

MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, FEBRUARY 20, 2024, AT 5:00 PM IN THE CITY COUNCIL CHAMBERS, 181 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA

1. Call to Order.

Mayor Leech called the meeting to order at 5:00 p.m.

2. Roll Call.

COUNCIL MEMBERS PRESENT: Mayor Leech, Vice Mayor Kakavas, Councilman Adams, Councilman Allsop, Councilman Hatch, Councilman Judd, and Councilman Clark arrived at 6:15 p.m.

COUNCIL MEMBERS ABSENT: None.

STAFF MEMBERS PRESENT: Morgan Brown, City Manager; Anna Atencio, City Attorney; Justin Johnson, Deputy City Manager; Bill Kopp, Public Works Director; Jacob Allen, Airport Manager; Jeff McNeil, Police Commander; Kathy Clements, Assistant City Clerk; and Rachael Hall, City Clerk.

GUESTS: Brian Kondrad (Vice President, Business Operations, Boutique Air), Nadim El Khoury, (Chief Pilot, Boutique Air), Matt Chaifetz (CEO Contour Airlines), Stan Little (CEO, Southern Airways Express), Mark Cestari (Chief Commercial Officer, Southern Airways Express), Austin Mayer (Director of Airport and Airline Affairs), John Hannah, Jack Latham, and others.

3. Interviews with Essential Air Service Proposers for Show Low Regional Airport.

A. 5:00 p.m. Boutique Air

Mr. Kondrad thanked the Council for the opportunity to present Boutique Air's Essential Air Service (EAS) proposal. He said Boutique Air had been operating since 2009, had 100 employees, and focused on safe, convenient, and reliable air service. He said Boutique Air was currently operating at 99 to 100 percent reliability.

Mr. Kondrad said the aircraft Boutique Air flew was a Pilatus PC-12. He said Boutique Air had multiple interline agreements, offered multiple convenient daily flights, and had a proven track record of increasing flights. He said the Pilatus was the safest single-engine aircraft worldwide, with zero fatalities and passenger injuries.

Mr. Kondrad said Boutique Air had partnered with American Airlines. This agreement applied to all Boutique Air flights and connecting airports with seamless baggage transfers. He said Boutique Air also had a codeshare agreement with United Airlines, which launched in May 2018. With this agreement, passengers had through-ticketing and baggage on flights connecting with United Airlines and could accrue and redeem United Airlines MileagePlus miles. The codeshare agreement with United Airlines provided pricing advantages.

Mr. Kondrad said Boutique Air offered mobile boarding passes, at-home check-in, and printed boarding passes. Travelers could manage their flights through the flight portal with zero change fees. He said Boutique Air offered complimentary onboard beverages and snacks and wheelchair services. There were 24-hour phone lines and email support, live customer service chat, a local phone number, and bilingual Spanish representatives.

Mr. Kondrad said Boutique Air did not charge for baggage, pets, and unaccompanied minors. There was no limit on baggage; it could all be accommodated upon space availability.

Mr. Kondrad said Boutique Air would provide dedicated aircraft for the Show Low route and that there were spare aircraft in Phoenix, Show Low, and Las Vegas. Passenger vans would be provided for inconveniences such as weather and maintenance cancellations. He said Boutique Air was available on all the major global distribution service platforms and online travel agencies.

Mayor Leech asked to whom Boutique Air was currently providing EAS Services. Mr. Kondrad said they provided EAS service to Pendleton, Oregon, and Massena, New York. They have also picked up a lot of on-demand charters.

Mr. Kondrad said in the past that Boutique Air had overextended its routes and could not effectively maintain high-quality standards. He said they had learned their lesson and realized the importance of prioritizing quality over quantity in aviation services. Boutique Air underwent a significant restructuring process to streamline operations and refocus on delivering high-quality aviation services rather than pursuing an excessive number of routes. As part of the reorganization, Boutique Air scaled back to ensure that each route received the necessary resources to uphold reliability and service standards.

