



To: RANDY HALL, MAYOR, CITY OF KETCHUM
To: WAYNE WILLICH, MAYOR, CITY OF SUN VALLEY
From: Mark Heusinkveld, Rex Edwards
Cc: Cayla Morgan, Mark Perryman, Sarah Potter
Date: March 26, 2009
Re: Stakeholder Request for Clarification on Aviation Activity Forecast / Economic Analysis for Friedman Memorial Airport

This memorandum is in response to the questions received from the Cities of Ketchum and Sun Valley. This response is being provided to honor the FAA commitment made at the public presentation in October, 2008. All subsequent comments received will be considered in the development of the Draft EIS document.

Aviation Activity Forecast

Constrained Forecast Capture

Q1. How much further south are the sites being studied and how much further drive time would it be, taking into account normal traffic levels, typical weather and additional stop lights to be installed?

The additional driving distance follows for each of the proposed sites: Site 4, 16.6 miles; Site 10A, 22.6 miles; Site 12, 24.7 miles. The additional drive times are estimated to be 20 minutes for Site 4, 27 minutes for Site 10A, and 30 minutes for Site 12.

Q2. What would be the drive time from the stop light at Main Street and Sun Valley Road in Ketchum?

The estimated additional drive times given in response to Q1 can be added to the drive to the existing airport.

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Q3. How would the additional drive time impact the Constrained Forecast Enplanements?
The constrained forecast represents the level of activity that can be expected at the existing airport site, and therefore not impacted by the additional drive time.

BOI Recapture

Q1. How was the current leakage calculated?

The 2003 Idaho Air Passenger Demand Study was used to estimate current leakage. The Study was part of an economic analysis by the Idaho Transportation Department, funded in part by the FAA.

Q2. Have the consultants analyzed the 2003 Idaho Air Passenger Demand Study Gravity Model assumptions and the "special estimation procedures" that were used to estimate Blaine County leakage to BOI, and what is the consultant's confidence level with the results of the 2003 Idaho Air Passenger Demand Study?

The 2003 Idaho Air Passenger Demand Study was reviewed in detail and is believed to be a reasonable estimate of the leakage that existed when the study was developed.

Q3. If the improvement in annual reliability is from 93% to 97-98% coupled with an increased drive time to a relocated airport closer to BOI, how do the consultants justify assuming a 50% recapture, particularly since BOI will still offer significantly cheaper fares, non-stop direct service to probably 20+ major destination and much greater frequency?

As stated in the report, it is assumed that half of the Blaine and Gooding County passengers that used BOI in the past would use a relocated SUN in the future due to the new, better, and more reliable service. Passengers prefer to use the closest airport, all else being equal. In addition, smaller airports typically offer more convenience with ease of parking, ability to be dropped off, and shorter security lines.

In simple terms, the average "cost" of Blaine County passengers using SUN is about equal to that of using BOI and higher for other counties in the service area.

The "cost" factors as we measured them are:

- Restriction to propeller aircraft limits demand as some passengers will not fly props, resulting in a lower average load factor. In cost terms, an airline would have to offer a lower fare with a prop in order to attract the same level of traffic as a jet.
- Smaller aircraft have higher per seat unit costs with the "per passenger" unit cost made even higher due to the low load factors that are achieved. This differential keeps SUN fares higher than if jets were allowed (and cuts into the marginal comparison between the BOI drive + lower fare vs. the SUN fare). A key assumption of the new airport is that airlines would change

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aircraft types, resulting in lower operating costs and fares, thereby stimulating traffic and decreasing leakage. This was supported by interviews with SkyWest.

The cost to passengers of booking travel to the existing SUN airport include:

- Relatively low reliability due to approach procedure minimums
- Low reliability in the winter is an additional cost to passengers booking travel using SUN which can be measured both as an expected value of the cost from a diversion plus the cost for reliability. For the discretionary leisure traveler, the chance of a lost day of vacation would seem high. Just eliminating this factor would lower the “real” fares at SUN and stimulate traffic.
- Aircraft size is limited due to available runway length

Eliminating these factors would lower the “real” fares at SUN and stimulate new traffic demand.

