

# **.5% LOT FOR AIR BALLOT INITIATIVE (2023)**

3-15-23

## **FAQ**

### **SUMMARY**

Renewal of **.5% LOT for AIR** renewal will preserve and support air service for our community and guests.

### **What is the LOT for AIR?**

The Local Option Sales Tax for Air (LOT for AIR) is dedicated to air service development and destination management/air support. The **1% LOT for AIR** was passed by voters in Ketchum, Hailey in 2013 for a period of 5 years, from January 1, 2014 through December 31, 2018, and renewed by voters for another 5 year period in 2017. Hailey voters reapproved the tax in 2020. The current 1% LOT for AIR expires in Ketchum and Sun Valley on 12/31/23.

**The LOT for AIR is on the ballot in Ketchum and Sun Valley on May 16, 2023 for a 5 year renewal, beginning 07/01/23, at a reduced rate of .5%. It is also on ballot in Hailey at reduced rate of .5%.**

### **Why is the LOT for AIR sales tax rate being reduced in from 1% to .5%?**

The **1% LOT for AIR** is generating significantly more revenue now as when it was first enacted by voter approval in 2014, and the airline program at Friedman Memorial Airport (SUN) has also been steadily generating more passengers, thereby reducing the overall amount need to pay the airlines in Minimum Revenue Guarantee (MRG) contracts. There is still a need for airline MRG contracts to preserve and support SUN air service, but it can be successfully done with .5% LOT funding level.

### **Why a 5 Year Renewal for the .5% LOT for AIR?**

Continuing to maintain successful partnerships with airlines is key to retaining and improving air service. Renewal of .5% LOT FOR AIR will preserve and support air service for our community and guests.

### **Renewing the .5% LOT for AIR for another 5 years will allow our community to:**

- ✚ Retain our current flight routes**
- ✚ Improve frequency and convenience for air travel year-round**
- ✚ Sustain our local economy, local businesses, local jobs and quality of life**

### **What are the BENEFITS of the LOT for AIR to date?**

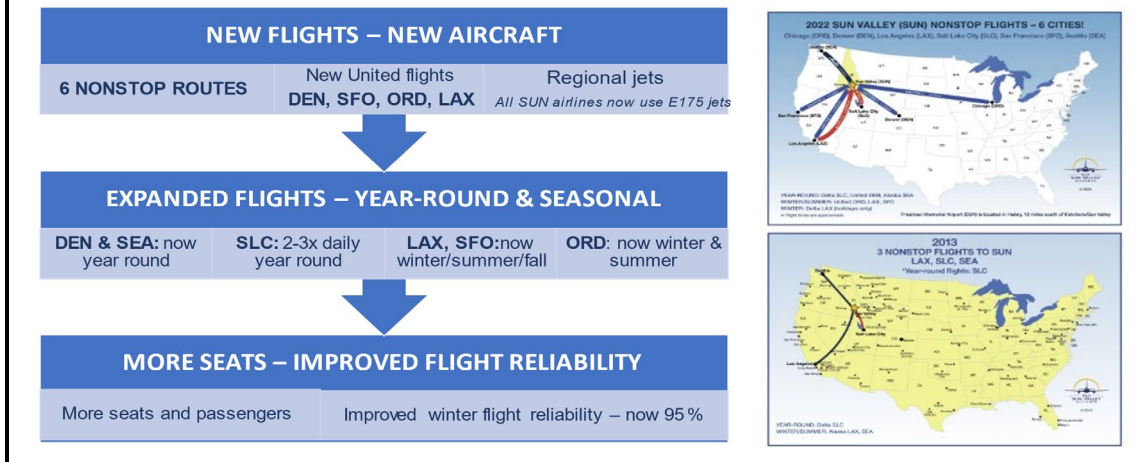
Since 2014, the **1% LOT for AIR** has provided the resources to improve air service at Friedman Memorial Airport (SUN) and flight reliability, providing a big positive impact on our economy and quality of life for local residents.

