How are Air Service Trends Impacting Small Communities

Mike Maynard | Joe Beckendorf | Steve Brian | Shawn Burke
Wyoming Air Service Development Program
Air Service to Small Communities

• What is a small community?
  – Solely limited to non-hub airports?

• Airline Deregulation Act

• Essential Air Service (EAS)
  – “Maintain access to the national air transportation system”
  – 746 originally eligible communities; 300 have received subsidy
  – Originally to sunset in 1988
  – Increasingly limited scope - increasing costs
9 Commercial Airports In Wyoming were originally eligible for EAS

- 2 Currently Receive Funding (Cody, Laramie)
- 4 exited EAS and became profitable but now again require support (Sheridan, Cheyenne, Riverton, Rock Springs)
- 2 became entirely self-sustaining (Casper & Jackson)
- 1 Lost eligibility (Worland)
Small Community Air Service Development Program

SCASDP

• Allows airports to self-identify solutions to air service problems and apply for a grant
  – No larger than a small hub
  – Local match
  – Variable projects
    • Marketing
    • Revenue Guarantees
    • Fee waivers
    • Travel Bank
• Limitations – Same project limitation
SCASDP in Wyoming

- 2002 Casper/Gillette
  - $500k
- 2005 WY Consortium
  - $800K “Fly Wyoming”
- 2012 Casper
  - $100K
- 2014 Cheyenne
  - $200K (LAS->DFW)
- 2014 Sheridan
  - $500K (DEN)
- 2015 Riverton
  - $481K (DEN)
- 2018 Casper
  - $500K (Western hub)
State Support for Air Service

Air Service Enhancement Program (ASEP)

• In 2003 the WY state legislature found:
  “an adequate and comprehensive system of air service in Wyoming is vital for economic development within Wyoming”.

  W.S. § 10-3-601

• Originally appropriated $3M annually for granting purposes to improve air service
  – Revenue guarantees
  – Marketing
  – Improvement projects
  – Consulting, data & analysis

• Later reduced to $1.5M annually and then $1.3M

• Grants required “a significant local contribution”
State Support for Air Service

Air Service Enhancement Program (ASEP)

All 9 Commercial Airports In Wyoming have used ASEP funds at one point

- Casper – MSP
- Cody – SLC, DEN, ORD
- Cheyenne – DFW
- Gillette – SLC, DEN
- Jackson – DFW, ORD, EWR, IAH, IAD
- Rock Springs – SLC, DEN
- Riverton and Sheridan – DEN
State Support for Air Service
Air Service Enhancement Program (ASEP)

• Since 2004:
  – $28M in state support
  – $12M in local matches
  – 1,000,000+ passengers
    • 600,000 visitors
  – $550M in economic output

Estimates through FY 2019 based on 2016 ROI
State Support for Air Service

Air Service Enhancement Program (ASEP)

- Capacity for Wyoming's smallest airports has declined
- Smallest airports at risk of losing all service
  - Sheridan Feb 2015
  - Cheyenne Mar 2018
- Void left by EAS
Air Service Enhancement Program

Filling in for EAS

- ASEP divided into two categories
  - Critical service
  - Growth service

- 4 Communities are responsible for 70% of all ASEP funds
  - The majority of ASEP funds shifted from developing new markets to retaining service

- Annual appropriation was not sufficient to sustain service in these communities
Secure a long term commitment with an airline to provide air service to the state’s most at risk communities
  – Hedge against increasingly competitive market
  – Enable communities to achieve full market potential
  – Contractual provisions for schedule and fare influence
  – Retain profits when applicable

Provide reliable, on-time service

More efficient use of state dollars
  – Leverage purchasing power of state
  – Lower per passenger costs
  – Improve stability of service

Safety net for communities
State Support for Air Service

Capacity Purchase Agreement (CPA)

