



October 9, 2024

Dear Low-Cost Airfare Partner:

The Airport Authority and the Chamber of Commerce recently attended the annual Montana airline route planning meetings in Billings. Nearly all airlines we met expect to reduce their national capacity over the next year or two. A record number of pilots have been hired in the past year, and many airlines are catching up on the lack of staffing; however, most airlines are now impacted by the slow pace of aircraft deliveries.

Production problems at Boeing and slow deliveries by Airbus have prevented airlines from replacing the full capacity gap left by the abrupt retirement of all the 50-seat jets. Even airlines like Southwest, who had no 50-seat jets, cannot keep up with their retiring aircraft and will need to shrink their schedule. This trend impacted GTF and HLN this fall. Alaska had planned to continue flying two daily flights at both airports through October but Alaska discontinued both flights abruptly on Labor Day to shift regional jet capacity to support their larger mainline routes.

As reported in our last letter, dramatically rising regional pilot salaries are another problem limiting the growth of markets served primarily by regional jets, like GTF. Regional jet pilot salaries have increased an average of 10% per annum since 2010 and now they are paid as much as mainline pilots at some airlines.

The impact of pilot and airplane shortages combined with sustained high oil prices and higher wages continues to disproportionately impact smaller communities. Fourteen small communities have lost all air service since 2019 and over 100 routes have been discontinued including all Delta flights to Casper, as announced last week. Competition for air service among small communities has intensified leading to a rapid expansion in community air service incentives. See the attached community airline incentive programs identified by a quick internet search.

Despite the challenges, we continue to have productive conversations with several Ultra-Low-Cost-Carriers (“ULCC”s) regarding new California Service. Most of the ULCC airlines are currently concentrating on expanding service in the large eastern US markets. A quick internet search will find new eastern routes announced by Breeze, Avelo, Frontier and Spirit. However, our prime ULCC target is starting to evaluate opportunities in the middle of the country, including GTF.

In a call last week with our primary target, they indicated that they plan to expand their route network into the Midwest in 2026 and GTF is an opportunity they are studying. We had a candid discussion on the current Great Falls incentives. The airline indicated our current incentives are in line with other similar airports; however, they believe we need to raise an additional \$250,000 in community revenue guarantees to attract service. Their comments echoed a similar conversation in 2023 with our top legacy carrier target that was three times higher. Both airlines cite rising costs as increasing their risk in small communities.

The Chamber, Airport Authority, and Great Falls Montana Tourism met last week for discussions and concluded we need to make efforts to raise the additional funding for the following reasons:

- ULCC service along with Southwest service is expanding in the fast-growing Montana towns and that is drawing traffic from the other airports, including GTF. HLN passenger volume remains 30% below pre-COVID levels. Although GTF’s passenger counts are nearly identical to pre-COVID levels; almost a third

of Great Falls' traffic is leaking to other Montana airports. Attracting ULCC service provides the best opportunity to retain and expand the total air service market of Great Falls. Further, ULCC flights will create additional competition and lower overall fares.

- LA is the most logical expansion market. Over the past decade, GTF has averaged 20 passengers traveling to and from the LA Basin each day. This is twice the size of the next largest market that doesn't have direct service from GTF. While this is not enough demand to immediately support daily flights, starting ULCC flights on a 2x to 4x weekly schedule could quickly grow the market enough to support daily flights. Nearly all ULCC carriers utilize less-than-daily-flying, and they are comfortable with this model.
- The current business cycle for legacy carriers is characterized by rising costs, fewer small aircraft and ultimately less service in smaller regional communities. As previously stated, over 100 small market routes have been discontinued by legacy carriers since 2019 including Delta recently leaving Casper. Legacy carriers are typically not content to fly a new market several days a week because they are trying to fill their limited hub slots every day to generate feed for their network. Further, no legacy carriers currently hub in LA which makes legacy service unlikely.
- Successful new air service implementation is the primary goal. Preserving as much of the incentive pool as possible for a future initiative, although not the prime goal, is a consideration. GTF has had two successful ULCC implementations in the past twenty years. Allegiant initiated service in 2007 and now Las Vegas and Phoenix are the two largest GTF markets. Frontier was the first recipient of Low-Cost-Airfare incentives in 2012. Their flights were always profitable at GTF so they never used the incentive dollars. Further, they stimulated the price elasticity in the Great Falls market resulting in a 58% increase in demand for GTF-DEN flights. Frontier's three years in Great Falls resulted in record passenger traffic, nearly 10% higher than 2024. GTF-Denver demand remains 15% higher than before Frontier. Frontier was subsequently sold and the new management moved their Montana aircraft to larger eastern US airports. However, Frontier's success along with Allegiant's long-term presence demonstrates that the Great Falls market can grow for the right service at the right price point, which points to ULCC service as the best opportunity to consolidate and optimize air service demand in our region.
- While we are seeing signs of population growth in Great Falls, adding three flights per week on today's larger aircraft adds 20,000 seats or more to our market. New ULCC service provides the best opportunity to draw new demand from out-of-market source, as Bozeman's success demonstrates, including towns within a 90-minute drive, Lethbridge, and inbound tourism. This will maximize the potential for success of the new flights and generate positive economic impact for our region.
- Half of our current incentive pool is funding provided by our Small Community Air Service Grant ("SCASD Grant"). We can only count on having those funds in place for two more years. Generally, ULCC's are all adding new markets and are in an expansion mode compared to the legacy carriers which are largely in a retrenchment that will last several years. ULCC's are in the best position to add new markets in the current business cycle. After the expiration of the SCASD Grant, we are unlikely to have enough funding to attract new flights, so time is of the essence.

