Application for Continued Inclusion in the Alternate Essential Air Service Pilot Program

Docket DOT-OST-2009-0305

Tupelo Regional Airport

Service in 30 Seat Embraer ERJ Aircraft Operated by Contour Airlines

For the Proposed Grant Period

October 1, 2020 – September 30, 2022

Applicant and Legal Sponsor:

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DUNS Number: 101809887
EIN: 64-0631825

I. Summary

The Tupelo Airport Authority (TAA) and the Tupelo Regional Airport (TUP or Airport) hereby makes application for continued inclusion in the Alternate Essential Air Service Pilot Program (AEAS) to fund 14 weekly round trips from TUP to the Nashville International Airport, a medium-hub airport, in Nashville, Tennessee (BNA), for a twenty four (24) month period beginning October 1, 2020. All such flights will be operated as 14 CFR Part 380 public charters by Corporate Flight Management, Inc. d/b/a Contour Airlines (the incumbent AEAS air carrier at TUP) in Embraer ERJ 135/145 aircraft configured with 30 passenger seats.

TAA's AEAS proposal is in the public interest as it is expected to reduce the total annual subsidy by more than $44,000 per year, while providing over 43,000 available passenger seats annually, and maintain the average per-passenger subsidy well below the $200.00 per passenger cap required by Section 332 of Public Law 106-69.

II. Current Service

TUP presently receives AEAS from Corporate Flight Management, Inc. d/b/a Contour Airlines (Contour), pursuant to DOT's Order 2018-3-17 and the Grant Agreement dated March 26, 2018 as amended (Grant) between DOT and TAA.

At the commencement of the current AEAS Grant, Contour provided flights in BAE Jetstream 31/32 pressurized twin turboprop aircraft configured with 19 passenger seats. Contour conducted 30 round trips per week between TUP and BNA in the Jetstream 31/32, providing a total of 59,280 seats in the market annually.

In April 2019, Contour retired the last of its Jetstream 31/32 aircraft and, with the approval of TAA and DOT, transitioned service to its 30 passenger ERJ 135/145 regional jets (ERJs). Since the permanent change in the gauge of service, Contour has been conducting 18 round trips per week, providing 56,160 seats in the TUP market annually.

One-way fares start as low as $18.99. The highest standard fare is $79.00 one-way. Contour's fare structure has been the same for its Jetstream 31/32 and ERJ service. For the first nine months of ERJ service (April – December 2019) traffic increased 14% over the same period in 2018. For January and February of 2020 traffic increased 21% over the same period in 2019 (the last months of J31/32 operations)

During the current AEAS Grant period (April 2018 through March 2020), Contour has achieved a remarkable reliability record, completing 98.7% of its planned flights in the TUP market. Adjusting for cancellations beyond the control of the carrier, such as weather, Contour's completion factor throughout the current Grant term has been 99.3%. Since the transition to all ERJ service in April 2019, Contour's controllable completion factor has improved even further, to 99.5%.

Figure 1 below depicts the planned and completed flight segments in each month of the current AEAS Grant from April 2018 to March 2020, including all controllable and uncontrollable cancellations.

