



Sixel Consulting Group, Inc. *EXPRESSJET*

Community-Backed Air Service

A Different Concept in Air Service Development



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ExpressJet Airlines



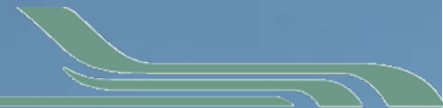
“While airport officials can take action to reduce airport fees... [air service development] **requires cooperation from many community businesses.**”

Government Accountability Office Report on
Improving Air Service at Small Community Airports





Agenda



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- **How the Concept Originated**
- **The Airline Partnership**
- **How Community Backed Air Service Works**
- **Example: St. Cloud, Minnesota**
- **Future Steps**



How it Started

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- ✈️ **Hard Luck Case**
 - ✈️ Duluth, Minnesota



✈️ **Average Snowfall: 80.8 Inches**

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How it Started

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- ✈ **Duluth Community (Businesses) Wanted O'Hare Service**
 - ✈ Many Common Ties
 - ✈ 15 Passengers a Day Each Way (PDEW)

- ✈ **Community Got Burned on a SCASD Grant**
 - ✈ February 2004: AA Starts DLH-ORD
 - ✈ Summer 2004 – O'Hare Capacity Constraints Enforced
 - ✈ September 2004: Service Ends
 - ✈ Grant Money Left on Table
 - ✈ Appearance That Market Was Weak

- ✈ **Nobody Would Touch DLH-ORD**
 - ✈ Needed a Different Option

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How it Started

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- ✈ **Community Willing to Invest in New Service**
 - ✈ But Wanted Assurances Service Would Last

- ✈ **Our Idea**
 - ✈ Finance Like a Charter
 - ✈ Ensuring Airline Profit
 - ✈ Cost Covered by Community
 - ✈ Service Controlled by Community
 - ✈ Run on a Schedule
 - ✈ Major Airline Code

- ✈ **Now the Hard Part**
 - ✈ Find an Airline

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How it Started

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- ✈ **Most Airlines Charter, But Don't Have a Dedicated Fleet**
 - ✈ Airlines Must Be Dedicated to This Project for One Year
- ✈ **Need the Right Kind of Aircraft**
 - ✈ 50 Seat (or Greater) Regional Jet
- ✈ **Need an Airline Willing to Disperse Profit Back to Community**
 - ✈ Investors Wanted Some Chance of Return
 - ✈ Willing to Pay Profit Up-Front, Then Retain All Excess
- ✈ **Airlines to Sixel: "Good Luck, Fellas!"**

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The Airline Partnership



The Airline Partnership

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✈ **EXPRESSJET**

- ✈ Dedicated Corporate Aviation (Charter) Department
- ✈ Currently Six Dedicated Charter Aircraft
- ✈ More in Fall – As Some Come Out of Seasonal UA Flying

- ✈ **Best Known for Regional Operations**
 - ✈ Regional Jets on Behalf of:
 - ✈  **Continental**
 - ✈  **UNITED**

- ✈ **Good Fit for “Community Backed” Service**
 - ✈ Familiar With Charter Operations
 - ✈ Equipment Available
 - ✈ Airline/Community Goals Meshed Almost Perfectly

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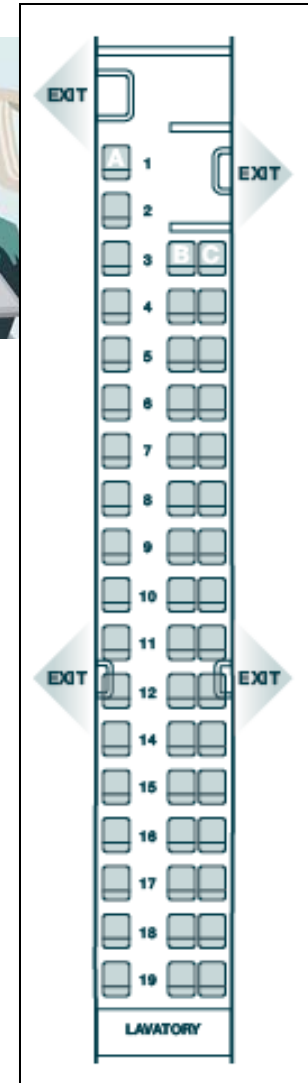
The Airline Partnership

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Be productive. Or just relaxed.
It's your jet. It's your call.



