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March 18, 2020

Petition of Fort Leonard Wood for a Waiver from the Subsidy Cap, Docket DOT-OST-1996-1167

Mr. Kevin Schlemmer
Chief, Essential Air Service & Domestic Analysis Division
United States Department of Transportation
1200 New Jersey Ave. S.E.
Washington, DC 20590

Dear Kevin,

The Waynesville St. Robert Regional Airport, serving Fort Leonard Wood, Waynesville and St. Robert, Missouri, is in receipt of Order 2020-3-1, advising the Airport and its community partners (the Airport) of a tentative termination of Essential Air Service (EAS) due to a violation of the \$200 maximum subsidy per O&D passenger during FY 2019.

Per the procedures outlined in Order 2020-3-1 this letter is the Airport's response to the tentative termination notice. The Airport does not object to the findings of the Order as they related to mileage, subsidy amount, air carrier operational data or passenger counts.

We do take very seriously the need for full compliance with the rules and regulations of the Essential Air Service Program. The appendix of this document contains an outline of our air service history and our history of \$200 cap compliance prior to FY 2018.

The Airport does request a waiver from the subsidy-per-passenger cap of \$200 for FY 2019. The context of our waiver situation and specifics of our waiver justification are outlined below.

Reasons for \$200 Cap Violation in FY 2019 – We believe there are four reasons for our FY 2019 cap violation and for that cap violation being larger than it was in FY 2018.

Transition – Cape Air was our EAS carrier since late 2010, a period of eight plus years. The carrier did a good job, within the limits of its 9-seat aircraft and the need for shadow cargo flights when luggage loads required. With Cape Air we had already had a slight (\$203) cap violation in FY 2018. We felt that transition to a new carrier was necessary to get back below the \$200 cap and unlock the potential of our market. Contour did a spectacular job in terms of on time performance and reliability in FY 2019, better than Cape Air had historically. But it was a new carrier, new brand and a new schedule. Under those circumstances initial traffic results were weaker than historic.

Ticket and Bag Agreements – Contour gained a T&B with American, the largest network carrier at St. Louis, shortly after beginning Fort Leonard Wood service. However, implementation of this T&B took many months in 2019 and then initial



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activation was on a very long minimum connect time that essentially negated the benefit of using the T&B.

Failure to Gain Sufficient Troop Movement Traffic in FY 2019 – The Department of Defense process for booking and moving troops via civilian transport is a complex system. Cape Air, despite eight plus years in the market, was not able to get much penetration of that movement system. Cape's aircraft size was a limiter as well. Contour service is challenged by the same issue, but with a higher grade of DOD authority and an aircraft that can carry significantly larger training units plus their luggage. But during FY 2019 we were not able to gain the traction we needed or envisioned with the DOD Troop Movement system.

Cape Air Effort – Cape Air could assume in late September of 2018 that they were not going to be the designated EAS carrier at the Airport starting in early 2019. The chart below shows monthly traffic for FY 2015 to FY 2019. It is important to note the 26% drop in Cape Air traffic in the October 2018 to January 2019 period, a drop completely uncharacteristic for those months, looking at the previous four years. While Cape Air is a fine carrier, it would appear that priority was not placed on maximizing Airport traffic once it was clear the carrier would not retain EAS designation.

FORT LEONARD WOOD EAS TRAFFIC BY MONTH AND FISCAL YEAR; 2015 TO 2019									
Month	FY 2015	FY 2016	Change	FY 2017	Change	FY 2018	Change	FY 2019	Change
10	1,354	1,417	4.7%	1,268	-10.5%	1,539	21.4%	1,154	-25.0%
11	1,302	1,211	-7.0%	1,268	4.7%	1,447	14.1%	1,073	-25.8%
12	1,127	1,085	-3.7%	969	-10.7%	1,115	15.1%	829	-25.7%
1	1,147	1,149	0.2%	1,027	-10.6%	1,113	8.4%	799	-28.2%
2	981	1,162	18.5%	1,292	11.2%	1,148	-11.1%	592	-48.4%
3	1,228	1,351	10.0%	1,391	3.0%	1,262	-9.3%	682	-46.0%
4	1,387	1,345	-3.0%	1,388	3.2%	1,300	-6.3%	797	-38.7%
5	1,398	1,376	-1.6%	1,451	5.5%	1,291	-11.0%	738	-42.8%
6	1,376	1,408	2.3%	1,457	3.5%	1,283	-11.9%	815	-36.5%
7	1,292	1,349	4.4%	1,405	4.2%	1,337	-4.8%	871	-34.9%
8	1,407	1,282	-8.9%	1,489	16.1%	1,326	-10.9%	924	-30.3%
9	1,364	1,218	-10.7%	1,414	16.1%	1,138	-19.5%	793	-30.3%
Year	15,363	15,353	-0.1%	15,819	3.0%	15,299	-3.3%	10,067	-34.2%

