

Statement of
Brian Sprenger, Airport Director,
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Before the
House Transportation and Infrastructure
Subcommittee on Aviation
April 30, 2014
“Air Service to Small and Rural Communities”

Chairman LoBiondo, Ranking Member Larsen, members of the subcommittee, thank you for inviting me to participate in this hearing on “Air Service to Small and Rural Communities.”

My name is Brian Sprenger. I am the Airport Director at Bozeman Yellowstone International Airport, a small hub airport located in southwest Montana.

First of all I want to thank the members of this subcommittee for your continued commitment to our nation’s aviation-transportation system, and the on-going efforts to strengthen the economy of the United States through air commerce. Aviation provides remote states such as Montana access to the world, and a strong aviation system is imperative for our continued growth.

Background on
Bozeman Yellowstone International Airport

Mr. Chairman, our airport has been fortunate to see a strong consistent pattern of growth over the past forty years. Even in the tumultuous last fifteen years, we have seen growth rates averaging five percent per year. In 1999, our airport handled 436,000 passengers on three airline brands to three non-stop destinations outside the state of Montana. In 2014, we expect our airport to handle nearly 1,000,000 passengers on five airline brands to fourteen non-stop destinations, coast to coast. We are now the 7th largest airport in the Northwest Mountain Region in terms of total airline revenue.

Our growth is based on a combination of factors; a growing dynamic economy, research activity at Montana State University and proximity to Big Sky Ski Resort. Additionally we serve as the only year-round airport for Yellowstone National Park, the nation’s oldest national park. The mix of business and leisure traffic has created a dynamic whereby each supports the other while the distance to major metropolitan areas limits leakage of passengers to other airports.

Certainly, we have the advantage of the real estate adage: location, location, location. That being said, we have a philosophy at our airport that focuses everything we do on making our airport attractive and competitive.

Airport Philosophy

Simply put, we believe the airlines are the “Golden Goose,” for smaller airports, so don’t kill it! The airport industry has become quite competitive. We are all competing for the same seats because the airplane servicing the Bozeman market could just as easily be servicing the Atlanta market. Consequently we operate our airport more like a business than a government agency and think of our airlines more like anchor tenants in a mall. *We have to be competitive.*

Deregulation of the airline industry thirty-five years ago forced airlines to become competitive and those that did not have gone out of business. Now, we are seeing a rationalization of airports. The reality is not all airports will be able to retain or maintain the same level of air service they currently have. We must realize that economies of scale will likely mean larger airports will become larger and smaller airports will become smaller within their relative geography. Market forces will determine much of this destiny, but airports do have aspects they control that can make a difference. In our case, we are focused on the “Airline Golden Goose” and work on every aspect of our business that can make us more competitive in attracting air service.

Suffice it to say, we look at every factor we control that could impact the reasons an airline might or might not serve our market. We are willing to put “skin in the game” and think outside the box. However, with the changing dynamics of the airline industry, airports need to anticipate the challenges and be able to adapt quickly and efficiently. We also need federal agencies to anticipate these challenges so that they also can adapt quickly and efficiently.

Airport Factors that Contribute to Air Service Development

Control costs, diversify revenue and ensure low Cost per Enplanement (CPE) for our airline partners: On a systemwide basis, the International Air Transport Association reported the average airline profit per passenger in 2013 was \$4.13 illustrating how just a few dollars per passenger can be the difference between a losing market and a successful market. The Cost per Enplanement (CPE) is the cost for an airline to operate at an airport on an individual passenger basis. Ultimately, airlines pay a portion of an airport’s operating costs, so it is important for the airport to control its costs. However, it must also focus on diversifying its income streams so less of its costs will be passed on to its airline partners. There can be no doubt if all other things are equal and an airline has a choice to place an aircraft at an airport with a CPE of \$10.00 or an airport with a CPE of \$3.00, it will most likely choose the latter. Because our airline partners are responsible for less than 35% of our operating cost and contribute just 20% of our operating revenue, we have a CPE of less than \$3.00 per passenger.