• $15M in state appropriation

• WY Commercial Air Service Improvement Council created
  – Stakeholder and public input
  – Recommended to pursue CPA for “critical service”
  – Use the ASEP for growth markets

• Request For Proposals

• Negotiations and contract award
Rock Springs and Gillette gain additional flights
Sheridan and Riverton transition to United Express operated by SkyWest January 11th
State cost per passenger reduced by 25%
40,000 additional passengers annually
Similar costs
Selling Air Service
To your state and communities

• Economic Value
  – A 1% increase in air passenger traffic leads to a .12% increase in per capita income*
  – WY realized a $24 return for every dollar invested in air service
  – Leverage businesses

• Quality of life tool
• Investment is essential
• Long-term commitment

*I. Cagri Ozcan, Journal of Air Transport Management 34 (2014) 24-29
What makes air service work
In small communities

• Correct type of service
  – Proximity to other hubs
  – Right size aircraft / distance
  – Connectivity

• Reliability

• Population isn’t everything – Your market is smaller than you think

• Staying realistic – Don’t lose sight of your strategy

*I. Cagri Ozcan, Journal of Air Transport Management 34 (2014) 24-29
Future of air service to small communities

• Changing economics
  – Bigger aircraft
    • 19>30>50>65+
  – Higher volume
• Electric future?
• “Plane shame” and environmental concerns
Questions

Shawn Burke

Shawn.Burke@wyo.gov
307-777-3975
Wyoming Air Service Update

Total State Passenger Levels

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<thead>
<tr>
<th>Year</th>
<th>Passengers</th>
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<td>2000</td>
<td>743,616</td>
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<td>2001</td>
<td>692,700</td>
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<td>2002</td>
<td>677,287</td>
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<td>2003</td>
<td>725,595</td>
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<td>2004</td>
<td>782,803</td>
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<td>2005</td>
<td>890,724</td>
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<td>2006</td>
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<td>2011</td>
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<td>2012</td>
<td>996,733</td>
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<td>2013</td>
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<td>2015</td>
<td>1,097,101</td>
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<td>2016</td>
<td>1,094,990</td>
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<td>2017</td>
<td>1,108,924</td>
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<td>2018</td>
<td>1,173,471</td>
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</table>
2019 NASAO Annual Conference
How Are Air Service Trends Impacting Small Communities?

September 10, 2019
Presented By
Steven V. Brian, Manager
Aviation Programs
State of Georgia Air Service Initiative

- Background on State Air Service Activity
  - State Code Requires…the Department of Transportation to promote and encourage air commerce in the state, between states, and foreign countries…

- Air Service Headwinds and Concerns

- Relevant Small Community Air Service National Data

- Georgia’s Air Service Initiative (Jviation and Delta Airport Consultants)
  - Objective of Air Service Study

- Request for Assistance on State Air Service Survey (NASAO)
Georgia Aviation Statistics

106 public-use facilities

105 publicly-owned
9 Commercial Service
   Albany, Athens, Atlanta, Augusta, Brunswick, Columbus, Macon, Savannah, Valdosta
96 General Aviation