Below is a paragraph taken from our FY 2018 waiver application.

"We aim to achieve \$200 cap compliance on a monthly basis during FY 2019. We are very confident of annualized \$200 cap compliance beginning in FY 2020. However, due to the weak traffic performance of Cape Air in the October 2018 to February 2019 period and the typical slow startup period for Contour in February and March of 2019, we may not achieve annualized \$200 cap compliance in FY 2019. We may be too far behind the curve from the last five months of Cape Air service during a time the carrier was not motivated to generate passenger volume."



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This paragraph advises the Department that we did not, a year ago, see a clear path to \$200 cap compliance in FY 2019. And our waiver for that Fiscal Year was granted.

Cap Compliance in FY 2020 – The Airport and its community partners see the urgency of gaining at least monthly \$200 cap compliance in FY 2020. We understand the absolute requirement to show improvement from the FY 2019 cap number of \$294.

However, for all the reasons listed above, the fact that our cap number went from \$203 in FY 2018 to \$294 in FY 2019 is not indicative of our long-term cap compliance prospects. We had an indifferent incumbent carrier for the first five months of this fiscal year, a carrier transition mid fiscal year, delays in new carrier acquisition of ticket and bag agreements and issues with shifting known Army Base traffic to the new carrier and its very capable 30-seat regional jet.

The EAS supported air service at Fort Leonard Wood is critical to the local economy. We have been a \$200 cap compliant airport for many years. The cost escalation challenges that all EAS carriers face are challenges for us as well. We attempted to preempt further cap compliance issues by actively recruiting new carriers last bid cycle and by taking on the challenge, with Department support, of a new carrier with an outstanding record of providing \$200 cap compliant service in two EAS markets, one of which has a large military economy.

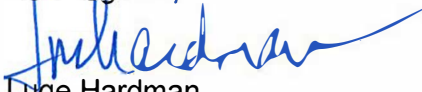
We do commit to achieve a lower \$200 subsidy cap number in FY 2020. The major concern we put on that commitment is the unknown (at this writing) duration and degree of the COVID-19 virus outbreak and what impact that outbreak will end up having on air travel during FY 2020.

To ensure our ultimate success at dramatically increasing Airport EAS traffic, we have engaged experts in air service marketing and allocated \$85,000 for service marketing and promotion in 2020. Additional funding will be available in 2021 as needed.

In conclusion the Airport is fully aware of its responsibilities in the EAS program, including compliance with the \$200 subsidy cap. That is why we worked so hard during the 2018 EAS bid cycle to move to the future in terms of air service, that being regional jets and expanded seat and luggage capacity.

We respectfully request a waiver from the EAS termination notice included in Order 2020-3-1. We thank the Department in advance for their favorable consideration of this waiver request.

Best regards,


Luge Hardman
Mayor
City of Waynesville

Best regards,


Dr. George A. Lauritson
Mayor
City of St Robert



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APPENDIX

A brief history of our air service and some context on how we have arrived at this juncture.

Air Service History – The Airport has been part of the EAS program since 1996. As best we can reconstruct EAS subsidy records back to 2003 the Airport has been \$200 cap compliant for every year in that period except FY 2018. This includes 2007 when the shutdown of RegionsAir caused a service lapse. This also includes a period of service by Great Lakes from 2007 to 2010. In late 2010 Cape Air, an outstanding regional carrier, assumed the Airport's EAS from Great Lakes. Below is a chart showing the approximate operational and estimated \$200 cap results of Cape Air service under its most recent, four year, EAS contract from FY 2015 to FY 2018.