Vice Mayor Kakavas asked how the on-demand service affected EAS service. Mr. Kondrad said the on-demand service improved EAS service because it opened up more airports, such as Las Vegas, and helped in situations where there were mechanical issues. There would be more aircraft dedicated to Show Low.

Mr. Kondrad said Boutique Air was committed to avoiding the pitfalls of overextension and instead prioritized maintaining a minimum number of routes with the highest reliability possible. He said they were ready to come back to Show Low and demonstrate that 99 to 100 percent reliability was possible.

Mayor Leech asked if Mr. Kondrad and Mr. Khoury were part of Boutique Air when it served Show Low previously. Mr. Kondrad said he was with Boutique when it provided service to Show Low. Mr. Khoury said he was not.

Mayor Leech said he would like to see whichever airline was selected to provide

air service become part of the community. Mr. Kondrad said now that the company had downsized, they were very present in the communities they were involved in.

Mayor Leech asked how many EAS communities they were going to go after. Mr. Kondrad said Boutique Air would max out at four to five EAS Communities.

Councilman Adams asked how the addition of the Las Vegas route would work. Mr. Kondrad said Boutique would fly into the D gates at Harry Reid International Airport, which was close to United Airlines and only about a five-to-seven-minute walk to American Airlines.

Councilman Allsop asked what the maximum number of passengers per flight was. Mr. Kondrad said they sell eight seats, but if there were extraordinary circumstances, they could remove the first officer and provide a ninth seat.

Councilman Allsop asked how, with an eight or nine seat limit, would that get Show Low Regional Airport to the necessary enplanements. Mr. Kondrad said having the Las Vegas connection would help because 18 round-trip flights would be offered instead of 12. Las Vegas was not only a destination for leisure travelers but also had a lot of low-cost carriers. Mr. Khoury said adding an airport and not just relying upon the Phoenix airport could increase frequency.

Councilman Allsop asked about flight cancellations, saying that it was important that the City had reliable air service. Mr. Kondrad said they had over 20 Pilatus PC-12s in the fleet, and over the past year, Boutique Air had 99 percent reliability, which they did not have when they serviced Show Low before.

Councilman Allsop said in the past, the City was told backup planes would be provided, but they were not. Mr. Kondrad said it was a new era, and they now had 99 to 100 percent reliability with their restructuring.

Mr. Kondrad said that in the past, depending on loads, Boutique Air added more flights outside the contract to help reach 10,000 enplanements.

Vice Mayor Kakavas asked what Boutique Air's marketing plan was. Mr. Kondrad said as part of the marketing plan, Boutique Air would purchase billboards along the driving routes between Phoenix and Show Low. They would also have community outreach and involvement in Show Low.

Councilman Adams said whoever got this contract must regain the community's confidence. Many people did not trust that they would reach their destination in a timely manner if they flew. Mr. Kondrad said there were five available backup aircraft at any given time, which was a major difference now compared to when Boutique Air was the air service provider. If selected, they would work to convey that message to the community.

Mr. Chaifetz thanked the Council for the opportunity to present Contour Airline's proposal. He said Contour Airlines was the second-largest carrier in the EAS program by passengers flown, with about 650 employees. Contour just completed a transaction with Skywest Airlines, the largest regional airline in the country. Skywest invested \$25 million in Contour. With that, they structured separate transactions that allowed them to take additional airplanes and cooperate on pilot training. Having the resources of that large partner would be a critical ingredient in Contour's success going forward.

Mr. Chaifetz said he heard a lot of questions about enplanements and Airport Improvement Project funding. He said he crunched the numbers, and 18 flights a week with an eight or nine-seat airplane was only about 7,500 outbound seats a year. So, 10,000 enplanements was an impossibility. Contour offered that possibility and had successfully achieved that for many of their markets. He said Contour achieved 10,000 enplanements for the first time in Fort Leonard Wood's history. No other Fort Leonard Wood carrier had ever gotten them to 10,000 enplanements.

