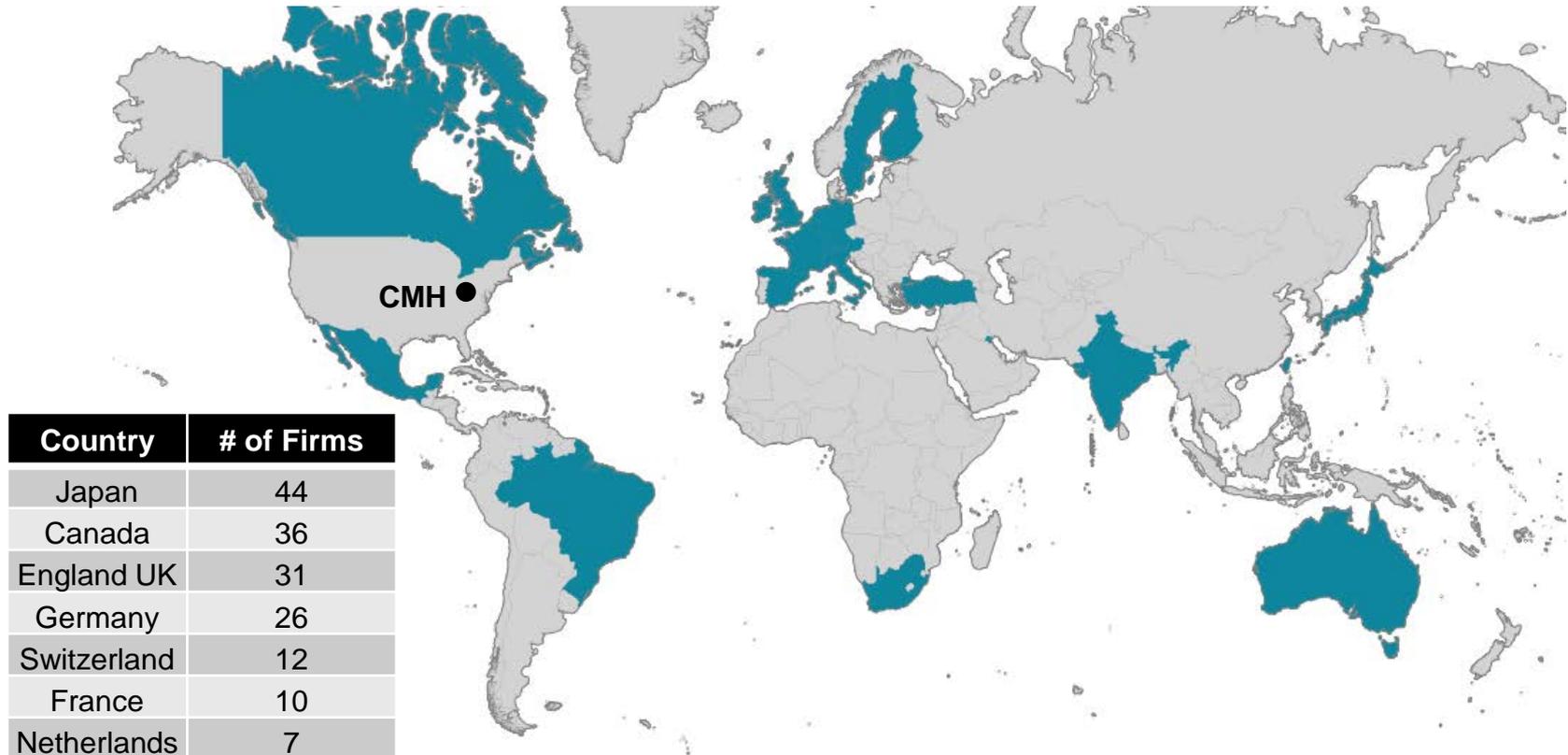
Air Service Accessibility Score for Selected Medium-Sized U.S. Regions



Source: Wittman, M. Air Service Accessibility in U.S. Metropolitan Regions. MIT Int'l Center for Air Transportation Report No. ICAT-2014-02.