**Our community now has improved convenience with more flights to more destinations – from 3 to 6 nonstop routes - and more year-round air service**

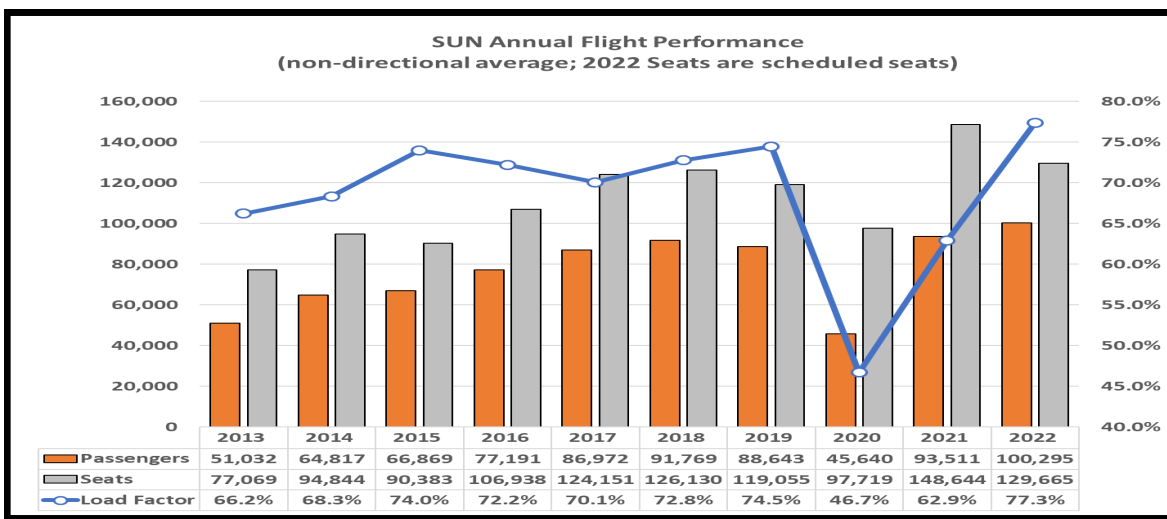
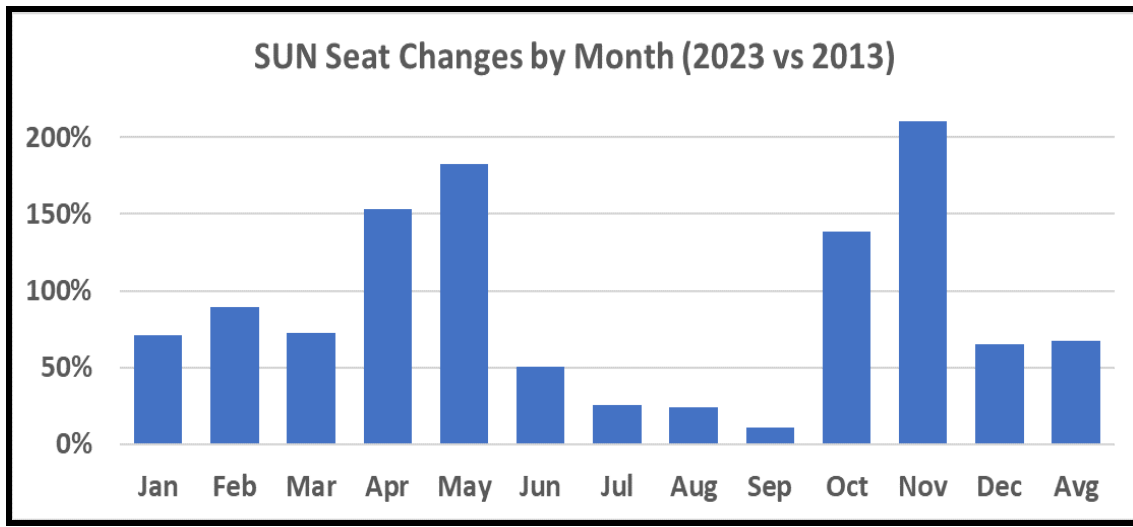
### **KEY ACCOMPLISHMENTS**

