

MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, MARCH 1, 2022, AT 3:00 P.M. 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 3:00 p.m.

2. Roll Call.

COUNCIL MEMBERS PRESENT: Mayor Leech, Vice Mayor Kakavas, Councilman Allsop, Councilman Clark (arrived at 3:11 p.m.), Councilman Hatch, and Councilwoman Wilson.

COUNCIL MEMBERS ABSENT: Councilman Adams.

STAFF PRESENT: Ed Muder, City Manager; F. Morgan Brown, City Attorney; Justin Johnson, Deputy City Manager; Bill Kopp, Public Works Director; Jacob Allen, Airport Manager; Nicole Hudson, Deputy City Clerk; and Rachael Hall, City Clerk.

GUESTS: Mark Cestari (Chief Commercial Officer, Southern Airways Express), Levi Stockton (President, Advanced Air), Barbara Hunt (Vice President of Business Operations, Advanced Air), and others.

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

Southern Airways Express

Mr. Cestari thanked the Council for the opportunity to present Southern Airways proposal for Essential Air Service (EAS). He said Southern Airways was a Florida based company that was established in 2013 and was the fastest growing commuter airline in the country. He said Southern Airways had a subsidiary company called Mokulele which was a Hawaiian island company that was acquired in 2019.

Mr. Cestari said Southern Airways had 150 departures in the Hawaiian islands and had hubs from coast-to-coast in Pittsburgh, Washington-Dulles, Denver, Los Angeles, and Memphis as well as a network of flights in New England that focused on the Nantucket and Martha's Vineyard destinations. He said one reason Southern came through COVID so strong was because of a hybrid model that offered half EAS service and half high-end destinations. Having a mix of destinations allowed Southern to recruit employees who wanted to spend time in fun, low-cost places.

Mr. Cestari said Southern prided themselves on being the most reliable commuter airline in the country. In the markets where Southern was the only airline, reliability was the only thing that mattered. He said Southern consistently completed 99 percent of flights. Their formula for success was basing their pilots in the hometowns in which they flew. He said the pilots that would fly the Show Low route would live in Show Low.

Mr. Cestari said the EAS market had become challenging because of the nationwide pilot shortage, which caused airlines that would historically look at EAS routes to be drawn into contracts with bigger airlines. He said Southern Airways had taken over multiple EAS markets and had consistently increased year-over-year passenger growth.

Mr. Cestari said the closest location to Show Low that Southern currently flew was Chadron, Nebraska. He said Chadron suffered reliability issues with their incumbent carrier and Southern took over in June of 2021, tied them into the hub in Denver, and increased enplanements significantly despite COVID and businesses in Denver working remotely.

Mr. Cestari said Southern Airways had interline agreements with American, Alaska and United Airlines, which made for easy connecting flight options in Phoenix. He said Southern Airlines would operate from the American Airlines gate in Phoenix, which would be beneficial to customers flying from Show Low because they would not have to go through the Transportation Security Administration line in Phoenix and travelers' bags could be checked in Show Low and would automatically be transferred to American, Alaska, or United Airlines for a connecting flight. He said the bilateral interline agreements with all three airlines allowed commuters to book a flight from Show Low on either of the four airlines' websites. Commuters could also change or request a refund for an American, Alaska, or United Airlines ticket by calling Southern Airways' 24-hour call center. He said Southern Airways was also working on two new interline partnerships.

Mr. Cestari said Southern had never had a three-digit fare. He said the average fares for Southern Airways flights in Show Low would be \$49 for the Caravan aircraft and \$59 for the PC12 aircraft. The pricing structure would be three seats at \$29, three seats at \$49, and three seats at \$69 for the Caravan. For the PC12 aircraft, the pricing structure would be three seats at \$39, three seats at \$59, and three seats at \$79. He said Southern's proposal for EAS in Show Low was the only proposal submitted to the Department of Transportation (DOT) that complied with the subsidy cap of \$200.