- ✈ **Corporate Division Already Offers:**
 - ✈ Flight Schedule Set by Customer
 - ✈ Ability of Customer to Control Local Segment Pricing
 - ✈ Enough Aircraft for Quick Recovery in Irregular Operations
 - ✈ 50 Seat Embraer Regional Jet
 - ✈ 31 Inch Pitch
 - ✈ XM Radio at Every Seat



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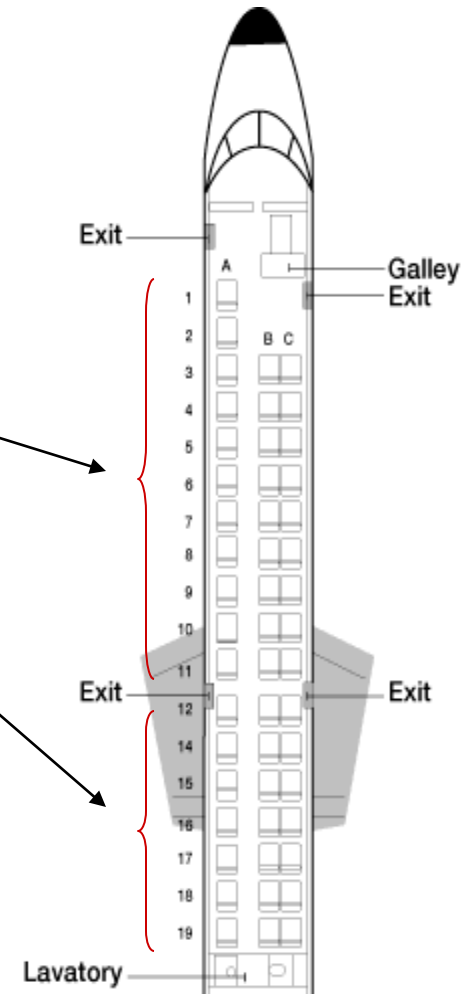


The Airline Partnership

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- ✈ **Also Already Offer “Shared Jet Option”**
 - ✈ Multiple Companies Share Charter
 - ✈ Purchase and Control Block of Seats
 - ✈ Company A: 29 Seats
 - ✈ Company B: 21 Seats
 - ✈ Can Market Empty Seats
 - ✈ Re-Sell to Others
 - ✈ Consortium Agrees on Schedule

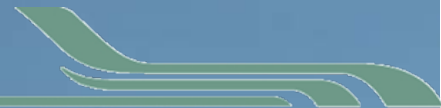
- ✈ **Similar to Community Backed Air Service**



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How Community Backed Air Service Works



How It Works

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- ✈ **Community/Local Investors Control Air Service**
 - ✈ Purchasing “Block Hours” from ExpressJet
 - ✈ Community Decides:
 - ✈ Where and When to Fly
 - ✈ Limited Control Over *Local* Fare
 - ✈ Duration of Service
 - ✈ Community Takes Responsibility for:
 - ✈ Determining Demand
 - ✈ Marketing Service
 - ✈ Supporting Service
 - ✈ Airline Still Handles:
 - ✈ Codeshare
 - ✈ Sales
 - ✈ Operations
 - ✈ Pricing Beyond Hub

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Pros and Cons

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✈️ Positives

- ✈️ Community Decides Duration/Frequency
- ✈️ Community Has Input on Destination/Schedule
- ✈️ Community/Investors Can Profit
- ✈️ Long-Term Economic Development Tool
- ✈️ Stability in Service
- ✈️ Little Risk to Airline

✈️ Negatives

- ✈️ Financial Risk to Community
- ✈️ Fuel Cost Volatility
- ✈️ Large Up-Front Investment Required



How It Works

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- ✈ **Investors Back Air Service**
 - ✈ Airport Solicits Local Investors
 - ✈ Investors Must Front Cost of Operation

- ✈ **Capacity Purchase Agreement With ExpressJet**
 - ✈ ExpressJet Guaranteed 12 Months of Flying
 - ✈ Community Guaranteed 12 Months of Service

- ✈ **Codeshare Agreement With Major Airline**
 - ✈ Such as United Express
 - ✈ Service Would Then Be to a United Hub
 - ✈ Sold as Regular Major Airline Flight
 - ✈ *Non-Hub Flights Also Possible*

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How It Works

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- ✈ **ExpressJet Invoices Community Monthly**
 - ✈ If Revenue Doesn't Cover Expenses
 - ✈ Expenses Come from Investors' Accounts

- ✈ **If Revenue Tops Expenses**
 - ✈ ExpressJet Credits Community Monthly
 - ✈ Credits Roll Over for 12 Months
 - ✈ Cover Shortfalls in Subsequent Months
 - ✈ At End of 12 Month Period:
 - ✈ ***Investors Receive Profit Sharing***

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Investor Groups

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- ✈ **Class A / Preferred Investors**
 - ✈ Private Businesses
 - ✈ Corporations
 - ✈ Individuals

- ✈ **Class B / Non-Preferred Investors**
 - ✈ Governments (Grants)
 - ✈ Economic Development Corporations
 - ✈ Chambers of Commerce
 - ✈ Tourist Organizations