- Attracted new airline to serve SUN (United) – and new E175 regional jet service
- Secured new nonstop flights from Denver (DEN), San Francisco (SFO) and Chicago (ORD)
- Extended service to Denver (DEN) and Seattle (SEA) from seasonal to year-round
- Extended service to Los Angeles (LAX) and San Francisco (SFO) into fall
- Supported year-round daily service to Salt Lake City (SLC)
- Supported winter diversion busing for SUN passengers until reliability was improved
- Supported improved winter flight reliability through new airport approach procedure (95+% avg SUN winter flight completion rate now, up from 73% in 2019)

# FSVA SUN AIR PROGRAM – KEY ACCOMPLISHMENTS 2014 - 2022



The largest changes in SUN air seat capacity in last 10 years has been in spring, fall, winter. SUN now has much more year-round and winter service, which benefits local residents.

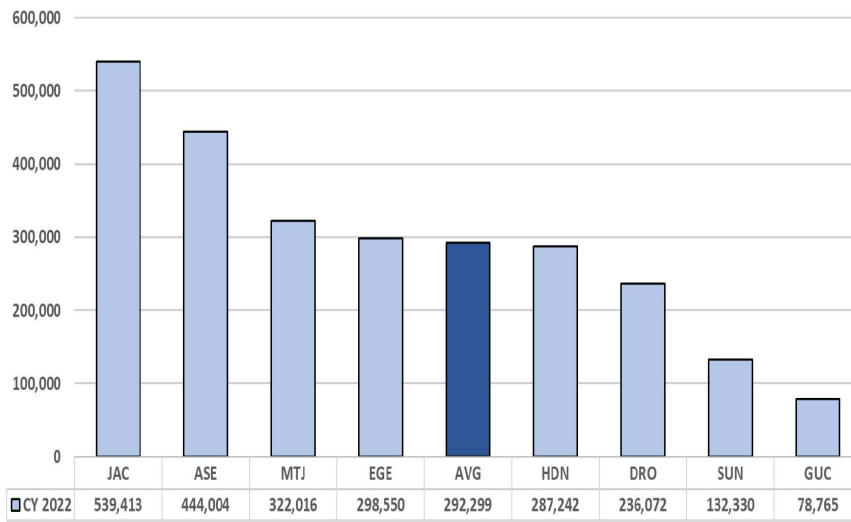


## How Does Our Air Service Compare to Other Resorts?

The goal is to **preserve** current SUN air service, not major future growth, but it's important to understand that visitors have many easy air service access choices among our competitor resorts.

### THE COMPETITION – OTHER RESORT AIR SERVICE

2022 Mountain Resort Seat Comparison



Most other western resorts (not located near major cities) have much greater air service seat capacity than SUN.