FORT LEONARD WOOD EAS HISTORY FY 2015 - FY 2018												
Year	Carrier	Hub	Passengers	Estimated					Estimated Subsidy			
				Pax Seg	Seats	Load Factor	Cargo Flts	Total Flts	Pax Flt	Cargo Flt	Total	Sub/O&D
FY 2015	Cape Air	STL	15,363	2,800	25,200	60.96%	1,860	4,660	\$1,668,800	\$1,089,960	\$2,758,760	\$180
FY 2016	Cape Air	STL	15,353	2,800	25,200	60.92%	1,860	4,660	\$1,735,552	\$1,133,558	\$2,869,110	\$187
FY 2017	Cape Air	STL	15,819	2,800	25,200	62.77%	1,860	4,660	\$1,804,974	\$1,178,905	\$2,983,879	\$189
FY 2018	Cape Air	STL	15,299	2,800	25,200	60.71%	1,873	4,673	\$1,877,173	\$1,234,454	\$3,111,627	\$203

\$200 Cap Compliance Trend with Cape Air – The chart illustrates the two critical flaws of the otherwise outstanding Cape Air service we had from 2010 to early 2019. Those flaws are the need for freighter flights to accompany most of the passenger flights due to the limited luggage space of the Cessna 402 and the simple limitation of 9 passenger seats. Cape Air's 2015 four-year contract contained a 4% cost escalator each year. Combined with stagnate traffic capture by the carrier this led to a gradual increase in subsidy per O&D passenger during the four-year contract, culminating in the \$203 per O&D subsidy amount in FY 2018.

The Airport recognized the limitations of Cape Air service as the four-year Cape Air contract came up for rebid in 2018. Simply stated, the combination of continuing escalation of Cape Air operating costs combined with the operation of an aircraft type that only had nine passenger seats and required shadow cargo flights due to luggage limitations, was going to doom any Cape Air C-402 service to \$200 cap violation status in future years.

This reality is illustrated by a review of the Cape Air proposal to retain Fort Leonard Wood service, submitted to the DOT in September of 2018. The carrier proposed a two-year contract with a first-year passenger service subsidy of \$1,737,239 (\$613 per flight) escalating to \$1,779,108 (\$628 per flight) in year two. These subsidy amounts would be supplemented by an unknown number of cargo flights at \$603 per flight in year one, with apparently an unclear (2.5%?) escalation of cargo flight subsidy in year two.



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The math on this proposal was not promising for \$200 cap compliance. Cape Air traffic at the Airport had stagnated in the period FY 2015 to FY 2018, averaging 15,459 passengers per year with only slight upward or downward annual deviation from that average during the period. The carrier forecast 16,060 annual passengers per year going forward in 2019 and 2020 with no justification as to why future years of the exact same service would somehow generate 600 (3.9%) more annual passengers.

Yet the carrier's cost escalations and therefore subsidy need escalations were illustrated in the September 2018 bid document. Our best translation of the bid document suggests that while year one of Cape service would have had subsidy of \$613 per passenger flight and \$603 per cargo flight, year two would have been \$628 and \$618. This means the average passenger/cargo flight in year two would have had to average 6.23 passengers, a 69% load factor. Passenger only flights would have required a year two total of 3.14 passengers per flight or a 34.9% load factor. The Fort Leonard Wood market, like many small city markets, has peak days and peak directional demand.

Therefore achieving \$200 cap compliance within Cape Air's September 2018 proposal to continue Fort Leonard Wood service in 2019 and 2020 would have been difficult. On a simpler level, 9-seat aircraft often have difficulty avoiding \$200 cap violations in EAS markets subject to the \$200 cap. Indeed, a review of the 18 EAS communities that had \$200 cap violations in FY 2019 shows that every one of them is served by 9-seat aircraft and three of the 18 are served by Cape Air.

