



**City of Kingston
Report to Council
Report Number 15-186**

To: Mayor and Members of Council
From: Denis Leger, Commissioner Transportation, Facilities and
Emergency Services
Resource Staff: David Snow, Airport Manager
Date of Meeting: March 24, 2015
Subject: Air Services Development at Kingston Airport

Executive Summary:

Kingston Airport is undergoing efforts to improve its air service. Since 2012, staff has been involved in reviews and discussions with its consultants to formulate air services development strategies. This has resulted in frequent consultations with its current provider, Air Canada as well as WestJet with a view to increasing the air passenger options and activity at Kingston Airport.

This Report provides background on initiatives that have taken place dating back to 2012 and further indicates the benefits of continuing with our current consultant, LPS AVIA Consulting (LPS AVIA) in furthering the strategies and initiatives to improve and/or increase passenger air service options and travel at Kingston Airport.

Recommendation:

That Council approve entering into a single-sourcing contract for the 2015 calendar year with LPS AVIA Consulting for professional services in order to continue with the development and implementation of air services strategies for an amount of up to \$37,500 plus HST; and

That the Mayor and Clerk be authorized to execute the contract in a form satisfactory to the Director of Legal Services.

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Authorizing Signatures:

ORIGINAL SIGNED BY COMMISSIONER

**Denis Leger, Commissioner,
Transportation, Facilities and
Emergency Services**

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Cynthia Beach, Corporate & Strategic Initiatives	Not required
Lanie Hurdle, Community Services	Not required
Jim Keech, President and CEO, Utilities Kingston	Not required
Desiree Kennedy, Chief Financial Officer & City Treasurer	Not required

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Options/Discussion:**Background**

Over the past several years, the number of air passengers using the Kingston Airport has been steadily declining. The total number of enplaned and deplaned passengers has decreased from 75,800 in 2009 to 67,600 in 2014. Various studies as outlined in Report EITP-12-006 "Business Case for Service Expansion Opportunities at the Kingston Airport" indicate that the actual air traffic market in the Kingston area could be in excess of 650,000 passengers annually. These studies also indicate that 90% of the air passenger market is driving to neighbouring airports located in Toronto, Ottawa, Syracuse, Watertown, etc. The reason is largely attributed to significantly higher airfares when travel originates from or returns to Kingston. Another key factor is that Kingston Airport's current air service provider, Air Canada, currently provides most Kingston flights in a Beech 1900 (18 seats) aircraft whereas it used to provide daily flights with a Bombardier Dash 8 (37 seats) which allowed for greater same-flight baggage considerations.

The subject of potential airport expansion and runway extension was first identified as a potential mid-term improvement (10-15 year timeframe) in the 2007 Airport Master Plan Study. In 2011, the City commissioned "Business Case for Expansion - Kingston Airport", which was received with Report EITP-12-006. The report indicated that the business case for airport expansion could not entirely be made on the basis of increased aircraft and passenger activity alone. Upon receipt of the business case, Council directed staff to further explore the process associated with and the costs of expansion which resulted in Report 12-219 (July 17, 2012) which provided the "Implementation Plan for Expansion of Kingston Airport" and Class "D" estimates for the project. Later in November 2012, Council approved a staff recommendation to proceed to obtain a "Project Definition Document" which further defined the technical elements of the project in sufficient detail to solicit competitive bids from design/builders and provided a Class "C" cost estimate. The airport expansion is estimated at \$16M, and is split into two phases: runway extension and passenger terminal building expansion and reconfiguration. At this time although reflected in that order, the phases might well be reversed in the final analysis.

The current long term budget estimates propose that the first phase could occur in 2016/2017 in the amount of \$9M to extend the north-south runway from 5,000 feet to 6,000 feet. The second phase identified in the capital expenditure plans in 2019 would be for the expansion and reconfiguration of the passenger terminal building. It should be noted that the 2011 report referenced above indicates that on a business case basis, air passenger usage cannot be developed to generate sufficient return to finance this project; however it is a requirement for economic development, regional transportation and community vibrancy. Funding for the project is identified as coming from the municipal capital reserve fund.

On June 5th 2012 Council passed a motion to enter into a contract with LPS Aviation Inc. to develop and implement an air services strategy. The contract was a single-source agreement, entered into along with LPS AVIA due to the large amount of analytical data they had completed for the Business Case report and their excellent connections with senior decision-makers in the airline industry.