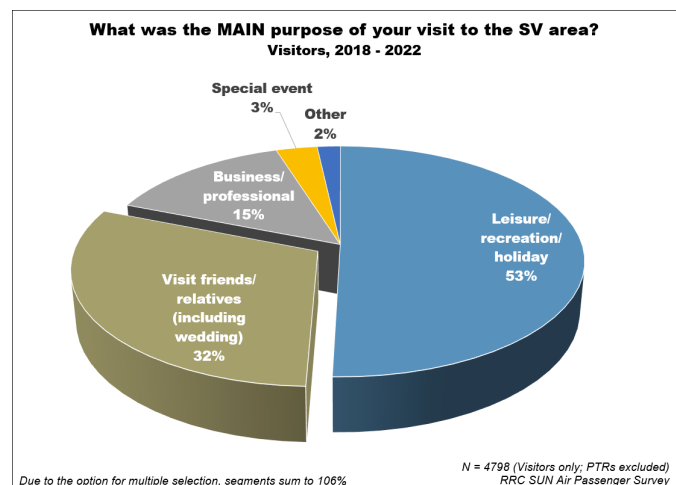
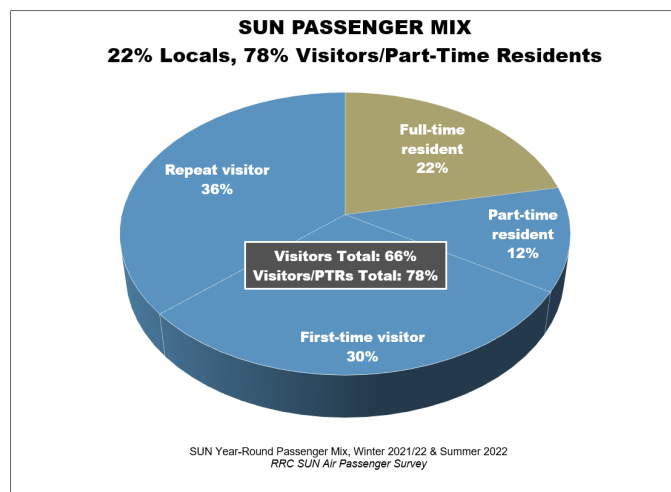
*Note: Most of these other resorts also have MRG contracts for air service*

JAC: Jackson Hole  
 ASE: Aspen  
 EGE: Vail  
 HDN: Steamboat Springs  
 MTJ: Montrose/Telluride  
 DRO: Durango/Purgatory  
 SUN: Sun Valley  
 GUC: Gunnison/Crested Butte

## Who Uses SUN Air Service?

- 22% are full-time local residents – 12% are second homeowners – 66% are visitors
- 30% of visitors are coming to visit family/friends who live here
- Overall, 54% of SUN passengers have some connection to the Wood River Valley

[More SUN Air Passenger stats HERE](#)



## How much will the .5% LOT for AIR generate?

LOT for AIR AT .5% renewal rate will generate \$2M annually.

1% LOT for HOUSING & AIR				
Based on actual 2021/22 Net Revenues	KETCHUM	SUN VALLEY	HAILEY	TOTAL
1% LOT Revenue	\$ 3,104,900	\$ 1,082,612	\$ 157,157	\$ 4,344,669
.5% for HOUSING	\$ 1,552,450	\$ 541,306	\$ 78,579	\$ 2,172,335
.5% FOR AIR	\$ 1,552,450	\$ 541,306	\$ 78,579	\$ 2,172,335

## What is Taxed and Who Pays the .5% LOT FOR AIR Sales Tax?

The LOT for AIR in Ketchum & Sun Valley is paid on all taxable items including lodging, restaurants, retail, recreation/lift tickets, liquor-by-the-drink, and building materials. In Hailey, LOT for Air is on lodging & rental cars. **The LOT FOR AIR is NOT included on items such as groceries and gas.**

**The LOT for AIR is a tourism tax – over 75% of total LOT revenues are paid by visitors.**

Source: Zartico credit card spend data, 2022

## How Important is Tourism to our Economy - Local Businesses, Local Jobs?

- Tourism represents **73%** of Blaine County's GDP <sup>(1)</sup>
- Tourism annually generates **\$355M in visitor spending; \$34M in local tax revenue** <sup>(2)</sup>
- Tourism provides **5100 jobs** in Blaine County that are directly related to visitor spending. <sup>(2)</sup>
- Community Housing is vitally important for Blaine County's tourism economy

Sources: 1) [2018 Analysis, SV Economic Development](#), 2) [2021 Idaho Travel Impact Study](#)

## What is the Mechanism for Oversight of LOT for AIR Funds?

### SUN VALLEY AIR SERVICE BOARD



[www.svairserviceboard.org](http://www.svairserviceboard.org)