We believe a low cost per enplanement has contributed to air service development at our airport.

Provide ease of entry/exit to the market by airlines: Some airport leases require long-term commitments, restrict gate access and have rate structures that challenge airlines when they consider entering or expanding in a market. Our lease allows airlines to leave the market with notice of only 60 days and our fees are based on volume, which encourages growth but is directly tied to their level of success. In addition, we do not exclusively lease gates. Airlines may use additional gates as needed throughout the day without having to financially commit to a gate 24 hours every day year round. This allows an airline use of multiple gates as needed, if it is to their advantage, while not being financially restricted to an exclusive gate(s). This has resulted in additional destinations because the airlines are able to manage aircraft assets with less regard to airport gate constraints. If an airline finds a new destination or even the Bozeman market is not successful for them, then there is no harm no foul. We are just thankful they gave us the opportunity. More commonly, however, we have seen airlines enter or expand in our market because the long term risk was minimized.

We believe ease of access and exit as well as favorable gate access has contributed to air service development at our airport.

Create community support and partnerships for air service development: Small community airports cannot achieve success without community support and successful partnerships. We have forged partnerships with the cities of Bozeman and Belgrade, Gallatin County, the State of Montana, Montana State University, the Chambers of Commerce in Bozeman, Belgrade, Big Sky and West Yellowstone, Big Sky Resort, the Yellowstone Club, Montana Public Broadcasting Service, the Museum of the Rockies, Yellowstone Country, the Yellowstone Park Foundation, the Yellowstone Association and many other entities throughout southwest Montana. Our staff is actively involved in our community. We are part of the community and the community is part of us. Because of these partnerships, our partners have committed financially to air service development through minimum revenue guarantees, marketing support and guaranteed ticket purchases.

Our partnerships also resulted in the award of a Small Community Air Service Development (SCASD) Grant from the U.S. Department of Transportation that helped secure the first non-stop service between New York City and Montana. The SCASD grant would not have been possible without the unprecedented local match, and the combination of the two permitted us to pursue and inaugurate once weekly non-stop service to New York/Newark via United Airlines the summer of 2012. The initial success of the service resulted in United nearly tripling the service in 2014. Our community took a calculated risk and the service has become financially successful. Additionally, its success also contributed to Delta Air Lines adding New York LaGuardia service from Bozeman this summer. 2014 will be the last year grant dollars are available and we expect to return over half of our SCASD grant dollars to the federal government because the route was successful. Having significant local participation to help leverage grant dollars is a large reason for the success because we all spend more wisely when some of the dollars are ours.

However, air service development programs are, by their nature, designed mostly to attract new service. We are very conscious of the fact that new service may negatively impact existing service so we best support our communities' efforts in air service development by maintaining a low cost per enplanement for every flight, every airline, every day while providing a world class facility.

We believe to succeed in air service development, airports must partner with their community and that communities must have "skin in the game."

Investment in Air Traffic Control (ATC) assets and services normally provided by the federal government: A cost that is often overlooked and can impact air service development is the efficiency of the air space around an airport. As late as 1999, we did not have a control tower. Because the FAA did not have a funding mechanism for ATC improvements, we used our own financial resources to construct an Air Traffic Control Tower. We also funded additional hours for our Contract Tower to provide increased air traffic control services, added the first locally funded Air Traffic Control Beacon Interrogator (ATCBI-6) Radar in the nation, and installed the first locally funded radar display inside our control tower. While these additions were critical in improving safety and efficiency at our airport, we still needed new departure procedures, missed approach procedures and terminal radar approach control to fully leverage our airport's investment. With nearly \$5 million invested in ATC by our airport, the Federal Aviation Administration (FAA) was able to justify the final required elements. We are not aware of any other airport our size that has invested so much to improve Air Traffic Control services.