Foreign Firms in 27 Countries Have Operations within 50 Miles of Columbus

Locations of Foreign Firms with Operations in the Columbus Area





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The Incentive Conundrum

To Play or Not to Play?

The Incentive Conundrum

- Columbus embarks on a strategic approach to air service development
 - “Carpet Bombing” is not the way to target markets
 - CMH is not desperate and desperate markets carpet bomb
 - Consider incentives only on markets being realistically evaluated
- The strategic approach employed has prioritized domestic and international markets
 - But CMH is not the only community targeting these markets
- Incentives can differentiate CMH from other competitors in this “zero sum game” air service environment
- Just like it is 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”
 - Any investment should incrementally improve CMH’s place on the air service grid

QUESTIONS AND DISCUSSION

***William “Bill” Swelbar
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InterVISTAS Consulting LLC***

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Columbus-Franklin County
Finance Authority



Financing the Future of Business in Central Ohio

Jobs, Economy & Transportation Taskforce for Port Columbus

Economic Development Committee Update

Columbus-Franklin County Finance Authority





Columbus-Franklin County
Finance Authority



Financing the Future of Business in Central Ohio

GOAL

Leverage and partner with community stakeholders to grow the economic wealth of our region by creating joint economic development strategies to coordinate future land use planning, infrastructure investment, service delivery, development incentives and marketing efforts for the entire area around Port Columbus.





Columbus-Franklin County
Finance Authority

Financing the Future of Business in Central Ohio

Economic Development Committee Members

- ***Jean Carter Ryan, Finance Authority***
- ***Michael Johnson, East Columbus Civic***
- ***Michael Dalby, Columbus Chamber***
- ***Mark Barbash, Finance Fund***
- ***Drew Vennemeyer, Quandel***
- ***Bob White, Daimler***
- ***Irene Alvarez, Columbus 2020***
- ***Elaine Roberts, CRAA***
- ***Steve Campbell, Columbus***
- ***Jonathan Pittman, Columbus***
- ***Mark Lundine, Columbus***
- ***Anthony Jones, Gahanna***
- ***Zach Woodruff, Whitehall***
- ***Tory Richardson, CRAA***
- ***Alex Beres, Franklin County***
- ***Randy Bowman, Columbus***





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**“There are no shortcuts to
any place worth going.”
-Beverly Sills**





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Financing the Future of Business in Central Ohio

- **Strategy to Develop Recommendations**
 - **Review 2008 Report**
 - **Gather Information**





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Financing the Future of Business in Central Ohio

**“What I am looking for is a blessing
that is not in disguise.”**

- Kitty O’Neil Collins





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Financing the Future of Business in Central Ohio

□ 2008 Recommendations

- Establish business sector priorities for recruitment
- Joint business retention and expansion
- Protect/Invest in economic (land) and infrastructure assets
- Support airport operations through compatible development





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Financing the Future of Business in Central Ohio

□ 2008 Recommendations

- Joint marketing
- Establish higher development standards and environmental enhancements
- Improve connectivity with larger region





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Financing the Future of Business in Central Ohio

□ Information Gathered

- **Business Input – NetJets, Daimler, Fortner**
- **Data on business type/sector in Port Columbus foot print**
- **Data on business needing to be proximate to airport**
- **Columbus Region Defense effort**





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Financing the Future of Business in Central Ohio

□ Information Gathered (Cont.)

- **Available sites**
- **Infrastructure needs & plans**
- **Rail line information**
- **Incentives available**
- **CRAA airport functions & relationships**





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□ Issues Facing Study Area

- Land and site availability
- Look and feel of area
- Infrastructure needs
- BRAC
- Coordination of limited governmental resources





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Financing the Future of Business in Central Ohio

□ Potential Recommendations Topics

- Joint marketing of sites and area
- Targeted marketing for growth sectors
- Transit/transportation
- Code enforcement
- Infrastructure improvements
- Aviation industry – related thoughts





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Financing the Future of Business in Central Ohio

**“Stopping on 3rd base adds no more
to the score than striking out.”**

- E. Joseph Cossman



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