Oklahoma Air Service Development Grant Pilot Program
Interim Study Summary

presented by

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Executive Summary

New nonstop air service can be a risky proposition for the airlines. With each route, an airline is not only investing aircraft resources and ownership costs, but also all of the variable costs that come with the operation of each flight (fuel, crew, passenger related costs, navigation fees, etc). Adding service to larger cities with more demand is typically an easier proposition for the airlines, making it challenging for smaller communities to attract new air service.

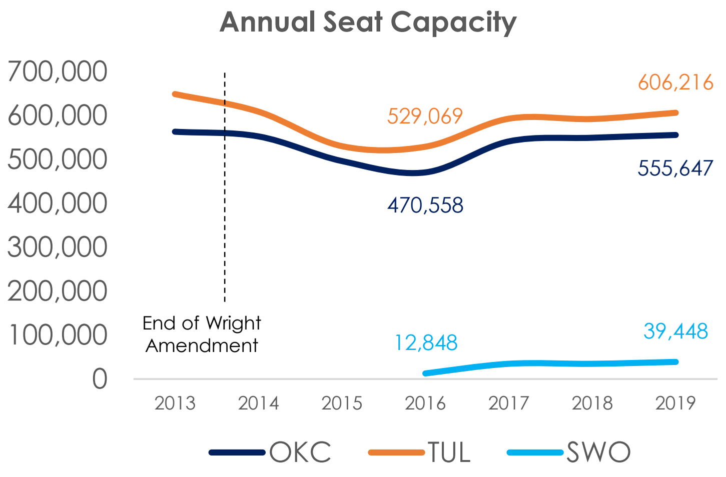
Minimum revenue guarantees (MRG) are designed to **reduce an airline's risk** of financial loss over the ramp up period of new nonstop service. An airline will set a specific revenue target for each flight segment, and the MRG fund serves as the backstop for any revenue shortfall that may occur each flight.

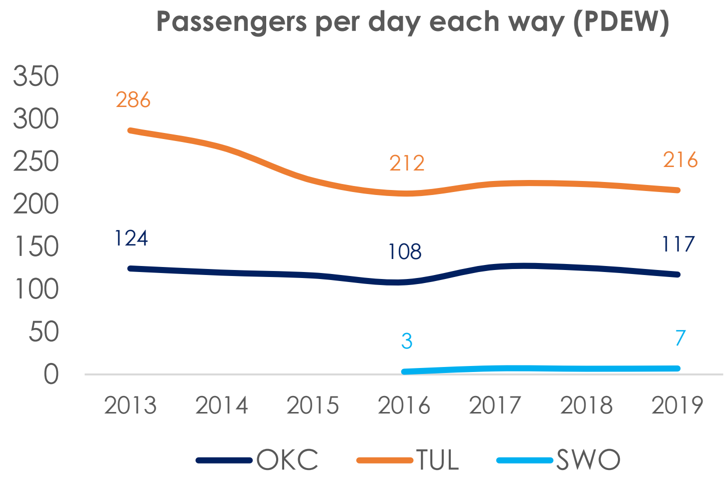
The **Oklahoma Air Service Development Grant Pilot Program (OASDGP)** is designed to increase the number of nonstop flights throughout the state of Oklahoma. These **new nonstops provide millions in economic impact** for individual cities and the state as a whole. New **businesses are able to be recruited** to the state by having nonstop flights to specific cities from which companies are looking to expand.

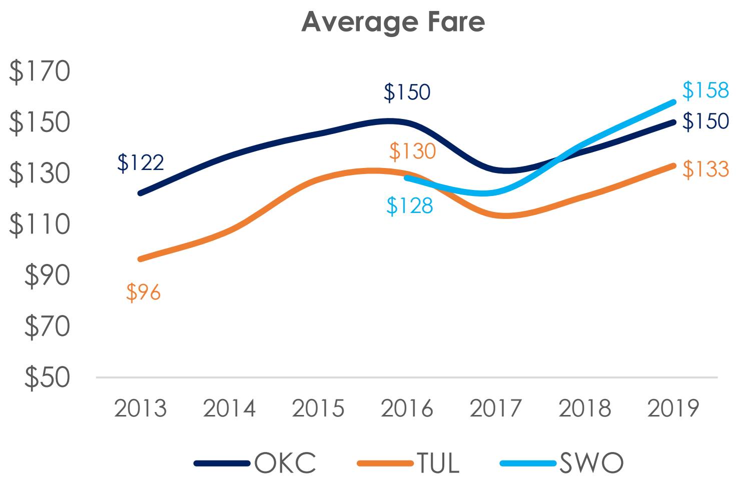
The OASDGP will bring **significant value to the citizens and companies across the state of Oklahoma** by giving communities another tool to utilize when recruiting new nonstop flights. The program is not designed to have state's commercial airports compete against each other; rather, increase and improve the quality and amount of nonstop flights to the state overall.