Q4. Why would growth in enplanements at BOI result in a larger demand from Blaine County without a commensurate increase in Blaine County population, guest beds and second homes?

The population of Blaine County is projected to increase at an average annual rate of 3.9 percent between 2007 and 2015, and a rate of 2.7 percent per year between 2015 and 2030. If the replacement airport is not constructed, Boise would capture a portion of the travel by the increased populous.

Q5. How reasonable is it to assume that Gooding passengers would switch from BOI, to a relocated airport with higher fares, little or no non-stop service and limited frequency?

A passenger’s first choice is always to fly from the closest airport to their originating point, assuming all other factors are reasonably equal. The limited airline and destination choices, coupled with the weather diversions, cause certain passengers to choose to drive to BOI to begin their air trip. The relocated SUN airport will eliminate the diversion issue and will likely offer a greater selection of airlines and non-stop destinations at lower fares than the existing facility. For these reasons, half of the Gooding passengers and other travelers in the region that currently drive to BOI will choose to use the closer Blaine County airport. Leakage recapture is discussed in section 1.5.2.2 of the report. The FAA found this to be a reasonable assumption for forecasting purposes.

TWF Recapture

Q1. Same as 5 above for Lincoln and Jerome Counties.?

The only reason for Blaine County travelers to use TWF today is the reduced reliability due to adverse weather. Travelers from Lincoln and Jerome Counties will increasingly use the replacement SUN airport due to lower fares, greater airline and

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destination choice, and reliability on par with TWF during the winter months. This was validated in the passenger surveys which is discussed in section 1.3 of the report.

Q2. How much of the Blaine County use of TWF is based on shopping needs, medical appointments, etc.?

None of the TWF passengers interviewed cited shopping, medical, or similar reasons for flying out of Twin Falls. For most, TWF was the closest (most convenient) airport.

TWF Bused Recapture

Q1. What about the 2-3% of the annual flights that will continue to be diverted?

Diversions due to weather at the replacement airport will likely be less than one percent of annual operations. The completion rate at the existing airport exceeds the 98 percent level during the late spring to early fall period when adverse weather is minimized. The improved conditions at the replacement airport will allow the airlines to complete virtually all of their scheduled flights.

Q2. What is the reliability, seasonally and annually, at benchmark competing resorts like Vail, Steamboat, Crested Butte, Aspen and Telluride?

The annual reliability factors for competing airports such as Jackson Hole, Vail, Gunnison, Montrose, and Steamboat Springs ranged from 96% to 99%. Telluride and Aspen had lower reliability rates between 90% and 93% in 2006-2008.

Q3. Are existing passengers departing SUN that check-in at SUN and are then bused to TWF, already included in existing enplanements that is the basis for the constrained forecast?

Passengers are counted at the airport from which they actually departed or at which they actually arrived. Passengers diverted from SUN to TWF are counted at TWF. Thus, the historical passenger counts at SUN include only those passengers that actually used the SUN airport. The constrained forecast does not include diverted passenger demand as future passengers will continue to be diverted during adverse weather at the existing airport.

SLC Recapture

Q1. Similar question to BOI leakage assuming the reason for leakage to SLC is similar to BOI, but more so in terms of lower fares, non-stop service throughout the country plus international service and much higher frequency than BOI.?

Passengers that drive to SLC instead of flying out of SUN or TWF do so to avoid flying on prop aircraft, to avoid connecting, to avoid being diverted due to weather, to utilize a different favorite airline, or to obtain a lower fare. While the

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replacement airport will likely offer additional airline and destination choices, jet aircraft, and lower fares, some passengers will continue to drive to SLC. The forecast assumes, over time, that about half of the passengers that currently drive from the Wood River Region to SLC will use the replacement airport.

Total

Q1. Given the subjective nature of the various assumptions that underline what seems to be a best case scenario, and the possibilities that distance to a relocated airport could adversely affect existing SUN service, what would the consultants forecast as a probable worst case scenario?