We believe investing in ATC services the FAA is unable to provide contributes to air service development by reducing aircraft operating costs into our airport.

Impediments to Continued Success

Develop mechanisms for Federal agencies to adapt as some airports grow and others shrink: We have had to invest in services normally provided by the federal government because federal agencies are slow to adapt to changes in air service dynamics. Airlines can move assets quickly and it is not uncommon for smaller airports to see drastic changes in air service. Federal agencies need to be able to adapt quickly to significant changes so that the flying public is not negatively impacted. Even successful programs like the Contract Tower Program have limitations that do not address the evolving aviation world. Without the Contract Tower Program, we would not have been able to begin the process of significantly improving Air Traffic Control at Bozeman, and we thank Congress for their continued support of the program. However, the program does not address successful airports that have grown into small hub airports. Growing airports like Bozeman see their tower struggle to operate 18 hours per day, 7 days per week with only five controllers and a manager. There are over 100 non-hub airports with Federal Towers that have significantly less commercial activity than small hubs like Bozeman and Phoenix-Mesa Gateway but operate with three times the staffing level. In addition, small hubs with contract towers such

as Bozeman and Phoenix-Mesa Gateway pay for the capital cost and the cost of operating and maintaining our towers while over 100 non-hub airports with Federal Towers do not. The inequity impacts continued success in developing air service.

Another example that can impact air service is weather radar coverage. Airlines are required to base operational decisions predicated on weather data from the National Weather Service and we are the only small hub airport in the nation without Doppler radar coverage. Lack of weather radar impacts the ability of the National Weather Service to provide current and timely weather forecasts which can cause delays and diversions in a mountain valley like Bozeman is in. Unfortunately, the National Weather Service does not have funding to provide Doppler radar and is unable to accept privately funded weather radar feed, which our airport and our partners are willing to contribute to. Again, the inequity could impact our continued success in developing air service.

We need mechanisms in place for federal agencies to provide services commensurate with the activity level of an airport on a fair and equitable basis.

FAA funding and revenue restrictions: We understand the need to ensure that airports utilize their funding and resources for aviation purposes. However, there is also a need for airports to operate as self-sufficiently as possible. Sometimes these two principles conflict and when that happens, we often see the FAA hamstrung by policies that do not foresee or adapt to innovative solutions. While local FAA offices are often sympathetic, the difficulty they have in getting approval may delay or jeopardize projects resulting in additional airport costs. For example, we are working with the FAA on a road project that serves the airport and will potentially generate non aeronautical revenue for the airport by developing airport land. While there are many moving parts in this discussion, the FAA is struggling just to determine whether the traffic to the developed airport land can be counted as airport traffic when determining the ratios of airport/local funding. We believe it is quite evident that traffic to airport land that generates non aeronautical revenue for the airport should be considered airport traffic and considered in the funding ratios. That may be the eventual answer but we don't think it should have been a question. For small and rural airports, the need to generate additional non aeronautical revenue and rely less on aeronautical revenue will become paramount to ensuring these airports can maintain air service much less develop additional air service.

We need policies that support developing non aeronautical revenue at airports so that airports can attract and maintain that air service.

Other Recommendations

Support Programs That Help Small Airports: Mr. Chairman, the Bozeman airport has benefited from the Federal Contract Tower and Small Community Air Service Development Programs because of significant local airport and community investments. We have not shied away from doing our part to make those programs and others succeed at our airport and believe that

community “skin in the game” is necessary for success. We encourage Congress to continue to modestly invest in programs that help small airports and communities attract and invest in *viable* commercial air service and operate safely. With that in mind, I urge you and your colleagues to continue to support the Contract Tower and Small Community Air Service Development Programs when you consider the next FAA reauthorization bill.

Conclusion

In conclusion, Mr. Chairman, Ranking Member Larsen and members of the subcommittee, thank you again for inviting me to participate in this hearing on air service at small and rural communities.

I would be pleased to respond to any questions or comments you may have.