The following slides demonstrate how an **MRG programs have had little to no impact on current service levels** and market dynamics to various cities in Oklahoma.

Since **American launched SWO-DFW** daily service in 2016 **utilizing an MRG**, the OKC and TUL **market sizes to Dallas have increased**, while **SWO** still has a **higher fare**







- American's **SWO-DFW service launched** in 2016 utilizing a SCASD grant and MRG
- **OKC** <u>and</u> **TUL capacity** to Dallas **increased 15% and 12%,** respectively, the first year after SWO-DFW service initiation

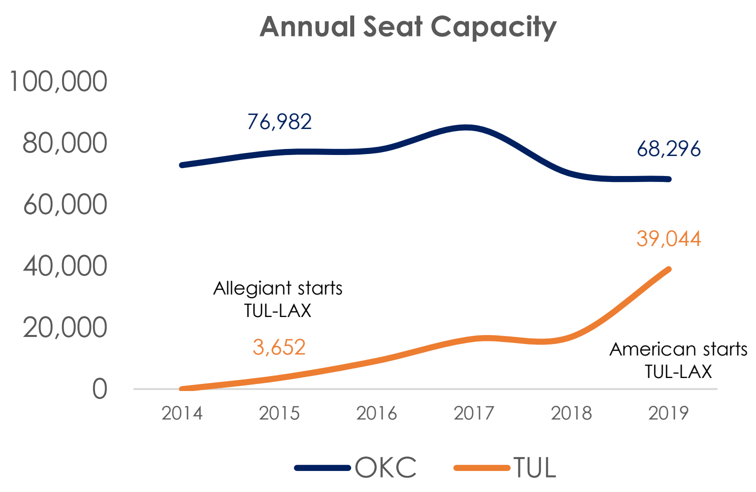
- Both the OKC and TUL markets to Dallas have seen **daily passengers increase** since SWO-DFW started

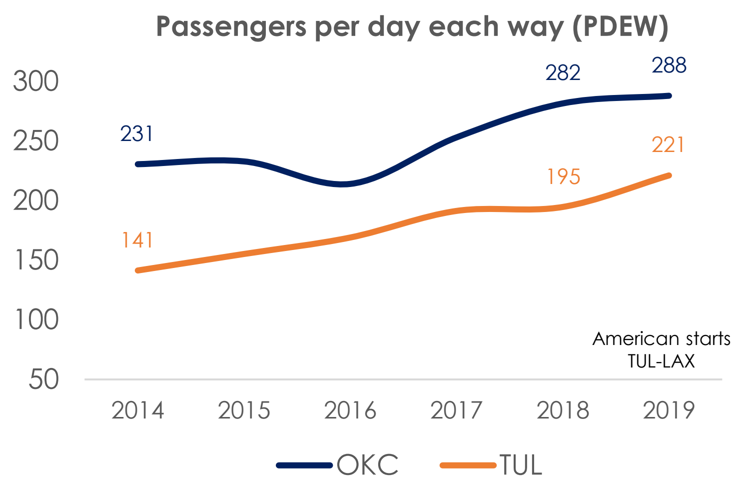
- Despite the MRG, SWO-DFW average fares are **higher than OKC and TUL to Dallas**
- Average fares in OKC and TUL have remained constant to Dallas
- **OKC** currently has a **$25 higher average fare** than TUL to Dallas

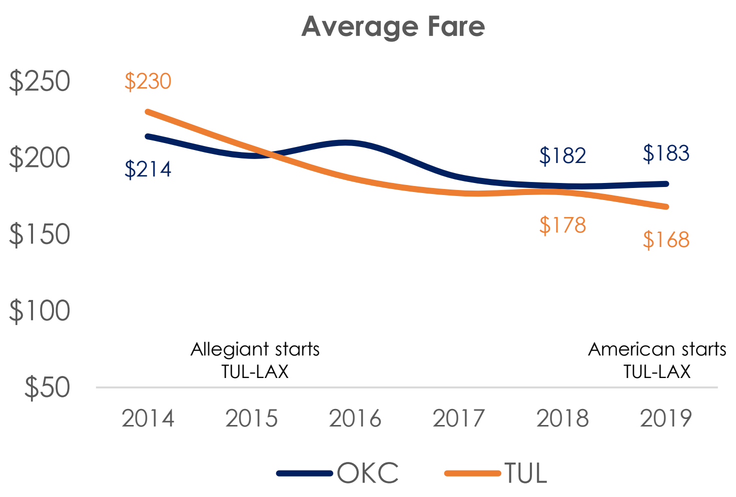
The SWO-DFW service on American shows that new nonstops in the state have no impact on capacity in other cities

Source: Diio Mi 2013-2019

The **OKC-LAX** market has **continued to grow** even since **TUL-LAX launched** on American in April 2019







- OKC has maintained at least 2x/daily service to LAX
- Even with TUL-LAX launch on AA in 2019, American planned to **upgauge** one of **OKC-LAX** frequencies to **mainline** in 2020, pre-COVID