Mr. Chaifetz said Contour served Page, Arizona. They almost quadrupled enplanements when they took over in Page from Great Lakes. That was the case in most cities where they took over from an operator of eight or nine seat airplanes.

Mr. Chaifetz said that was not to say that there was not a role in the EAS system for eight or nine-seat airplanes. There was, but the opportunity to secure jet service was a differentiator. It was a different product, a different level of service. Their plane had a full-size lavatory, was ADA-accessible, and they used jet bridges. Where jet bridges were not available, they used ADA-accessible mobile boarding ramps.

Mr. Chaifetz said Contour Airlines was very proud of its record within the EAS system. They only served their partner carriers' hubs and were selective about the routes they bid on. The other thing that set them apart was their relationship with American Airlines. This month, Contour Airlines would move to Terminal 4 in Phoenix, meaning passengers would not need to be rescreened when connecting to or from American or Southwest.

Mr. Chaifetz said Contour Airlines had its own mobile app, offered online check-in, and offered flight status via the app and website. Contour developed a suite of services that was pretty advanced for a carrier whose business was predicated on the EAS program.

Mr. Chaifetz said he recognized that the subsidy was more than the other bidders, but he thought they had the opportunity to increase enplanements in a way that was not possible using an eight or nine-seat airplanes.

Mr. Chaifetz said he would not be presumptuous to know what was best for Show Low, but he understood the need to be a partner. In Page, Contour

Airlines tailored the schedule to the hospital's needs. Most of the year, they operated a Monday morning outbound flight from Phoenix and had an extra Thursday afternoon return because that was the pattern of most doctors coming out from Phoenix to Page for the week.

Mayor Leech asked how many planes Contour had that were in service. Mr. Chaifetz said Contour had over 30 right now, and SkyWest was transferring its fleet to Contour.

Mayor Leech asked if Contour would leave a backup plane in Show Low or Phoenix. Mr. Chaifetz said most likely Phoenix, but there was discussion about whether the community needed an overnight aircraft. All but two of Contour's routes had an overnight aircraft. It depended on the community. He said for a balanced mix of leisure and business traffic, the ideal schedule was to have an overnight aircraft at the airport. It would depend on the City's preference. He said logistically, it was easier to overnight in Phoenix for access to greater resources in the way of maintenance and crew, but for the vast majority of their network, the aircraft, overnight at the outstations.

Vice Mayor Kakavas asked where Contour Airlines would purchase jet fuel. Mr. Chaifetz said the cost of fuel at hubs could not be beat. So, what they did with most communities was to ask them to look at what the current carrier was lifting in the way of fuel. Contour then multiplied that by the City's margin, and they would offer to pay that as a flat fee. This allowed the City to retain the same revenue it would otherwise have. The plan was to keep fuel revenue neutral.

Councilman Judd asked how Contour foresaw Show Low compared to Page regarding the number of enplanements. Mr. Chaifetz said outside of 2020 with COVID, Page was at 10,000 enplanements every year, and that was a town of 7,500 people. He said Page had a very strong leisure component to the traffic there, with a ton of traffic visiting Lake Powell. Contour operated a very seasonal schedule to Page with pretty much one round trip a day from December through mid-April, and then in summer, they increased to 16 frequencies a week. The most important takeaway was that Contour listened to the communities they served and tailored the schedule around the community's needs.

Mr. Chaifetz said he could not forecast the demand in Show Low specifically. He said a lot was possible, but it was on Contour to deliver, build awareness, and make sure that the community knew there was a reason to try a new product, and he hoped that the community would respond well.

Councilman Allsop asked what size planes Contour had. Mr. Chaifetz said Contour Airlines only operated regional jets with a 30-seat capacity.