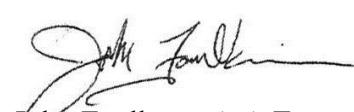
Accordingly, we are launching a fundraising round to pursue the ULCC opportunity. We are trying to raise an additional \$250,000 for a ULCC route to California. Please consider advocating for this effort with friends and local businesses. To facilitate this important effort, the Airport is making Volaire Aviation Consultants directly available to you and potential investors for questions about the air service industry, why incentives are important in small communities, etc. You can contact Mike Lum directly at michael.lum@volaireaviation.com with any questions you have.

Thank you for your continued support in growing our flying future in Great Falls. Feel free to contact the Chamber or the Airport directly if you have any questions or comments.

Sincerely,



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Recent new route from local incentives at a small airport:

https://www.mtexpress.com/news/transportation/new-nonstop-flights-to-join-friedman-winter-schedule/article_37594d36-79ef-11ef-b3fb-d3c4ceb06747.html
<https://www.msn.com/en-us/travel/news/southwest-oregon-regional-airport-to-expand-flights-to-portland/ar-AA1rgPt6>

Billings seeking California using incentives:

<https://www.ktvq.com/news/local-news/billings-airport-receives-final-portion-of-grant-for-new-california-flight>

Competition is stiff dozens of small community airports are competing for new flights using local funds and SCASD:

[\\$14 million in new grants awarded just last year.](https://www.msn.com/en-us/news/us/us-dot-awards-14-million-for-small-community-air-service-development/ar-AA1htb1S)
https://www.gisentinel.com/news/western_colorado/is-delta-airlines-returning-to-grand-junction/article_1dd9f1de-6faa-11ef-8bbc-5b791910ab26.html
<https://www.grandforksherald.com/news/local/answer-on-air-service-from-grand-forks-to-denver-could-come-by-end-of-year>
<https://www.timesfreepress.com/news/2023/oct/24/united-airlines-targeted-for-nonstops-between-chattanooga-and-denver-with-112-million-in-incentives-tfp/>
<https://www.goerie.com/story/news/local/2024/06/24/erie-airport-2023-report-airlines-aviation-transportation-united-american-travel-grants-chamber/74154872007/>
<https://www.centredaily.com/news/local/article254259003.html>
https://baytobaynews.com/stories/salisbury-regional-airport-could-get-additional-flight-option-for-travelers_139408
<https://wset.com/news/local/lynchburg-regional-airport-receives-600k-grant-improve-airline-small-community-air-service-development-program-transportation-department-director-andrew-lagala-christine-kennedy-regional-business-alliance-virginia-october-2023>
<https://cornellsun.com/2023/10/08/ithaca-airport-receives-750000-federal-grant-hopes-to-add-service-to-washington-d-c/>
<https://www.centralillinoisproud.com/news/local-news/peorias-airport-receives-federal-grant-to-help-secure-a-western-hub-city-for-daily-service/>
<https://www.nbcdfw.com/news/local/five-small-cities-link-to-dfw-airport-after-receiving-federal-grant/3042873/> **GTF is mentioned here!**
<https://www.al.com/news/huntsville/2024/08/grant-helps-huntsville-airport-set-sights-on-new-destination.html>
<https://wwmt.com/news/local/kalamazoo-airport-receives-1m-grant-to-create-nonstop-flight-to-north-carolina>
<https://www.wlox.com/2023/09/28/gulfport-biloxi-international-airport-receives-grant-nonstop-service-washington-dc/>

Large Airports using incentives too:

<https://www.13newsnow.com/article/news/local/mycity/norfolk/orf-leaders-urge-financial-incentives-bring-european-direct-flights-hampton-roads/291-52b68634-a49e-40cb-b6fe-e7038e88741c>
<https://www.wcia.com/news/champaign-county/willard-airport-raises-850k-in-effort-to-attract-new-airlines/>
<https://www.aviationpros.com/airports/news/53058727/hartsfield-jackson-to-offer-incentives-for-new-international-routes>
https://www.reddit.com/r/kansascity/comments/ukmypy/5_million_incentives_package_approved_to_attract/
<https://www.bizjournals.com/sanantonio/news/2022/07/27/officials-airport-incentives-airlines-flights.html>