1 privately-owned
   Warner Robbins

382 private use facilities

8,000 Registered Aircraft

17,895 Registered Pilots
## CY17 vs. CY18 Enplanement Summary

<table>
<thead>
<tr>
<th>National Rank</th>
<th>Airport Name</th>
<th>CY 17 Enplanements</th>
<th>CY 18 Enplanements</th>
<th>% Change</th>
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<tr>
<td>1</td>
<td>Hartsfield – Jackson Atlanta Int.</td>
<td>50,251,964</td>
<td>51,866,464</td>
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<tr>
<td>82</td>
<td>Savannah/Hilton Head Int.</td>
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<td>1,357,478</td>
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<td>166</td>
<td>Augusta Regional</td>
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<td>301,371</td>
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<tr>
<td>276</td>
<td>Columbus</td>
<td>49,773</td>
<td>49,377</td>
<td>-0.8%</td>
</tr>
<tr>
<td>286</td>
<td>Valdosta Regional</td>
<td>43,738</td>
<td>44,609</td>
<td>1.99%</td>
</tr>
<tr>
<td>292</td>
<td>Brunswick Golden Isles</td>
<td>36,433</td>
<td>40,520</td>
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<tr>
<td>295</td>
<td>Southwest Georgia Regional</td>
<td>37,920</td>
<td>34,226</td>
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<tr>
<td>369</td>
<td>Middle Georgia Regional</td>
<td>4,857</td>
<td>15,431</td>
<td>217.71%</td>
</tr>
<tr>
<td>635</td>
<td>Athens/Ben Epps</td>
<td>1,161</td>
<td>1,412</td>
<td>21.62%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>51,907,020</td>
<td>53,710,888</td>
<td>3.48%</td>
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</table>

Source: https://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/passenger/media/preliminary-cy18-all-enplanements.xlsx
# Georgia Commercial Service Airports by the Numbers

<table>
<thead>
<tr>
<th>Airport</th>
<th>FAA ID</th>
<th># of Airlines</th>
<th>Departure Per Day</th>
<th># of Destinations</th>
<th>Destinations</th>
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<tbody>
<tr>
<td>Hartsfield-Jackson Atlanta International</td>
<td>ATL</td>
<td>18</td>
<td>1,365*</td>
<td>239*</td>
<td></td>
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<tr>
<td>Southwest Georgia Regional</td>
<td>ABY</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>ATL</td>
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<tr>
<td>Augusta Regional Airport At Bush Field</td>
<td>AGS</td>
<td>2</td>
<td>22*</td>
<td>3</td>
<td>ATL, CLT, and DFW</td>
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<tr>
<td>Brunswick-Golden Isles</td>
<td>BQK</td>
<td>1</td>
<td>3*</td>
<td>1</td>
<td>ATL</td>
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<tr>
<td>Columbus</td>
<td>CSG</td>
<td>1</td>
<td>4*</td>
<td>1</td>
<td>ATL</td>
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<tr>
<td>Middle Georgia Regional</td>
<td>MCN</td>
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<td>2</td>
<td>1</td>
<td>BWI</td>
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<td>Savannah/Hilton Head International</td>
<td>SAV</td>
<td>8</td>
<td>56*</td>
<td>31*</td>
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</tr>
<tr>
<td>Valdosta Regional</td>
<td>VLD</td>
<td>1</td>
<td>3*</td>
<td>1</td>
<td>ATL</td>
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<td><strong>Total</strong></td>
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<td><strong>1,458</strong></td>
<td><strong>48,172</strong></td>
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</table>

*Varies per day/month
Air Service Headwinds

- Pilot Supply
- Service reliability-particularly at the regional level
- Mainline pilot negotiations on scope cause constraints that stipulate the number of smaller jet aircraft that can be flown by regional operators
- Increase in aircraft size-not all small markets can support larger aircraft
- The volatility in the price of oil
- Macroeconomic indicators point to the fact that the economy has clearly peaked
- Trade tensions around the globe-primarily a large and medium hub airport issue
- Airport infrastructure-particularly large and medium Hub airport access
Georgia’s Concern for Air Service

• Georgia has a system of commercial service airports dominated by non-hub airports.

• Georgia is the largest land mass state east of the Mississippi and needs good air service to support business and commerce.

• The relationship between a local economy’s ability to maximize its economic potential can be linked to the level of commercial air service.