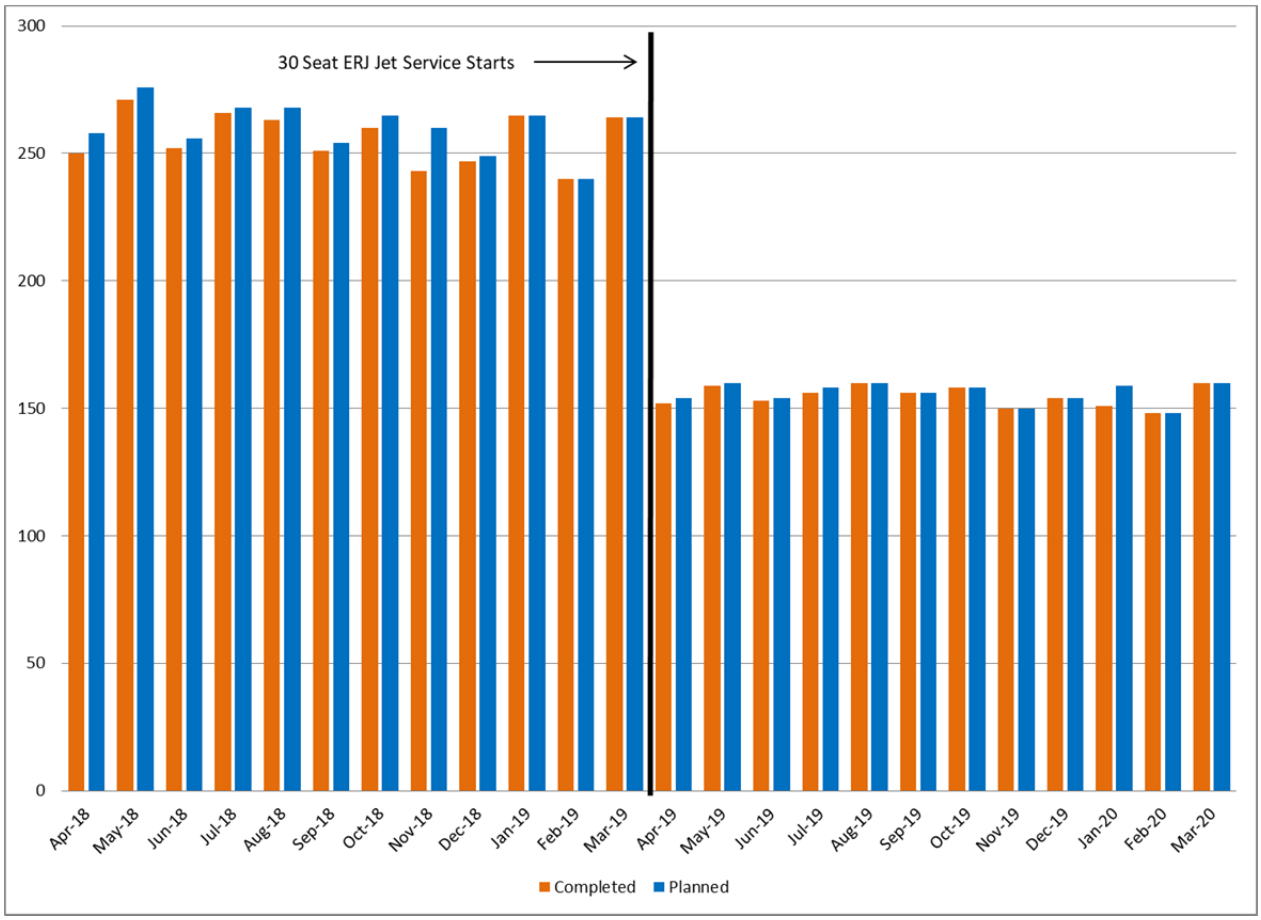

Figure 1 – Contour All Planned vs. Completed Flights (April 2018 – March 2020)

During the term of the current AEAS Grant, Contour has increased total passenger traffics in the TUP market to an average of 2,571 per month for the most recent 12 month period, which includes March 2020, when TUP began to see the effects of the COVID-19 crisis. Total average monthly enplanements continued to increase after the introduction of ERJ service in April 2019, even though the frequency of flights was reduced by forty percent (40%). As noted above, the total amount of seats available in the market after the introduction of the ERJ remained comparable to the seats available with the Jetstream 31/32 in 19 passenger configuration.

In its best month (October 2019), Contour transported in excess of 3,000 passengers in the TUP market (nearly the same amount that SeaPort transported during all of 2015!) Daily enplanements at TUP have averaged approximately 40 passengers per day throughout the entire term of the current Grant and have averaged 42 enplanements per day since the introduction of the ERJ in April 2019.

Figure 2 below depicts the monthly enplanements during the current AEAS Grant, from April 2018 through March 2020.