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Air Services Opportunities

As previously mentioned, based on detailed market analysis, a key finding of the Business Case is that over 90% of air travellers in the Kingston market use an airport other than Kingston Airport. It is estimated that 2,000 passengers a day are diverting to airports such as Syracuse, Ottawa and Toronto. Although it is not unusual for passengers in similar markets to use other, nearby larger airports due to more attractive air services, the high number of diversions provide Kingston with an opportunity to significantly increase the number of passengers should Kingston Airport develop air services that more closely align with the public's needs. An increase in the number of airlines, lower cost fares, larger aircraft and new destinations would all help attract these passengers.

The Business Case identified several potential carriers, based on their service offerings to where our passengers originate from or where they are travelling to.

1. Air Canada

Air Canada is the predominant carrier in Canada. Through their network of domestic, trans-border and international flights, virtually every destination of our passengers can be met. They operate regional services through a hub-spoke operating system where they fly from the regional airport to a hub airport for connections onward to the passenger's final destination. This highly-efficient operating system has served Air Canada well over the last few decades.

At Pearson International Airport (Pearson), Air Canada maintains 8 hubs per day. Its strategy is to provide connections from regional airports to many if not all hubs at Pearson. Indeed, Kingston currently has 7 daily flights to/from Pearson. Air Canada has informed us that the mainline aircraft capacity is expected to increase 10% per year over the next few years, leading to a desire of Air Canada to improve regional airport service to help fill the seats at the hubs.

It is currently using primarily the less popular 18-seat Beech 1900D aircraft in its service to/from Kingston however should more passengers be attracted to start or conclude their trip in Kingston, it has indicated that it will increase the size of the aircraft to a 37-seat DH-8 series.

2. WestJet

WestJet has gone through a major transformation over the last two years. Originally a one-type aircraft operator which flew between major centres, it is evolving into an operating style similar to Air Canada. It is building a regional carrier brand, "Encore" using 78-seat Q400 aircraft flying to a WestJet hub.

Originally launched in 2013, Encore has significantly improved the overall quality of air services at those airports it serves. WestJet has indicated that its pricing has led to a market adjustment of up to 40% lower airfares while increasing passenger activity at these airports by over 50% within the first year of operation. (Source: Ferio Pugliese, President, WestJet Encore as quoted in a 19 January, 2015 press release regarding the start of Encore Services at Halifax Stanfield International Airport)

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In 2015, Encore is beginning to enter Eastern Canada markets after attaining significant success in Western Canada.

3. Porter

Porter Airlines flies from a hub at Toronto Billy Bishop Island Airport. It currently flies primarily in western Ontario (Thunder Bay, Sault St. Marie, Timmins, Sudbury), eastern Canada (Halifax, Moncton, Stephenville, St. John's), eastern US (Washington, New York, Boston, Chicago) as well as its core Toronto/Montreal/Ottawa/Quebec City service.

Market analysis indicates that it would not have enough passengers to/from Kingston to these limited destinations to make a service viable. After meeting with Porter officials, it was confirmed that it does not see a market present at Kingston that would support air services here. It considers Via Rail as a major competitor and due to its extent of service, an impediment to implementing its service at Kingston. It is currently constrained in the number of flights in/out of the Island Airport. This quota may be lifted when a new pedestrian tunnel is completed to the island.

Porter is not high on a list of probabilities, however as markets change and as Porter moves in the direction of purchasing longer-range jet aircraft flying throughout Canada, service in the Kingston area may become viable and as such contact with this carrier will continue.

4. Other Carriers

Bearskin: Bearskin operates a fleet of small turboprop aircraft similar to the Beech 1900D that Air Canada currently uses. When interviewed as part of the Business Case, it indicated that it services a niche market, consisting of medical travel, northern Ontario communities and communities with provincial government centres. As with Porter, periodic contact will be made with Bearskin.

Cape Air: Cape Air also serves niche markets throughout the eastern US and some Pacific islands. It operates primarily on US-Government subsidized routes such as Albany- Boston. Cape Air does not believe that it could operate flights to/from Kingston without charging very high fares. This is compounded by the fact that customs service would have to be installed at Kingston on a cost-recoverable basis.