The characterization of the unconstrained forecast as a best case scenario is inaccurate. The forecast was developed based on existing demand served at SUN and the other regional airports, and interviews with the various stakeholders. By their nature assumptions are always somewhat subjective, and the forecast does not provide a guarantee of future activity levels, however the unconstrained forecast represents what we believe to be a very reasonable and likely estimate for the expected activity levels at the replacement airport. The FAA has approved this forecast as a reasonable depiction of future activity at an unconstrained airport.

Importance of Minimum Revenue Guarantees

Q1. Given the probable likelihood of revenue guarantees, shouldn't the EIS examine in depth how the revenue guarantee programs are structured at all the competing destination resorts and analyze how a replacement airport for Sun Valley may be affected?

The purpose of the EIS is to examine and compare the proposed project against a no action scenario and alternative action scenarios. Minimum revenue guarantees and their possible impact on the forecast and economic analysis were discussed with the airlines. The results of those discussions are covered in section 1.3.4.4 of the Aviation Activity Forecast Report on pages 64-65 and in the Financial Analysis section of the Economic Analysis Report beginning on page 52.

The key issue is whether a particular service is economically viable. The analysis shows that the new airport would lower the cost of travel at SUN for any service and the associated passenger increase is premised on that assumption. Therefore, the need to retain any current revenue guarantees would be lessened or eliminated. There is no evidence that a new airport would increase the need for revenue guarantees unless the assumption is made that the increased ground time will outweigh the other real improvements – which is belied by the fact that more than half of the passengers in the region are driving much further to get reliable air service.

The airline interviews confirmed that airlines only want to get involved with successful services and mostly require revenue guarantees or other support to help

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achieve that initial success. Revenue guarantees at other airports are already factored into passengers' decisions regarding which resort to visit and we can reasonably assume that the SUN impact will be marginal to no change at the other airports.

Q2. Whether as a means to fund replacement service if the forecast proves to be overly optimistic, or as a means of securing new, improved service, would it not make sense for the proposed Sponsor of the replacement airport to begin developing a business plan that includes revenue guarantees and a means of funding the guarantees?

The purpose of the EIS is to examine and compare the proposed project against a no action scenario and alternative action scenarios. The Sponsor is not a party to the EIS. By extension the EIS cannot dictate whether or not the Sponsor should develop business plans.

Economic Analysis of Air Passenger Market

QSI Stimulation

Q1. How does the increased drive time to a replacement airport offset the QSI affect?

The increased drive time is incorporated in the overall net travel cost impact as a \$15 penalty (see 4.2 and page 40).

Q2. How does the short stage length SUN-SLC affect the QSI stimulation factor?

QSI is solely related to air service. Stage length does not affect QSI as it is assumed the same flight characteristics with the only change being equipment type. The only way it would affect QSI would be in limiting the types of aircraft appropriate for a particular service. We only compared the EMB120 to regional jets for the SLC service which are appropriate and which would be used if possible. If the underlying implication is that short prop flights have more appeal than longer ones, that is perhaps marginally true, but the aversion to props is based on people simply being unwilling to fly them under normal circumstances, regardless of stage length.

Aircraft Operating Costs

Q1. Is the 50% EMB 120 a typo?

Yes, this is a typo – it should show the 50% for the Q400 and indicates that 50% of the existing direct services will shift to regional jets. Our analysis was based on higher unit costs for the RJ700 relative to Q400 (based on Horizon's own Form 41 data), offset slightly by a very minor QSI improvement, hence the relatively low stimulation for this market sector primarily based on the ability to use a more efficient narrow body aircraft on one of the routes (probably LAX).

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Q2. What if the costs are not lower?

There would still be a positive effect even assuming the same unit operating costs to including lower per passenger unit costs (with higher load factors) plus better all-weather conditions, although obviously less. One key fact to highlight is that the average yield at SUN is about one-third higher than that at BOI and the other benchmark ski resorts indicating it's a high cost market to operate in.