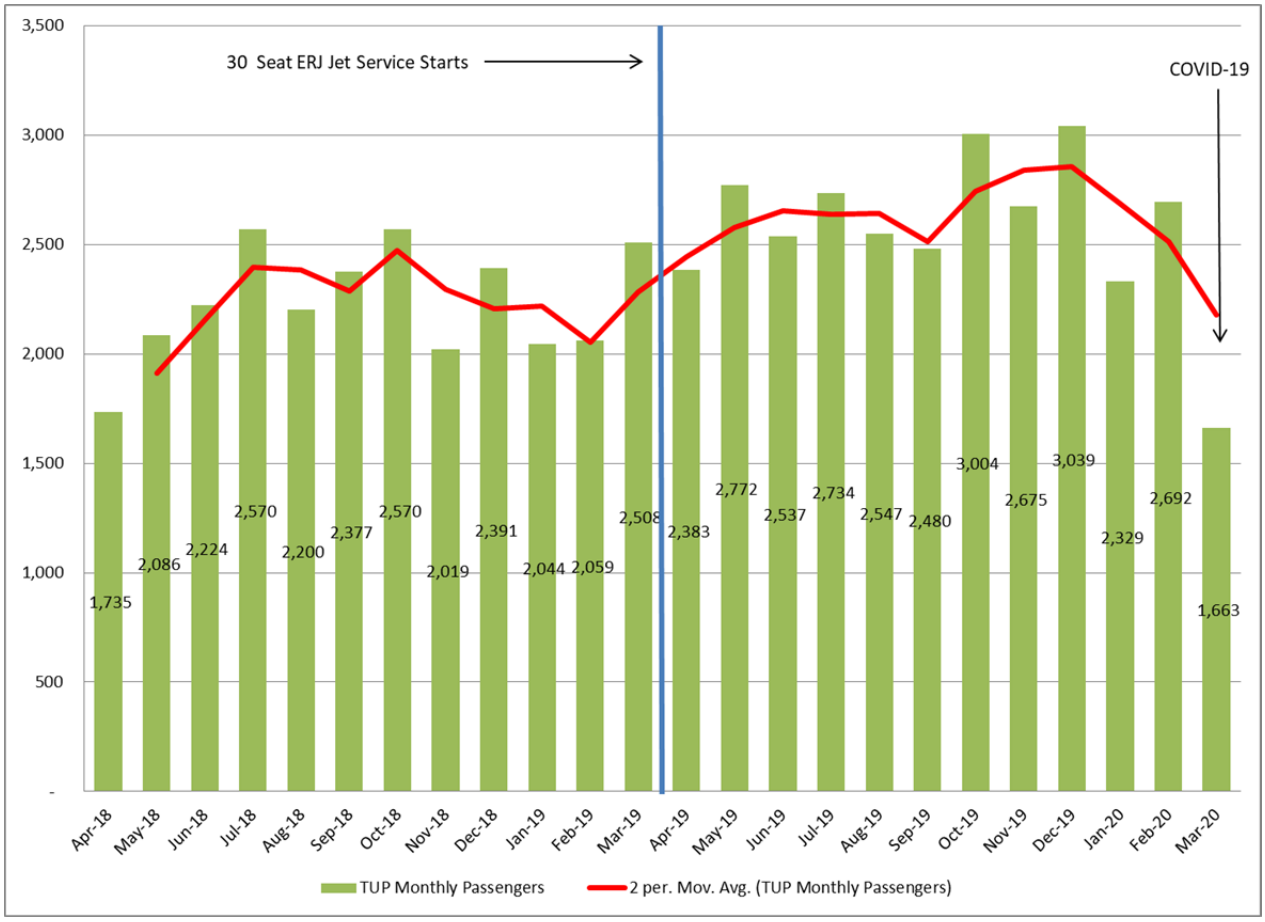

Figure 2 – Total Monthly Enplanements (April 2018-March 2020)

As expected, Contour's success in increasing total enplanements has greatly reduced the average subsidy per passenger. In the first year of the current AEAS Grant, the average subsidy per passenger was $147.50. Since the introduction of ERJ service in April 2019, the average per passenger subsidy has fallen to $130.36, which takes into account the impact of the COVID-19 crisis on March 2020's enplanements. For the Federal government's most recent fiscal year ending on September 30, 2019, TUP's records indicate that the average subsidy was $136.47 per passenger.

Figure 3 below depicts the average subsidy per passenger by month during the term of the current AEAS Grant.

In November 2019, Contour implemented an interline agreement with American Airlines, enabling passengers in TUP and its other markets to travel with Contour and American with through check in and sterile baggage transfer.

III. Service History

For many years, TUP received traditional Essential Air Service (EAS) from Pinnacle Airlines Corporation/Mesaba Aviation, Inc. d/b/a Delta Connection (Mesaba). As of 2009, Mesaba provided 19 round trips per week in 34 seat Saab 340B turboprop aircraft split between Memphis, Tennessee and Atlanta, Georgia. Annual enplanements with Mesaba were 13,319 in 2009 but were beginning to erode from historical highs. In 2012, Mesaba permanently withdrew from TUP and a number of other EAS markets.