The proceeds from this tax are administered by the Sun Valley Air Service Board (SVASB) under a Joint Powers Agreement (JPA). Its purpose is to direct and oversee the use of the dedicated 1% LOT for air service and destination management/air support, as directed by the respective cities. SVASB is comprised of 4 people:

- **Ketchum Mayor** – Neil Bradshaw
- **Sun Valley Mayor** – Peter Hendricks
- **Hailey Mayor** – Martha Burke
- **Blaine County Commissioner** – Muffy Davis (ex-officio)

Per the JPA, SVASB has no staff (each of the cities utilizes their staff for various SVASB tasks) and minimal operating expense. [www.svairserviceboard.org](http://www.svairserviceboard.org)

The Sun Valley Air Service Board has Contracts for Services with two local non-profit organizations:

- **Fly Sun Valley Alliance for air service development/improvement**
- **Visit Sun Valley for destination management/promotional air support**

These organizations closely coordinate efforts and provide regular reporting to the SVASB regarding activities and results.



## What is Fly Sun Valley Alliance?

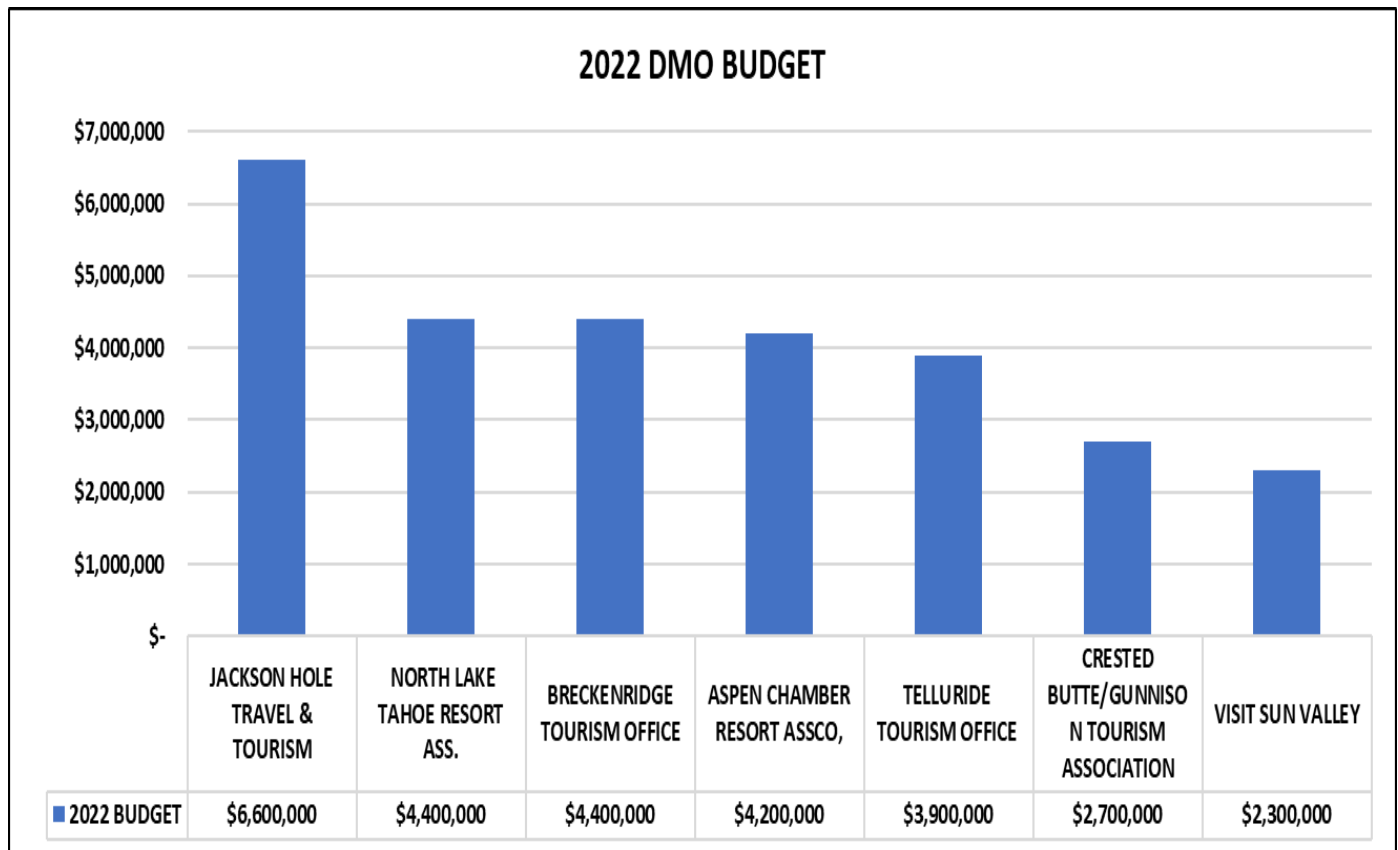
Fly Sun Valley Alliance is the valley’s only non-profit 501c6 economic development organization focused on **improving commercial air service for the Wood River Valley to benefit the community.** The FSVA operates with a 14- member volunteer board of directors representing private and public sectors throughout the valley, and one staff. FSVA has been working with Sun Valley Resort and other partners for over two decades to improve air service to Friedman Memorial Airport (SUN). [www.flysunvalleyalliance.com](http://www.flysunvalleyalliance.com)