• Georgia endeavors to understand the vulnerabilities of its non-hub commercial airports and to prepare them to preserve and improve air service to the best of their ability.
60-Minute Current Accessibility to Georgia and Nearby Commercial Airports

<table>
<thead>
<tr>
<th>Airports</th>
<th>Accessibility</th>
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<tbody>
<tr>
<td>Georgia and Nearby Commercial Airports</td>
<td>85.10%</td>
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Source: 2018 Georgia Statewide Airport System Plan Update
60-Minute Accessibility to a Georgia Commercial Airports with More than One Scheduled Carrier

<table>
<thead>
<tr>
<th>Airports</th>
<th>Accessibility</th>
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<tbody>
<tr>
<td>Georgia Commercial Airports with More than One Scheduled Carrier</td>
<td>58.27%</td>
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</table>

Source: 2018 Georgia Statewide Airport System Plan Update
## State Survey of Air Service Activity

### Change in Domestic Enplanements – Nonhub Airports Only

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<th></th>
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<tbody>
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<td>New Hampshire</td>
<td>27,952</td>
<td>54,788</td>
<td>26,836</td>
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<tr>
<td>Oregon</td>
<td>279,736</td>
<td>449,775</td>
<td>170,039</td>
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<tr>
<td>New Mexico</td>
<td>143,049</td>
<td>211,666</td>
<td>68,617</td>
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<td>Rhode Island</td>
<td>25,381</td>
<td>34,580</td>
<td>9,199</td>
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<tr>
<td>Oklahoma</td>
<td>55,456</td>
<td>75,487</td>
<td>20,031</td>
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<td>Utah</td>
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<td>295,811</td>
<td>76,121</td>
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<td>Iowa</td>
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<td>132,890</td>
<td>33,293</td>
<td>33.4%</td>
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<td>South Dakota</td>
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<td>416,251</td>
<td>101,772</td>
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<td>164,371</td>
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<td><strong>Georgia</strong></td>
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<td>Maryland</td>
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<td>88,543</td>
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<td>472,213</td>
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<td>45,773</td>
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<td>Wyoming</td>
<td>546,519</td>
<td>613,392</td>
<td>66,873</td>
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<table>
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<td>1,363,463</td>
<td>1,524,699</td>
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<td>199,695</td>
<td>19,510</td>
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<td>Hawaii</td>
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<td>Vermont</td>
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<td>Alabama</td>
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<td>534,905</td>
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<tr>
<td>Alaska</td>
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<tr>
<td>Michigan</td>
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<td>1,270,303</td>
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<td>Arkansas</td>
<td>146,367</td>
<td>144,851</td>
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<td>Puerto Rico</td>
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<td>471,432</td>
<td>-16,004</td>
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<td>New York</td>
<td>792,802</td>
<td>765,299</td>
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<td>West Virginia</td>
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<td>382,514</td>
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<td>Kentucky</td>
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<td>41,557</td>
<td>-2,466</td>
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<td>770,222</td>
<td>-241,056</td>
<td>-23.8%</td>
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<td>South Carolina</td>
<td>114,477</td>
<td>80,644</td>
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<td>-29.6%</td>
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<td>Nevada</td>
<td>141,191</td>
<td>97,437</td>
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<td>105,303</td>
<td>768</td>
<td>-104,535</td>
<td>-99.3%</td>
</tr>
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</table>

Source: Delta Airport Consultants
2018 Non-hub Airport Departures Grew For The First Time In 15 Years

Number of Non-hub Airport Departures (000)

- **Status Quo 2004 - 2006**: 975, 961, 920
- **Rationalization 2007 - 2009**: 921, 844, 792
- **Capacity Discipline 2010 - 2014**: 779, 751, 726, 712, 661
- **Capacity Regeneration 2015 - 2018**: 632, 604, 603, 618

Note: 48 contiguous states only.