Mr. Cestari said Southern Airways would be involved in the community by sponsoring community events and organizations. He said Southern also offered

discount programs which were geared toward companies, City employees, hospitals, and the local college.

Mr. Cestari said Southern Airways had created a pilot passthrough program and had a deal with SkyWest. When a first officer signed on with Southern, they would receive an automatic seniority spot at SkyWest and a \$10,000 bonus from SkyWest in return for the pilots' commitment to stay with Southern Airways for 24 months. Southern Airways had not cancelled a single flight due to crew issues since 2019.

Mr. Cestari said Southern Airways offered Show Low two aircraft options, the Cessna Caravan or the PC12. He said the trip length from Show Low to Phoenix was 129 miles and the benefit of using the PC12 could not be achieved because the route was not long enough and the altitude that would be granted was not high enough. He said today's travelers were 70 percent leisure and 30 percent business. The leisure travelers had big bags that did not fit on the PC12. The PC12 was a more comfortable aircraft with significantly less cargo capacity and the Caravan's cargo capacity was higher.

Mayor Leech asked how Southern Airways planned to be involved in the community. Mr. Cestari said Southern Airways had a history of sponsoring local community events and would sponsor events that were important to the City. He said Southern also hosted its own events such as a ramp party for their customer base.

Vice Mayor Kakavas asked if Southern Airways planned to purchase their fuel in Show Low. Mr. Cestari said yes, Southern Airways had a program called Fueling the Economy where they purchase their fuel in the markets in which they operate.

Vice Mayor Kakavas asked about Southern Airways' reliability in higher elevations. Mr. Cestari said there would be weather issues but absent extreme weather, Southern would fly.

Councilman Allsop asked where Show Low fell into Southern Airways' priority for reliability. Mr. Cestari said Southern had maintenance bases everywhere and Show Low would have its own maintenance base. There would be spare airplanes and maintenance dedicated to this region.

Councilwoman Wilson asked if the pricing structure that had been described was realistic with the rising cost of fuel. Mr. Cestari said Southern believed in low fares and planned to keep the fares low.

Councilwoman Wilson asked if flights would be cancelled if the flights were not full. Mr. Cestari said Southern Airways would not cancel flights because of load factors.

Councilwoman Wilson asked if it was attainable to have pilots living in Show Low. Mr. Cestari said Southern Airways received 40 applications for first officer positions and he didn't believe that Southern would have any problems placing pilots in Show Low.

Councilman Clark asked if Southern Airways would consider making other destinations available to flyers. Mr. Cestari said yes, Southern had preliminary conversations with airport management about the possibility of providing supplemental service from Show Low to Tucson, on a seasonal, targeted basis, provided there was sufficient community demand. This additional flying could allow for an increase in enplanements.

Mayor Leech asked what would happen if an airplane broke down. Mr. Cestari said Southern would have a spare aircraft either in Show Low or brought in from Chadron, Nebraska.

Mr. Cestari said the City was buying an airline, not an airplane. He said to consider the resources Southern Airways offered in terms of reliability, distribution partners, safety record, growth record, innovation, technology, 24-hour call center, and the ability to seamlessly integrate travelers with Southern's interline partners.

Advanced Air

Mr. Stockton thanked the Council for the opportunity to present Advanced Air's EAS proposal. He said Advanced Air was not solely an EAS operator. The main piece of their business was primary charter. Advanced Air operated 25 airplanes with the King Air 350 being the backbone of the company. He said Advanced Air had the master lease on the Hawthorne, California airport where they built over 200,000 square feet of hangar space. Advanced Air was the Fixed Base Operator at Hawthorne and had taken the airport from \$100,000 per year to an estimated \$1.3 million this year.

Mr. Stockton said Advanced Air operated flights for app-based air travel membership services including Surf Air and the former JetSmarter. He said Advanced Air wanted to be diversified as a company by having different revenue channels and only biting off as much as it could chew. Advanced Air's goal with EAS was to focus on a minimal number of communities to keep their fleet close to their homebase to keep up on maintenance of the aircrafts.