# VISIT SUN VALLEY

## What is Visit Sun Valley?

Visit Sun Valley is the destination marketing and management organization (DMMO) for the greater Sun Valley area. **Their mission is to raise awareness of Sun Valley and influence consumers in an effort to sustainably increase visitation from their target markets and valued guests.** Visit Sun Valley, a 501c6 non-profit, operates with a 7-member governing board and a 12-member advisory board along with 9 staff including Visitor Center agents. Their marketing efforts are closely coordinated with the Sun Valley Resort and other Valley-wide partners. [www.visitsunvalley.com](http://www.visitsunvalley.com)

### Visit Sun Valley Comparison to other Ski Destination DMO (Destination Marketing Org) Budgets

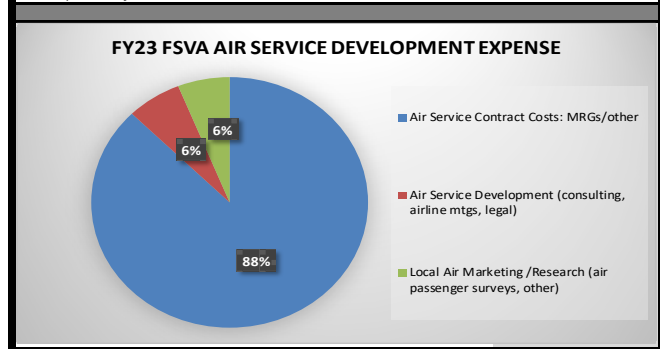


## What are the 1% LOT for AIR funds used for?

All funds from this tax are dedicated to air service contracts/MRGs (Minimum Revenue Guarantees), air service development efforts and destination management/air support. Historically, approximately 50% of the LOT for AIR funds have been used for air service and 50% are used for destination mgmt/air support.