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Investor Groups

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- ✈ **Class A**
 - ✈ Participate in Profit Sharing
 - ✈ Based on Percentage of Class A Investment
 - ✈ Insulated from Loss to Level of Class B Investment

- ✈ **Class B**
 - ✈ No Profit Sharing
 - ✈ Cover Losses to Full Level of Class B Investment
 - ✈ Based on Percentage of Investment
 - ✈ Large Up-Front Investment Required

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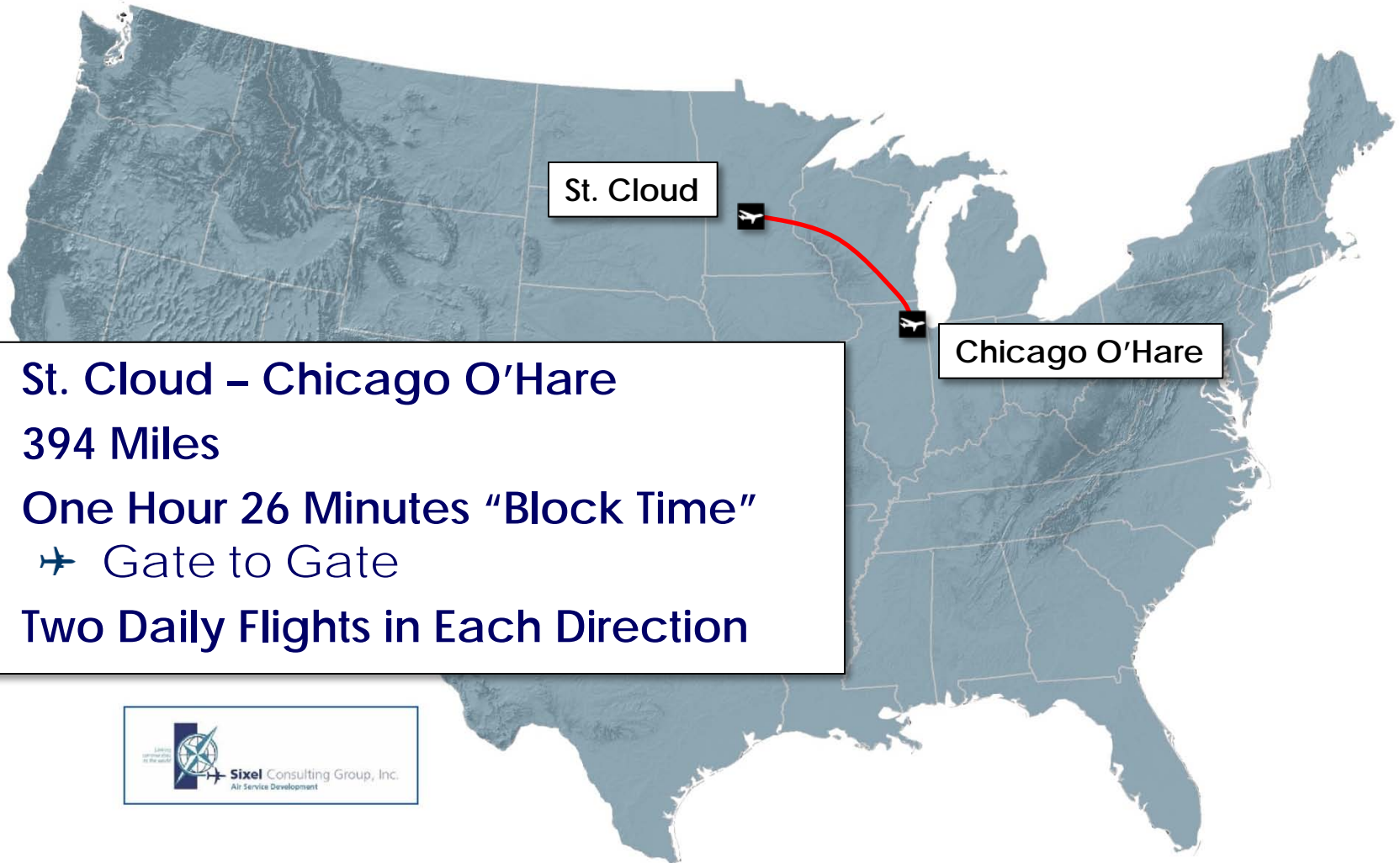


**Example:
St. Cloud, MN**



Example: St. Cloud

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- ✈ St. Cloud – Chicago O'Hare
- ✈ 394 Miles
- ✈ One Hour 26 Minutes "Block Time"
 - ✈ Gate to Gate
- ✈ Two Daily Flights in Each Direction



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Example: St. Cloud

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✈ St. Cloud – Chicago O'Hare