Average Fares/Fare Stimulation

Q1. Will United serve a small, seasonal market like SUN from DIA (sic DEN)?

We cannot comment on specific airline responses received during the interviews. It is relevant to note that United does not currently have any aircraft in its fleet that can operate to SUN without weight penalties. Construction of a replacement airport would remove this restriction.

Q2. Would service be year around or seasonal?

Forecast Scenario B assumed that Denver was a likely candidate for seasonal service following the opening of the new airport.

Q3. Will United require revenue guarantees?

Our analysis assumed no long term subsidies or incentives for any potential new service.

Q4. How should the Sponsor of the replacement airport approach United?

How the Sponsor should approach United for Denver service is beyond the scope of the EIS.

Q5. Would limited frequency reduce the traffic stimulation?

No, the key is access to additional hubs.

Flight Completion Stimulation

Q1. Is 7% optimistic?

The seven percent stimulation is believed reasonable, if not conservative. Removing the high cancellation/diversion rate during peak winter travel months, even with existing aircraft types, should make service at least seven percent more attractive.

Combined Impact

Q1. How do we compete with connecting service to a replacement airport nearly one hour away from the preponderance of the traveling public?

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The point seems to be that passengers currently traveling to the Sun Valley resort via air will drop dramatically with the new airport because level of access relative to other ski resorts will be diminished. Leaving aside SLC and the direct markets, it is fair to say that there are two options that split the market for Sun Valley: (1) connecting service via SUN at an average fare of \$555 (based on top 10 connecting markets) and a 20 minute drive and (2) direct/connecting service via BOI at an average fare of \$385 (for the same markets) and a 3 hour drive. Leaving aside weather uncertainty and prop-aversion, this would mean that the value for the extra 160 minute drive is \$170 (roughly equal to the \$0.90/minute we used).

With the new airport, we estimate that the SUN fare would drop about \$65 based on higher load factors and lower unit costs. By itself, this would divert BOI traffic for which the \$170 ground cost is now offset by only \$105 in fare savings. Even factoring in an increase in travel time to SUN would still not offset the \$65 savings and we estimated that weather certainty would add another \$7 in value per passenger.

Q2. How does the Sponsor develop a business plan for continuation of commercial service? SUN is currently competing with other resorts and BOI routings with an inefficient airport that lacks competition. The new airport should improve competitiveness.

General Aviation Operations Forecast

Q1. Would it not make sense to survey all 154 based aircraft owners to determine to what extent a relocated airport 30-40 minutes further away, would impact their continued use of the airport?

We interviewed a representative sample of pilots that use SUN regularly and are familiar with the airport operations. None of the pilots indicated that they would discontinue flying to Sun Valley if the replacement airport was 30-minutes further away. The vast majority of the pilots represented aircraft owners that resided at least part-time in the region.

Q2. Would it not also make sense to survey a much larger segment of the itinerant pilots and owners to determine to what extent a relocated airport would impact their continued use?

The pilots interviewed were recommended by the FBO as representative of moderate to heavy users of the airport. The answers received are believed representative of the user population.

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Q3. Are those forecasts realistic given the possible adverse impact of the additional drive time on GA operations?

For each of the short-listed airport sites, the replacement airport would remain the closest GA airport to the Sun Valley resort area. Using the FAA's forecast factors, general aviation traffic is projected to grow by 13 percent between 2007 and 2016, an average of 1.4 percent per year. Growth between 2016 and 2021 is expected at an average rate of 1.3 percent per year.

Conclusion on Enplaned Passengers Forecast

Although no question was posed in this section of the comment document, one comment does need to be addressed. The director of marketing and planning for Horizon stated that they were not contacted as part of the airline interview process.

We contacted the director of market planning of Alaska Airlines as all of Horizon's flying is on a fee-per-departure basis for Alaska. Horizon only flies where Alaska tells it to. Alaska makes the decisions of which markets to serve, which aircraft will be used, and with what frequency.

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