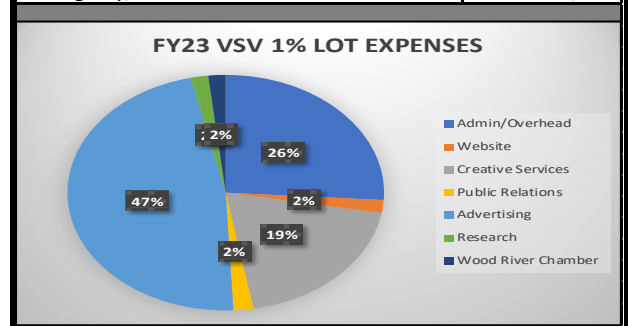
### **FY23 Fly Sun Valley Alliance 1% LOT BUDGET**

<b>FSVA 1% LOT ASB CONTRACT BUDGET FY23</b>		
<b>INCOME</b>		
	<b>TOTAL</b>	
1% LOT Revenues/SVASB Contract for Services	\$	1,400,000
Interest	\$	2,000
<b>TOTAL INCOME</b>	<b>\$</b>	<b>1,402,000</b>
<b>LOT EXPENSE</b>		
Air Service Contract Costs: MRGs/other	\$	1,227,000
Air Service Development (consulting, airline mtgs, legal)	\$	90,000
Local Air Marketing /Research (air passenger surveys, other)	\$	85,000
<b>TOTAL EXPENSE</b>	<b>\$</b>	<b>1,402,000</b>
Contingency/Reserves (FY21)	\$	2,320,268
<i>Note: a portion of reserves are restricted due to LOC</i>		



### **FY23 Visit Sun Valley 1% LOT BUDGET**

<b>FY23 VISIT SUN VALLEY 1% LOT BUDGET</b>	<b>TOTAL</b>
<b>1% LOT INCOME</b>	
Sun Valley Air Service Board Contract	\$ 1,689,110
<b>TOTAL</b>	<b>\$ 1,689,110</b>
<b>EXPENSE</b>	
Admin/Overhead	\$ 439,168
Website	\$ 30,000
Creative Services	\$ 327,822
Public Relations	\$ 34,588
Advertising	\$ 797,532
Research	\$ 30,000
Wood River Chamber	\$ 30,000
<b>TOTAL</b>	<b>\$ 1,689,110</b>
Contingency/Reserves	\$ 423,500



[FY23 FSVA 1% LOT BUDGET PRESENTATION](#)  
[FY21 FSVA 1% LOT FINANCIAL REPORT](#)

[FY23 VSV 1% LOT BUDGET PRESENTATION](#)  
[FY21 VSV ANNUAL REPORT](#)

*Note on FSVA Reserves: FSVA budgets require a reserve fund, in order to engage an airline on an MRG contract- the airlines need to know there are funds to pay if needed. While FSVA's MRG contracts include a maximum cap on payout, the reserves must cover the maximum potential payout for upcoming contract periods, including uncertainty about future LOT collections and funding sources. Reserves are important to maintain a consistent air service program for locals and visitors.*

## What other Private Sector Partners Support Air Service?

The Sun Valley Resort plays a big role in supporting air service – paying 50% of airline contract MRG costs to FSVA and providing additional efforts to market & promote air service. The Sun Valley Board of Realtors also supports FSVA's air service efforts through their Realtors for Air program.

## Why are some of the LOT for AIR funds used for Promotion/Destination Mgmt?

As a resort area, tourism is a key driver of our economy and supports many aspects of our wonderful quality of life, including a variety of events, amenities, local businesses, and transportation, including Mountain Rides bus services and Friedman Memorial air service. SUN air passenger surveys show that 78% of SUN passengers are visitors. So while the number of local resident travelers using air service out of SUN has grown significantly over the past decade, we could not retain our current level of air service solely with local resident travelers. **Visitors are essential to help fill airplane seats and sustain our local economy.**

Visit Sun Valley provides destination management, visitor information, and promotion services for the Sun Valley area, balancing supply and demand. Additionally, they take the necessary steps to ensure tourism adds value to a destination community and that visitors are well educated on local community resources, culture, and values. Visit Sun Valley works to manage many aspects of the destination including promotion efforts, local resources, accommodation, activities, events, environmental concerns, attractions, and transportation.