Source: Delta Airport Consultants
Non-hub Airport Seats Did Not Begin Growing Year-over-Year Until 2017

Number of Outbound Seats (Millions)

- **Status Quo 2004 - 2006**: 40, 42, 39
- **Rationalization 2007 - 2009**: 40, 39, 36
- **Capacity Discipline 2010 - 2014**: 36, 36, 34, 35, 34
- **Capacity Regeneration 2015 - 2018**: 33, 33, 34, 36

**Note**: 48 contiguous states only.

Source: Delta Airport Consultants
Along the Way, 35 Small Communities No Longer have Commercial Service

Status Quo 2004 - 2006
- 2004: 329
- 2005: 325
- 2006: 332
- Peak: 2007 - 2009
- 2007: 334
- 2008: 321
- 2009: 327

Rationalization 2007 - 2009
- 2007: 316
- 2008: 317
- 2009: 318

Capacity Discipline 2010 - 2014
- 2010: 321
- 2011: 318
- 2012: 321
- 2013: 315
- 2014: 318

Capacity Regeneration 2015 - 2018
- 2015: 318
- 2016: 309
- 2017: 302
- Trough: 2018 - 299

Note: 48 contiguous states only.

Source: Delta Airport Consultants
Two of the Three Majors are Demonstrating Growth Potential at Non-hub Airports

Domestic Capacity By Network Carriers

Source: Delta Airport Consultants
Objectives Of Air Service Study

• Primary objective - understand the airport system’s vulnerabilities to maintaining commercial air service

• To inform GDOT, elected officials and community stakeholders of the vulnerabilities and what can be done to overcome them

• Assist in building new and different approaches to air carrier decision makers

• Provide smaller airports with a tool box of material to reference when addressing air service questions within the community

• Provide analysis and material for airport management to develop strategic discussions with their respective board of directors

• Bottom Line:

• To educate a wide range of stakeholders within each community of the vulnerabilities of Air Service, and

• Develop an ongoing program to assist smallest airports with limited budgets in their air service development efforts
Request For Assistance On Survey - Results Published Through NASAO

• A core component of our Study will be to conduct a survey of what each state is doing to support air service development efforts
  o For example, Indiana is being aggressive in providing funding for incentives to lure air service at airports large and small – WE WANT TO KNOW WHAT YOUR STATE IS DOING IF ANYTHING

• NASAO has agreed to disseminate the survey
  o We anticipate survey length on the shorter side so not to discourage participation

• THE BENEFIT TO YOU – WE WILL SHARE THE RESULTS SO THAT YOU CAN INFORM YOUR CONSTITUENT AIRPORTS
Questions

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Aviation Programs Manager
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Email: sbrian@dot.ga.gov
Table of contents

Background on Sun Country Airlines

  timeline
  fleet
  destinations
  product
  strategy evolution
  competitive edge

Network planning & scheduling process

  network design
  frequency assignment
  schedule build, edit & distribution

Questions
Timeline

1982
Founded by small group of former Braniff International Airways pilots and flight attendants

1983
Sun Country (SY) begins operations

1989
Becomes member of Civil Reserve Air Fleet; flies charters to support Desert Storm operation

1986
1st wide-body aircraft in service (DC10-40)

1999
Transforms from charter carrier to scheduled airline; First loyalty program

2001
SY shuts down and declares bankruptcy

2004
SY profitable again through combo of charter and scheduled

2008
2nd bankruptcy to separate from Petters Group

2011
Davis family purchases SY out of bankruptcy; Marty Davis becomes Chairman

2018
Record breaking year for passenger, traffic revenue, and earnings.

2019
Ongoing investment in fleet and technology

Acquired by Apollo Global Management

Acquired by Petters Group Worldwide and Whitebox Advisors

SY profitable again through combo of charter and scheduled

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Fleet

• Current
  – 26: 737-800s, 183 seats
  – 4: 737-700s, 126 seats

• Future
  – Incremental increase in 737-800s over the next five years
  – Eventual cessation of 737-700 scheduled service flying
  – 1: 737-700, VIP charter configuration

• New livery, employee-chosen design
  – Painted on all new aircraft and existing planes as they are due for paint
Destinations

Rapid Growth: 53 new markets since Fall of 2018
NonMSP Growth: LAS, MSN, PDX
Network Summary: 86 markets, 53 stations
Product