Mr. Stockton said Advanced Air's current route map included flights to multiple cities in California and New Mexico, Las Vegas, and Phoenix.

Mr. Stockton said Advanced Air's EAS proposal for service in Show Low included the King Air 350 which had almost zero mechanical issues, eight club seats, wing lockers, which increased the total cargo capacity, was pressurized, and had air conditioning.

Mr. Stockton said Advanced Air recently became the newest airline to join Southwest Airlines' Destination 225 Pilot Pathways Program. This partnership brought together Advanced Air and Southwest Airlines flight crews, offering a pathway for motivated and qualified candidates to future flight careers with Southwest Airlines. Prospective pilot candidates are fully vetted by Southwest Airlines and come through the Advanced Air pipeline via application. Pilots will stay with Advanced Air for a total of 24 months, actively flying and setting themselves up for success. At the end of the 24-month period, they filter back through the pathway into a pilot position with Southwest Airlines. This program provides very highly motivated pilots.

Mr. Stockton said Advanced Air continually improved its operations by being audited every 24 months by third party companies who specialized in strict aviation operation audits.

Mr. Stockton said Advanced Air provided two options in its proposal for EAS in Show Low. Both options utilized the King Air 350 aircraft. One option was 18 weekly roundtrip flights to Phoenix with a one-way ticket price of \$100 without a ticket booklet and \$90 with a ticket booklet. The ticket booklets could be purchased in groups of ten and were fully transferrable. The second option was 16 weekly roundtrips with a one-way ticket price of \$115 or \$90 with a ticket booklet.

Mayor Leech asked how Advanced Air would be involved in the community. Mr. Stockton said Advanced Air would join the local chamber of commerce and would sponsor community organizations and events. Advanced Air sponsored events or organizations in the other communities it served and Mr. Stockton himself made it a point to be in the community talking to citizens. He said because Advanced Air operated in a minimal number of markets, the opportunity to be involved in the community was high.

Councilman Hatch asked if Advanced Air had interline agreements with bigger airlines. Mr. Stockton said Advanced Air was working on an interline agreement with a bigger airline but did not currently have any interline agreements.

Mayor Leech asked if being chosen as Show Low's EAS provider would be beneficial in helping Advanced Air get an interline agreement. Mr. Stockton said yes, the more passengers Advanced Air had the more opportunity it would have to get an interline agreement.

Vice Mayor Kakavas asked if Advanced Air intended to purchase fuel from Show Low. Mr. Stockton said yes, Advanced Air would purchase its fuel in Show Low.

Councilman Allsop asked about Advanced Air's reliability and commitment to the community. Mr. Stockton said the service did not work if the airline did not fly the flights. Advanced Air continually maintained their aircraft and had back up aircraft to help with reliability. He said Advanced Air would clearly define expectations and communicate with customers.

Councilwoman Wilson asked if Advanced Air would cancel flights if there were only one or two people on the flight. Mr. Stockton said Advanced Air did not cancel flights due to load factors.

Councilman Clark asked if Advanced Air would provide an opportunity to add destinations. Mr. Stockton said there was an opportunity to add destinations if there was a demand for it.

Mayor Leech asked where Advanced Air's airplanes would be located in the event of a mechanical issue. Mr. Stockton said there would be three options - launching a replacement aircraft from Hawthorne, utilizing a standby crew and airplane in Phoenix, or sending a mechanic from Phoenix to Show Low to repair the aircraft.

Councilman Hatch asked about the benefits of a twin engine aircraft. Mr. Stockton said two engines were superior to one, but Advanced Air pilots were trained to fly both twin engine and single engine aircraft.

Councilwoman Wilson asked how many jobs Advanced Air would bring to the community. Ms. Hunt said there would be three to four customer service agents. She said Advanced Air would consider hiring an on-site maintenance company.

4. 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 MARCH 1, 2022, AT 4:20 P.M.**

ATTEST:

APPROVED:

Rachael Hall, City Clerk

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 March 1, 2022. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this _____ day of _____, 20____.

(SEAL)

Rachael Hall, City Clerk