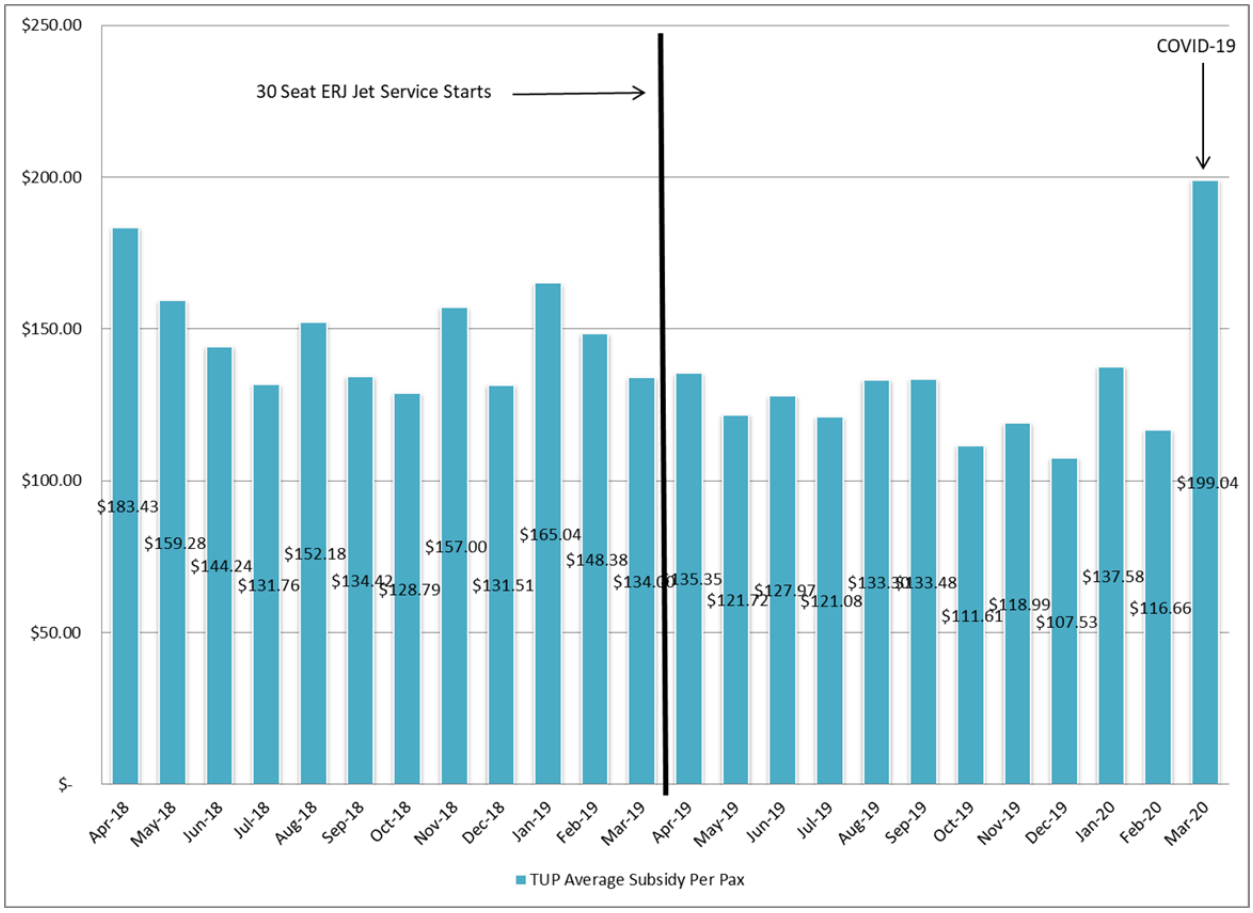

Figure 3 - Average Subsidy Per Passenger by Month (April 2018-March 2020)

Following Mesaba's withdrawal, EAS at TUP was awarded to Silver Airways Corporation (Silver). Silver provided service from TUP to Atlanta, Georgia using 34-seat Saab 340B aircraft. The pattern of declining passenger enplanements accelerated during Silver's tenure as a result of their poor reliability. Silver withdrew from TUP and several other EAS communities in 2014.