• **Seats (complimentary beverage for all seats)**
  – Best: 34-inch pitch, moveable headrest, additional recline, complimentary alcoholic beverage
  – Better: 32-inch pitch
  – Standard: 29 to 30-inch pitch

• **In-flight entertainment and power**
  – Free streaming to personal devices including movies, TV shows, music and games
  – Power at seats: full AC outlet for Best seats; USB outlet for Better and Standard
Strategy evolution

Lowering Unit Costs

Transition to LCC/ULCC Model

Change in DOW Concentration

- **1982 – 2017**
  - Full-service carrier
  - Scheduled and charter flying
  - MSP based schedule with limited NonMSP flying
  - Captured business, vacation and VFR traffic

- **2018 – Present**
  - LCC/ULCC hybrid business model
  - Greater emphasis on DOW sensitive and seasonal flying
  - Growth in nonMSP flying
  - Increased ownership of aircraft
  - Continued charter & schedule service flying
### Competitive edge

Costs are decreasing and LF% YoY is increasing

<table>
<thead>
<tr>
<th>Year</th>
<th>SY LF YoY</th>
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<tbody>
<tr>
<td>Q1 2017</td>
<td>10.5</td>
</tr>
<tr>
<td>Q2 2017</td>
<td>9.8</td>
</tr>
<tr>
<td>Q3 2017</td>
<td>9.2</td>
</tr>
<tr>
<td>Q4 2017</td>
<td>8.8</td>
</tr>
<tr>
<td>Q1 2018</td>
<td>8.5</td>
</tr>
<tr>
<td>Q2 2018</td>
<td>8.2</td>
</tr>
<tr>
<td>Q3 2018</td>
<td>7.9</td>
</tr>
<tr>
<td>Q4 2018</td>
<td>7.6</td>
</tr>
<tr>
<td>Q1 2019</td>
<td>7.3</td>
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</tbody>
</table>

#### Competitive unit costs
- Increased gauge through removal of first class and addition of economy seating

#### Increased LF% YoY while adding seats

#### Competitive product offering
- Only LCC/ULCC to offer inflight power

<table>
<thead>
<tr>
<th>Feature</th>
<th>SY</th>
<th>WN</th>
<th>F9</th>
<th>G4</th>
<th>NK</th>
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<tbody>
<tr>
<td>Seat Pitch</td>
<td>29”-34”</td>
<td>32”-33”</td>
<td>28”-31”</td>
<td>30”</td>
<td>28”-36”</td>
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<tr>
<td>Seat Width</td>
<td>17”</td>
<td>17”-18”</td>
<td>18”</td>
<td>17”</td>
<td>18”-20”</td>
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<td>Full Tray Table</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
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<td>Complimentary Drink</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
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<td>Streaming Service</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Inflight Power</td>
<td>Yes</td>
<td>No</td>
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<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Network planning & scheduling process
Three distinct phases

Network design

Frequency assignment

Schedule build, edit & distribution
Network design (1+ years out)

1. Discovery phase
   - Fleet growth
   - Profitability drivers
   - Travel & economic trends
   - Strategic growth areas
   - Opportunity set

2. Market Forecast & Selection Phase
   - Costs
   - Historical demand indices
   - Frequency
   - Revenue
   - QSI estimation
   - Forecasted opportunity set
Frequency assignment (9-12 months out)

3. Same-store phase
- Year prior performance
  - LF%, margin, RTs
- Budget metrics

4. New market selection phase
- Remaining allocation
- Forecasted opportunity set

Outputs
- Same-store frequency guide
- New market frequency guide

Inputs
Schedule build & distribution (1-9 months out)

5. Preliminary schedule
- Same-store and new frequency guide
- Operational parameters
- Flight schedule

6. Schedule distribution
- Flight schedule
- Price points
- Fare classes
- On sale schedule
Questions