Over 100,000 annual O&D air travel trips are generated by the Fort Leonard Wood Army Base. This demand has day of week and directional peak and valley characteristics. Nine-seat aircraft with shadow cargo aircraft are ill suited to this type of market. This is illustrated by the fact that Cape Air could not, over a stable four-year period and despite network code, network T&Bs and reasonable operational performance, generate more than a 15,459 annual passenger total average.

In future years that level of annual passenger total paired with continuing cost of operation escalations on a 9-seat aircraft, was going to lead to a permanent \$200 cap violation. Nine seats plus cargo shadow flights just cannot generate enough traffic to absorb the cost of providing the flights.

Addressing the Issue of Greater Capacity and Continuing Cap Compliance – In advance of the 2018 EAS bid cycle the Airport aggressively explored and recruited other air service options.

- We worked with Air Choice One on a dual hub proposal that would have used Beech 1900C aircraft in a 15-seat configuration.
- We recruited Silver Airways, with SF-340s, to make a proposal.
- We worked with Cape Air on concepts to increase passenger flight frequency in order to generate more traffic.



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Our work on recruiting a carrier with more seat capacity is based on the simple fact that Fort Leonard Wood Army Base generates over 100,000 annual Base related O&D trips. Most of these O&D trips are related to the rotation of troops (in unit groups) to and from the Base for military training. Cape Air's 9- seat aircraft are for the most part NOT used for these unit group O&D trips. Instead soldiers are moved to and from the Base for training via buses from St. Louis. We became convinced that air service with a larger aircraft capable of carrying a full luggage load would open significant growth in our air service traffic. We noted as an example Watertown, NY and Fort Drum. In this EAS market small aircraft carriers, including Cape Air, would generate between 5,000 and 16,000 annual O&D passengers in the period 2000 to 2011. Beginning in 2012 small aircraft service was replaced with cabin class turboprops and then regional jets. In 2018 Watertown generated over 46,000 O&D passengers. Fort Leonard Wood's isolation from larger airport air service is similar to that of Watertown and Fort Leonard Wood is a much larger Army training facility.

Unfortunately, we were disappointed with the proposals of both AirChoiceOne and Silver Airways. In the case of AirChoiceOne both service proposals used single engine aircraft for a substantial portion of the service, the carrier had no ticket & bag agreements with network carriers and the carrier lacked DOD authority. Furthermore, the carrier's proposals required subsidy significantly higher than that of incumbent Cape Air and only forecast cap compliance by assuming significantly more traffic, despite all the service limitations noted. (50% single engine flights, no T&Bs, no DOD authority)

In the case of Silver Airways, the carrier's St. Louis proposal called for subsidy of \$3.926 million, far above the subsidy need of Cape Air.

Moving to Contour Airlines – As the Department knows, this sequence of events involving conventional EAS service options led us to contact Contour Airlines, an outstanding regional carrier (DOD approved) operating ERJ-135 RJs with 30 passenger seats under Alternative Essential Air Service (AEAS) contracts. We were very impressed with Contour's record of reliable EAS service in cities like Tupelo and Macon. In Macon, with a large nearby military base as a primary economic driver, the carrier generated over 28,000 annual O&D in 2018. Macon had been without air service from 2014 to 2017, making Contour's 2018 passenger totals even more impressive. In Tupelo Contour grew the market from dormant to about 30,000 annual passengers with EAS service to Nashville, a medium sized hub about the same size as St. Louis.

With the Department's guidance and approval, we reached an AEAS agreement with Contour and they assumed our EAS in February of 2019.

Contour's AEAS contract calls for total annual subsidy of \$3.112 million dollars and subsidy of \$2,493 per operated flight. This was a savings to the Department of over \$800,000 annually in subsidy funding over the Silver proposal, which we could have recommended. It was also about the same subsidy need as the Cape Air proposal outlined in the 2018 RFP response of that carrier. However, we get about 12,000 more



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annual seats and a regional jet capable of carrying passenger luggage on the same aircraft as the passenger.

The \$3.112 million translates to a per flight \$200 cap compliance number of 12.5 onboard revenue passengers. Annually this translates to about 15,400 O&D passengers, consistent with our historic annual traffic.