Air Services Initiatives – Initial Assessments/Discussions

The Air Services Development (ASD) team consulting with the carriers consist of the Airport Manager and representatives from KEDCO and the City's consultant, LPS AVIA (a member of the MMM Group Limited). KEDCO is also working with LPS AVIA on the identification of major travel generators in our market. The principals of LPS AVIA have extensive experience with backgrounds in senior planning and sales management with a number of airlines in Canada. Its contacts have provided the team access to senior airline yield managers, sales managers and executives within Porter, WestJet and Air Canada. The firm's personnel credentials are acknowledged and well respected and its methodologies in market analysis are considered very reliable by the carriers.

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Based on market analysis and discussions with potential carriers, it is recommended that the Air Service Development (ASD) initiatives continue to focus on Air Canada and WestJet. With the knowledge and experience of the consultant, LPS AVIA, and with continuing dialogue and presentations to these two carriers, some limited although important successes have been attained.

Air Canada

The ASD team has focused on three key messages with Air Canada.

First, Air Canada's expectation that most diverted passengers end up flying Air Canada at a hub is incorrect. Market analysis using postal code of traveller's information clearly indicates that less than 30% of diverted passengers who live in the Kingston area depart from Pearson on Air Canada. Therefore, if passengers were to be encouraged to start their journey at Kingston, Air Canada would be better able to capture the passenger's entire journey, increasing their over-all 'system yield' or profit.

Secondly, the additional airfare charged to use the Kingston airport had been up to \$500 more than to the same destination originating from Pearson. This is a significant deterrent to travellers using Kingston as a point of arrival or departure as both Pearson and Ottawa offer a much more economical alternative.

Thirdly, the size and reliability of the B1900D is another deterrent. The on-time performance is very low in comparison with other aircraft. A late departure usually requires changes in connecting flights, making air travel out of Kingston less attractive. The luggage capacity of the aircraft is severely limited and is resulting in a very high number of delayed baggage deliveries and inconvenience to passengers.

WestJet

A different focus is being applied to WestJet consultations.

Its new operating model of providing Encore service to single markets less than 600 km. from a hub at low airfares aligns well with the Kingston market. Market analysis suggests that approximately 95% of Kingston Airport area people that fly do so to a destination served by WestJet or a partner airline, making a large potential market for the carrier.

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The ASD team has been concentrating on providing the demographics for the Kingston potential new market for WestJet. Kingston has the largest population of any city in Canada not within 150 km. of a WestJet service. Kingston's median income is also the highest of any city more than 150 km. from a WestJet-served city. It has large institutions that require economical air services for business travel and also provide a large base for leisure travellers. The student and senior markets are potential speciality markets for WestJet.

Air Services Initiatives – Recent Developments/Focus

The ASD team efforts are starting to yield some improvements in air services.

Air Canada

In February of 2014, Air Canada agreed to review the high fare issue in light of the information the team presented to it over the previous two years. This resulted in a revised fare structure that lowered the incremental airfare to fly in/out of Kingston to a base level of \$75. Air Canada is targeting the connecting flights to Canadian destinations and is offering up to ½ of the available seats on most departures at the lower price. City staff worked with Air Canada on radio and newspaper advertisements to promote the new fare initiative. Within a month, what had been a projected decline of 16% in passenger traffic from 2013 levels was turned around. Throughout the summer of 2014, passenger traffic increased by 20% or more each month over 2013 comparative periods. In 2014, the overall experience resulted in a 7% increase in passengers, with the positive trend expected to remain throughout 2015. Air Canada has also recently instituted the promotion of on-line airfare specials out of Kingston to Canadian destinations at attractive prices.

Air Canada expressed satisfaction with the continuing positive reaction by Kingston area travellers. It intends to carry the fare initiative forward and is reviewing the aircraft size for possible capacity increases later in 2015.

Throughout 2015 in discussions with Air Canada, the team intends to focus on the need to increase the aircraft capacity to enhance customer satisfaction. As existing aircraft are on average 80% full, the high load factor makes it difficult for passengers to obtain a reduced airfare without making a reservation a long time into the future. Air Canada indicated that it will continue with the lower airfare on up to ½ the available seats even on the larger capacity aircraft (37seat Dash-8 versus the current 18-seat Beechcraft). This will provide greater access to economical airfares for Kingston passengers and baggage issues would diminish as the larger aircraft has more storage capacity.

The team is also exploring group travel possibilities. Sports tourism and conventions opportunities are currently limited by the overall aircraft capacity issues. Air Canada's Manager for Group Sales visited Kingston in early February. The purpose of this meeting was to provide staff at KEDCO with the right contacts and awareness of processes to facilitate larger groups of travellers to use Kingston Airport and as well to meet appropriate staff from key organizations that would benefit from better access to group sales (such as sports tourism and convention

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event organizers). Air Canada has committed to increase the aircraft size to accommodate these key travel generators as long as it is made aware of the special event well in advance.