SeaPort Airlines (SeaPort) was selected to provide EAS at TUP in 2014 using 9 passenger Cessna Grand Caravan aircraft with 18 weekly round trips to BNA and 12 weekly round trips to Memphis, Tennessee. SeaPort's service was plagued by reliability

issues. During their tenure, total enplanements dropped to 1,597 (calendar 2015) and total passengers dropped to 3,112 for the same period. Seaport entered into bankruptcy protection in 2015. Following SeaPort's demise, TUP experienced an air service hiatus that lasted nearly 6 months.

On December 12, 2015 Contour was selected to provide EAS at TUP using Jetstream 31/32 twin engine pressurized turboprop aircraft having a capacity of 9 passengers, with BNA as the hub airport. Service commenced on April 5, 2016. Contour achieved success in rebuilding the market and in reducing the average per passenger subsidy. Between January 1, 2017 and December 31, 2017, a total of 19,228 passengers were transported by Contour on the TUP-BNA route. During that same period, Contour completed 98.7% of its scheduled flights.

In response to DOT's Order 2017-8-12 requesting proposals for a term beginning March 1, 2018 in the TUP market, DOT received traditional EAS bids from six carriers, including Contour. After reviewing all of the proposals, TAA determined that the best option for the community was to continue service with Contour, at similar weekly flight frequency, but at a higher capacity per flight, given the Jetstream 31/32's ability to carry up to 19 passengers. Contour pointed out to the TAA that it could comply with their request, but only if it conducted all flights under 14 CFR Part 380. Based on prior pronouncements of DOT, such flights would not be eligible for subsidy under traditional EAS. TAA elected to apply to DOT for inclusion in AEAS with Contour as its air carrier; providing 30 round trips per week between TUP and BNA; using the Jetstream 31/32 aircraft in 19 passenger seat configuration; at a total annual subsidy of $3,932,032.

DOT approved TUP's AEAS application with no changes and awarded the current Grant for a period of 31 months, even though there were six other traditional EAS air service options, several of which contained options requiring lower annual subsidy levels than the amount of annual subsidy authorized in TUP's AEAS Grant.

As more fully described in Section II hereof, Contour commenced AEAS under the current Grant in April 2018 using the 19 seat Jetstream 31/32 aircraft, providing 30 round trips per week between TUP and BNA. In April 2019, with the approval of TAA and the consent of DOT, Contour changed its gauge of service and flight frequency providing 18 round trips per week between TUP and BNA using 30 seat ERJs.

IV. Proposed AEAS for the Period October 1, 2020 to September 30, 2022

In response to Order 2020-1-6, DOT received three traditional EAS proposals for the TUP market. In a separate communication to DOT dated May 5, 2020, TAA has presented in detail its objections to all three of these proposals. Some additional problems with these three proposals merit further discussion here:

- None of the traditional EAS proposals meet basic EAS requirements. All three offerors propose service in aircraft with 8 or 9 passenger seats. 49 USC§ 41732(b)(4) requires "service accommodating the estimated passenger and property traffic at an

average load factor, for each class of traffic considering seasonal demands for the service, ***of not more than—(A) 50 percent***; or (B) 60 percent when service is provided by aircraft with more than 14 passenger seats" [Emphasis added]. Each offeror proposes load factors far in excess 50 percent for the TUP market.

Specifically, Southern's proposal is based on an 87.6% load factor, Boutique's on an 80.1% load factor, and Cape Air's on a 65% load factor. Therefore, none of the three traditional EAS proposals meet basic EAS requirements.

- The traditional EAS proposals do not allow for growth, and in some cases, even accommodate current levels of traffic. In the 12-month period ended March 31, 2020, Contour carried 30,855 passengers on the TUP-BNA route. The highest number of seats annual offered by Cape Air is 28,080, while Boutique's maximum offering is 24,960 seats per year. Neither is sufficient to meet actual proven demand in the market, and would immediately lead to a reduction in enplanements, even if every flight was operated at 100% capacity. Southern offers slightly more seats, 33,192 annually, but would effectively be at capacity from the start, with no room for any meaningful growth in enplanements.