## Why Does Our Community Need to Contract for Air Service?

In many smaller and/or seasonal communities, airlines require a certain level of financial risk mitigation be guaranteed to provide service, typically in the form of an MRG (Minimum Revenue Guarantee) contract. The community that wants the service for its residents and guests shares the financial risk with the airline which would not otherwise service the community. FSVA currently has MRG contracts with United and Alaska airlines. US airlines are struggling to serve small markets, rural airports. US airlines are significantly reducing service. **MRG contracts have allowed us to secure/retain good service at SUN.**

Airline MRG contracts are often required by many airlines to serve small, seasonal destinations such as SUN. Other cities have these types of MRG airline contracts to secure flights – from resort areas like Jackson Hole, Telluride, Vail, Steamboat, and Crested Butte, etc to larger cities across the US. Even small cities, like Twin Falls, Pocatello, Lewiston, Idaho Falls, Cheyenne and many others, currently have MRG contracts to retain air service.

**Read:** [TIME article on communities keeping air service through MRG airline contracts](#)

**Read:** [Magic Valley Regional Airport has a single daily flight. It's 'pay-to-play' to keep it](#)

## How do Airline Contracts/MRGs work?

MRGs are a contract for future performance, and the final cost is determined after a contract period is closed. An MRG contract obliges the airline to share detailed flight data before FSVA makes a payment. An MRG contract induces service by putting a floor on the performance of a flight but pays less when the flight does well. In good times, load factors are high, the local economy benefits, and MRG costs go down. In recession, load factors are low, MRG costs increase, and locals benefit from flights that would otherwise be cancelled.

The amount owed to the airline at the end of the contract period (typically one season or one year) is the shortfall between the actual revenue generated and the minimum revenue needed by the airline to cover the cost of the flight. FSVA's airline contracts are both seasonal and annual, depending on airline. The airline contracts include a strict confidentiality clause for competitive reasons.

*Example: FSVA contracts with an airline for a \$500K MRG cap for a summer season of daily non-stop service, which represents the airline's identified potential shortfall between actual revenue and cost. At the end of the season, if total revenues fall short of actual cost by \$300K, FSVA would owe the airlines the \$300K. On the other hand, if the total revenue shortfall on the flights was \$550K FSVA would owe the airlines just the \$500K contract cap. If the actual revenue produced met or exceeded the cost, FSVA would owe \$0.*

FLIGHT ROUTE	MRG CAP per contract (Maximum Cost)	MRG Actual Profit/(Loss)	FSVA Actual Cost Paid to Airline
<b>Example 1</b>			
SUN - xyz destination	\$ 500,000	\$ (600,000)	\$ 500,000
<b>Example 2</b>			
SUN- xyz destination	\$ 500,000	\$ (300,000)	\$ 300,000
<b>Example 3</b>			
SUN- xyz destination	\$ 500,000	\$ 100,000	\$ -

## How do SUN airfares compare?

Anyone who has booked a commercial airline ticket over the past year knows that airfares have risen quite a bit. This is due to a big post-pandemic jump in passenger demand (everyone wanting to get out and travel), combined with reduced capacity of the airlines to meet all of that demand (caused by pilot and other staff shortages) and significantly higher labor and fuel costs.

Anyone traveling from here are advised to **Check SUN Fares First**, as often the price differential flying from SUN vs BOI (Boise) is very small, and sometimes fares from SUN can even be less. Of course, there will also be times of high demand - holidays, peak season - where fares from SUN will be much higher than during other periods. All airlines practice yield management, which is a variable pricing strategy based on the principle of maximizing the revenue from a fixed, limited resource. It finds the optimal balance of supply and demand, where the price perfectly matches the demand. And typically the best fares are found when you book at least 30 days in advance.

### **So what happened this past year with airfares?**

As you can see from the chart below - SUN fares rose 40% - but that is exactly what happened across the US and at BOI as well.

<b>Change in 2022 Airfares Compared to 2021</b>	
SUN	40%
BOI	40%
All U.S.	41%
<i>Source: Diiomi airfares (12 months ending September)</i>	