C. 6:00 p.m. Southern Airways Express, LLC

Mr. Little thanked the Council for the opportunity to present Southern Airways Express' (Southern) proposal for Essential Air Service. He wanted to talk about

where Southern was today, the investments that were made over the last year, and how things were a lot different than they were this time last year.

Mr. Little said that regarding performance and reliability, Show Low was between 94 and 98 percent for the last three months, a very different place from when Southern first took over. He said Southern stumbled out of the gate. Southern was awarded a contract based on the operating cost of the Cessna Grand Caravan but upgraded to the Pilatus PC-12 for passenger comfort. Unfortunately, supply chain issues after COVID prevented the backup aircraft from being ready for months. Southern now has eight Pilatus PC-12s, which increased reliability.

Mr. Little said Southern relocated its western U.S. PC-12 maintenance facility to Phoenix to support Show Low. He said Southern's merger with Surf Air provided backup PC-12s to increase reliability. They now had over 800 employees and over 50 aircraft and were the third-largest operator in the EAS system nationwide.

Mr. Little said Southern wanted this to be a long-term relationship. When they did not have a plane functional to fly on a given day, they called every charter operator in Phoenix and sometimes in California and brought in aircraft to take care of the Show Low passengers. They spent \$346,000.00 on air charters. When they could not find an air carrier that would operate on those days, they spent \$175,000.00 on ground expenses. He said Southern put in the dollars and ensured they did the best that could be done under the circumstances for the passengers. This was done in addition to the millions spent to bring in the aircraft needed and hiring for the maintenance facility in Phoenix.

Mr. Little said Southern invested in Show Low and could now show consistency, with 90 days back in the 90s. That was something people could see and know that the problem was fixed, and they could fly again. He said every carrier would have growing pains. But not every carrier would put forth the dollars and the effort to invest in the community to make this a long-term relationship.

Mr. Little said he listed four of the communities that Southern had held for the better part of a decade and that renewed with them repeatedly every two years. Those communities set their highest number with Southern, not in the first term, but later terms.

Mr. Little said that EAS communities that moved to a larger aircraft had to know with 100 percent certainty they had more demand than the ability to fill. The one way a community would get thrown out of the EAS program was if the subsidy per passenger broke the cap. He said right now, there were two caps. One was \$200.00 per passenger, which the Secretary could waive; many communities had received that waiver. But the other one was what was called the death penalty at \$1,000.00 a passenger. If a community were to go over \$1,000.00 a passenger in subsidy, it could not be waived, and the community would be out of the program forever, with no way to get back in.

Mr. Little said that the Senate proposed reducing the death penalty from \$1,000.00 to \$500.00 for the Federal Aviation Reauthorization Bill, which was re-evaluated every five years.

Mr. Little said he understood the desire to swing for the fences and get 10,000 passengers and a \$1,000,000.00 for the airport. He cautioned the Council to make sure they were 100 percent confident that not only were they going to get 10,000 passengers but the \$500.00 cap would not be exceeded because it could mean the airport received the \$1,000,000.00 this year but would be out of the EAS program next year.

Mr. Little said to determine how many passengers were needed not to hit the death penalty number, take any of the three bids received and divide it by 501 because \$501.00 was the amount that would get an airport tossed out of the program. He said for at least one of the bids; there needed to be significantly more passengers than the record number of passengers from the last 20 years, which was back in 2007.

Mr. Little said that as stewards of the people's money, the City of Show Low needed EAS as much as any city in Southern's system due to the nature of the drive to Phoenix. Southern had the lowest number of needed passengers to make Show Low's subsidy amount go down from last year, and also by far the lowest number of passengers that would be needed to keep the City in the program.

Mr. Little said he was here to take responsibility for not delivering the product that the community deserved. It was not a good year last year, and Southern fought to get Show Low's airport where it needed to be. Southern was just about there with acceptable levels from an industry standpoint. He would be satisfied when Southern got to 98 and 99 percent completion. In 2018, 2019, 2020, and 2021, until Southern came here, they never ran under 98% a year. This was an aberration for Southern.