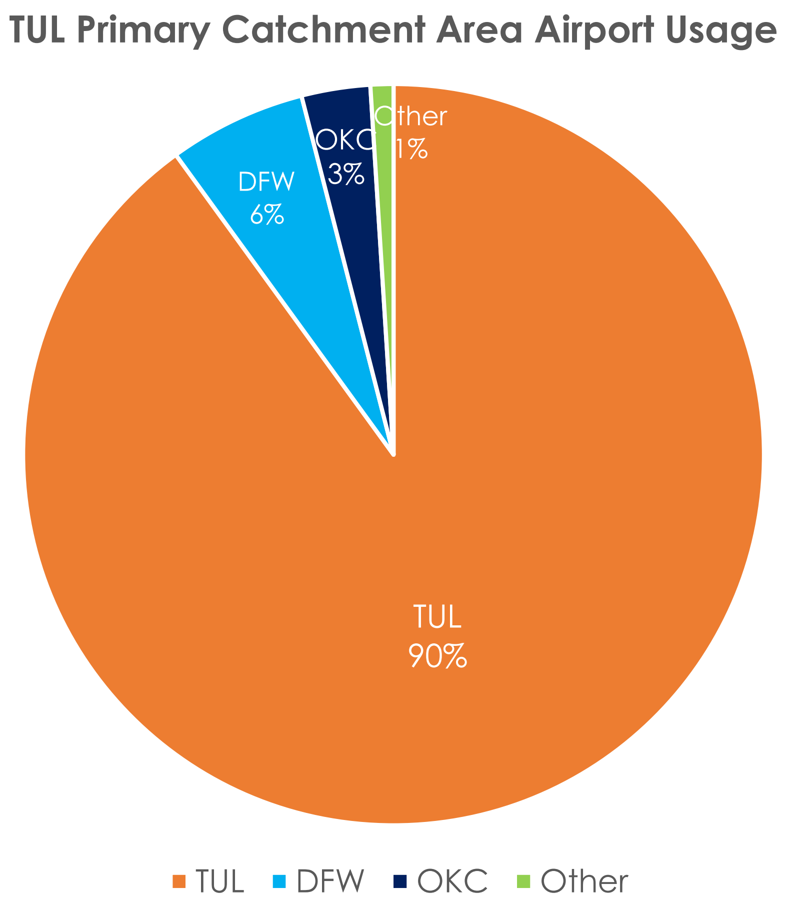
- The OKC/TUL-LAX markets have **both grown around 10% annually** since 2016
- OKC-LAX market grew 2% from 2018-2019, even with TUL-LAX starting on American

- Despite TUL-LAX average fares decreasing $10 YoY with new AA service, **OKC-LAX market has grown** and fares remained constant

TUL-LAX service on American has had no negative impact on OKC, as OKC-LAX continues to grow

Source: Diio Mi 2013-2019

Only **3% of passengers** in TUL's catchment area are "leaking" to OKC, signaling that new nonstop service in TUL will have **extremely minimal impact to OKC, if any**



Top Leaked Airports	Passengers per Day
DFW	120
OKC	70
Other	20

- **90% of traffic originating** in TUL's catchment area utilizes TUL
- **Only 3%**, or 70 passengers per day each way, are driving from TUL's catchment area to fly out of OKC
  - Vice-versa, **only 35 passengers per day** are driving from the OKC MSA to fly out of TUL (0.5% of daily OKC passengers)
- The largest individual markets from TUL that leak to OKC are **at most** 5-10 passengers daily
- Any new nonstop flight to TUL **will not have an impact** on current service levels **from OKC** in any given market

Source: TUL 2019 Leakage Study

Summary

- Minimum revenue guarantees (MRG) are designed to help **offset an airline's risk** of launching new nonstop service in a given market.

- An airline does not simply start nonstop service because an MRG is available. Airlines research and forecast new markets that they feel have the **potential to sustain nonstop service**, and the MRG helps mitigate the risk of nonstop.

- If a current airport has nonstop service without the necessity of an MRG to the airline, it signals that the market dynamics are already **strong** and the airline has confidence in the route. There would be no reason to reduce capacity in an already strong market.

- Should another city in the state receive a nonstop with the assistance of an MRG, it **will not have an impact** on another cities nonstop service.
    - For example: OKC current has nonstop service to SFO. If TUL were to recruit nonstop service to SFO utilizing an MRG, it **would not make sense** for the passengers already flying out of OKC nonstop to drive from their home city to fly nonstop out of TUL.
    - There are currently **3.5 passengers per day** that drive from the TUL catchment area to fly nonstop to SFO out of OKC. This is an **extremely minimal impact** to the OKC-SFO nonstop service, and **would not** cause United to reduce or remove service in OKC.

- The OASDGP will allow **all communities** in the state to actively recruit new nonstop service