✈ Daily Block Hours	5.72
✈ Daily Seats (Inbound/Outbound)	200
✈ ExpressJet Daily Expense (Fully Allocated)	\$7,963.64
✈ <u>Daily Fuel Expense (@ \$2.75/Gal)</u>	<u>\$6,056.05</u>

✈ **Total Daily Cost** **\$14,019.69**

✈ **Total 12 Month Cost (Fully Allocated, Fuel)** **\$4,374,144**

✈ Represents Total Investment Pledge

✈ **183 Days Operating Cost in Escrow**

✈ 50% of Total 12 Month Cost

✈ **Amount Required in Escrow** **\$2,187,072**

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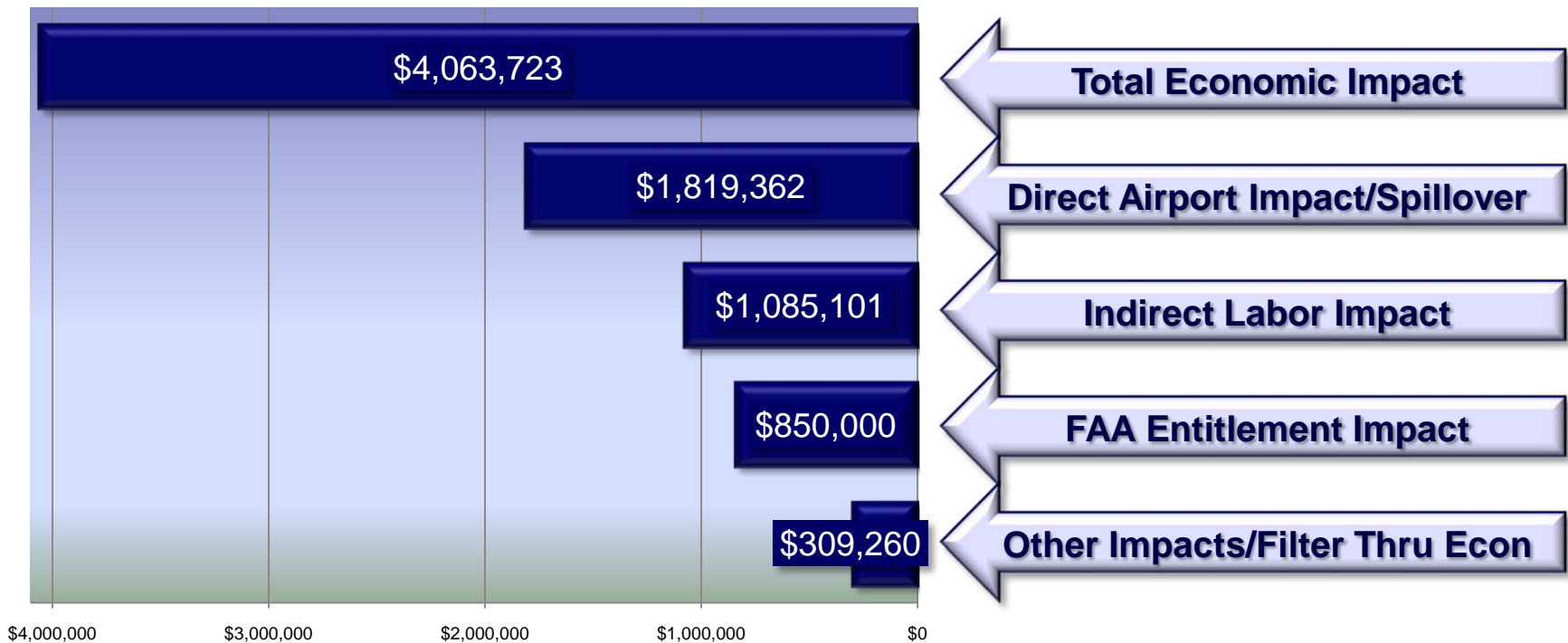
Financials are hypothetical and subject to change.



The Economic Impact

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- ✈ Impact of Two Daily RJs to O'Hare in Lafayette, Indiana
- ✈ Sixel Consulting Group Study Completed February 2010
 - ✈ Investment of \$2.7 Million for ExpressJet Service
 - ✈ \$4.1 Million Total Annual Economic Impact



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Future
Steps



Future Steps

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- ✈ **Continue to Identify Partner Communities**
 - ✈ Meet With Local Companies to Begin Discussions
 - ✈ Define Service for Each Community
 - ✈ Develop Local Investments
 - ✈ Develop Local Schedules for Service

- ✈ **Timeline for Service**
 - ✈ First Communities: End of Summer
 - ✈ Additional Communities: End of 2010

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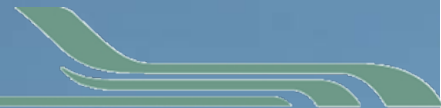
"Success [is more likely] when stakeholders... have specific agreements with airline on departure times, funding, and time frames for the program."

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