WestJet

The team has had three face-to-face meetings with WestJet representatives. Its senior route planners and sales staff are very interested in the potential Kingston area market. Each meeting has resulted in a request for more analysis and information. At the last meeting, the information on major travel generators from the recently KEDCO-commissioned work from LPS AVIA was requested by WestJet. WestJet/Encore's expansion into eastern Canada had been delayed due to the success and demands created by Encore in western Canada. Encore has recently announced service from its Halifax hub starting the summer of 2015. Several Atlantic regional airports will be receiving Encore services.

Over the next year, the team will concentrate on continuing to monitor changes in the airline industry. Market data will continue to be compiled and analysed to identify any changes in origin/destination demographics of Kingston airline passengers. Face-to-face visits with Air Canada and WestJet will continue with the goal of obtaining improved air services from Air Canada and securing the start of air services by WestJet. Staff will continue to monitor Porter as it evolves into a national carrier.

LPS AVIA

LPS AVIA Consulting has provided air service development assistance to Kingston Airport since 2011. Its team includes a former airline route economist, a former airline Vice President Marketing and a former Director of Airline Development. Its team continues to bring numerous personal contacts and relationships in the airline industry to the advantage of Kingston Airport. It has compiled and provided Kingston Airport with a vast amount of analytical data regarding the Kingston area market. Its experience and personal contacts in the airline industry has enabled access to senior decision-makers within both Air Canada and WestJet.

The Air Canada lower fare initiative implemented in 2014 that resulted in significant saving for Kingston passengers and an unprecedented passenger growth of 7% may not have been possible without the assistance of LPS AVIA.

The work to attract WestJet and to improve aircraft capacity by Air Canada will be greatly assisted by the continuance of LPS AVIA Consulting in a consulting, research and advisory capacity for the City.

To review and monitor airline industry changes, research and monitor air travel data and to assist in the air services development strategies coming to fruition, City staff is recommending the continuance of LPS AVIA as its consultant and advisor. In order to sustain on-going efforts in air services initiatives, staff recommends that the services of LPS AVIA be secured as a single-source procurement on a time and materials basis to an upset limit of \$37,500. Generally speaking, the scope of work and deliverables are as outlined below although as overseen by the Kingston Airport Manager:

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Scope of Work

The scope of work will include the following activities:

- Market and traffic research, and preparation of pro-active submissions to airlines;
- Analytical assistance and response to airline requests for information;
- Periodic discussions and ongoing contacts with airlines, primarily Air Canada and WestJet;
- Monitoring of the Kingston air service market situation, identification of new air service Initiatives or emerging opportunities, and recommendations for follow-up actions; and
- Other requests for air service support from the City.

Deliverables

- LPS AVIA will provide the following deliverables:
- Periodic reports on all meetings attended;
- Periodic reports with respect to ongoing discussions with air carriers; and
- Situation updates as necessary concerning new or emerging issues potentially impacting air services at Kingston Airport.

Air Services Development and Infrastructure Expansion

The proposed infrastructure expansion is in direct support to the efforts being made to improve air services.

The runway is sufficiently long to enable the DH-8-Q400 series turbo-prop aircraft proposed by WestJet. However, any passenger jet service would require the longer runway. Staff see a good potential for passenger jet aircraft during key travel periods (such as Queens student movements), for supporting convention initiatives regularly throughout the year and to support the continued growth of commercial business aviation. A longer runway will also facilitate industrial development on currently vacant airside access lands.

The terminal building is designed to comfortably accommodate flights of 40-50 passengers. With the introduction of Q400 aircraft, especially if there are two competing flights being processed simultaneously, the demands on check-in, security screening and departures holding room will exceed these systems' capacity.

Carriers are well aware of the impact of congested facilities on their ability to grow their services. The implementation of expansion plans will indicate to carriers that Kingston Airport is fully supportive of improvements to allow development of their air services.

Existing Policy/By-Law:

Purchasing By-Law

Notice Provisions:

N/A

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Accessibility Considerations:

N/A

Financial Considerations:

The cost associated with the air services development consultancy and initiatives is provided for in the approved 2015 operating budget.

Contacts:

David Snow, Airport Manager

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Other City of Kingston Staff Consulted:

N/A