Mr. Little said Southern Airways Express had invested in Show Low and hoped the Council would consider that investment.

Mayor Leech asked for clarification regarding the statement about Southern never having a pilot shortage because Southern's staff had told City Council and staff that they did have pilot shortages. Mr. Little said he misspoke and failed to qualify that statement. Southern did have a Caravan pilot shortage; they did not have a PC-12 pilot shortage. When PC-12s were flying, they always had a pilot to fly them. When a Caravan was used as a backup because the PC-12s were down, that was where the pilot shortage occurred. He said at one point, Show Low's backup plane was down for six months due to a supply chain issue.

Councilman Allsop asked how Southern was coming up with their numbers

regarding reliability when the feedback from the community and the effect on the community did not match up. Citizens have asked when the City would get an airline they could rely on. Mr. Little said that the PC-12, as far as an aircraft that could handle the weather, was as good as any aircraft out there. It got too hot a few times to get the Caravan in and out of Show Low. That's one of the reasons why Southern moved Show Low to an all-PC-12 market and would no longer substitute a Caravan.

Mayor Leech said service appeared to improve every time a contract ended, but the improved service never lasted. He said the Council was promised community involvement last time the EAS contract was bid, but that never happened. Show Low was a small community, and the citizens did not know the airline's name serving the area. Also, reliability had been an issue, so people have chosen to drive instead of fly. When the Council and staff met with Southern staff to discuss these issues, there was never a solution.

Mr. Cestari said he and his staff met with City staff at regularly scheduled meetings about operations, marketing, safety, TSA, et cetera. He said Southern made a strategic decision, when the operation was subpar, to not engage in a lot of promotion because the last thing they wanted was to invite people to take their flights and disappoint them. He said they were very active in the Chamber of Commerce and in whatever requests were received for sponsorship, partnership, or underwriting. He said Southern had the resources, experience, and commitment to rebuild the market.

Mr. Little said, as coincidental as it may seem that the numbers went up as renewal came along, that if Southern could have had those numbers get better six months ago, there was zero reason why Southern would not have done that. Other markets were seeing the same increases in reliability. Imperial California saw its numbers go up like Show Low did, and their renewal was not for another year and a half.

Mr. Little said Southern tried to be honest with the City. There was a fix; it was getting the supply chain fixed and more aircraft added. Southern was doing that as quickly as they could. Now was the first time they had 90 days of being able to say, "See, we did it," Southern got planes that it needed in every market, every day. He said there were multiple PC-12 crews on reserve throughout the Western region. He said he was sorry this did not happen six months earlier.

4. Presentation of Safety Procedures. (Show Low Police Commander Jeff McNeil)

Commander McNeil presented what the Council should do in the event of an emergency.

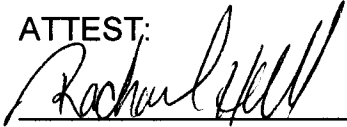
Commander McNeil then showed the video "Run, Hide, Fight."

Mayor Leech said the Council appreciated the presence of Show Low Officers at Council meetings.

5. Adjournment.

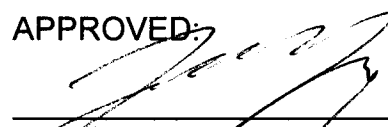
There being no further business to be brought before the Council, **MAYOR LEECH ADJOURNED THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF FEBRUARY 20, 2024, AT 6:29 P.M.**

ATTEST:



Rachael Hall

APPROVED:

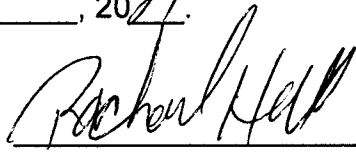


John Leech, Jr., Mayor

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Show Low held on February 20, 2024. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 5th day of March, 2024.



Rachael Hall