- The traditional EAS proposals jeopardize TUP's compliance with the subsidy cap. Even with their very high proposed load factors, the projected annual subsidy per passenger for both Boutique ($194.70) and Cape Air ($199) are much too close to the $200 per passenger cap. Any unfavorable variance would cause TUP to be in violation of the cap, jeopardizing its continued participation in EAS. While Southern's proposed average per passenger subsidy is lower than either Cape Air or Boutique, it is likely that its single engine equipment will be rejected by many of the travelers who have only recently returned to the market (drawn by the comfort and reliability of Contour's twin engine Embraer jets), immediately lowering enplanements and raising average subsidy to untenable levels. There is no doubt that going from a 30-seat regional jet to a 9-seat single engine prop would is a significant downgrade in service.

- All the traditional EAS proposals are based in very unrealistic forecasts. Figure 4 on the following page lays out the key forecast assumptions of each of the Boutique, Cape Air and Southern proposals. Figure 4 highlights in red elements of each forecast that are completely unrealistic given that carrier's performance in other EAS markets. Many of the proposals actually forecast a $200 EAS subsidy per passenger cap violation. In other words, the already unrealistic forecasts, even if achieved, will put TUP on DOT's fiscal year 2021 EAS eligibility termination list. Contour's current service is extremely successful and has a low subsidy per passenger. It would be extremely unfair for the Department to designate a traditional EAS carrier for TUP that will put the community into a $200 cap violation in FY 2021 and beyond. As noted in Order 2020-1-6 requesting traditional EAS proposals for TUP, "the Department also retains the discretion to reject outright all unreasonable or unrealistic proposals" and should do so here.

TUPELO 2020 CONVENTIONAL EAS BID OPTION COMPARISON													
Conventional EAS		Description					Annual Forecast						
Carrier	Prop #	Year	Aircraft	Seats	Hub	Frequency	Segments	Comp %	O&D	Subsidy	Sub/O&D	Seats	Load Factor
Boutique	1	One	PC12	8	ATL/BNA	21 / week	2,140	98%	13,300	$3,230,702	$242.91	17,120	77.7%
	2					24 / week	2,446	98%	14,400	$3,486,898	$242.15	19,568	73.6%
	3					30 / week	3,058	98%	20,000	$3,894,047	$194.70	24,464	81.8%
Cape Air	1	One	Tecnam	9	BNA	30 / week	3,035	97%	17,755	$3,524,936	$198.53	27,315	65.0%
		Two		9	BNA	30 / week	3,035	97%	17,755	$3,630,684	$204.49	27,315	65.0%
Southern	A	One	Caravan	9	ATL/BNA	36 / week	3,688	98.5%	29,043	$4,057,925	$139.72	33,192	87.5%
	B			9	ATL/BNA	36 / week	3,688	98.5%	29,043	$3,852,344	$132.64	33,192	87.5%
	C			9	BNA	36 / week	3,688	98.5%	29,043	$3,574,675	$123.08	33,192	87.5%

Figure 4 – Traditional EAS Proposal Comparison

Boutique Air submitted three service proposals. Unfortunately, all three are unrealistic:

- All proposals are based on an annualized completion rate of 98% and load factors of between 74% and 82%.
- In 2018, Boutique's system completion rate in 32 EAS markets was 92.2% with a 64% load factor. In that year, only six routes achieved annual load factors of 74% or greater and only two routes achieved annual completion rates over 98%.
- In 2019, those same statistics in 29 EAS markets were 66% load factor and 93% completion. In that year, only 6 of the 29 EAS routes achieved load factors at or over 74% and only 2 routes achieved completion rates of 98%.
- Two of the three Boutique proposals **forecast** a $200 cap violation while the third is $195 per O&D with unrealistic load factors and completion rates.

Cape Air submitted one proposal with an inflating subsidy need per year in either a two- or four-year contract. **All Cape Air proposals forecast for a $200 cap violation in the second year of each contract and beyond**. Forecast load factor is 65% annually, a level Cape Air did not achieve on any of its 19 EAS routes in 2019.

Southern Air Express submitted three proposals. Unfortunately, all three are unrealistic:

- All proposals call for annualized completion rate of 98.5% and load factor of 87.5%.
- The carrier's 2019 system completion rate was 97%; in 2018 it was 93.6%.
- The carrier's 2019 system load factor was 49.1%; in 2018 it was 46.5%.
- To the best of our knowledge, in the history of the EAS program there has never been an annualized market load factor of 87.5% by any carrier on any route.
- When Southern's more typical system load factor of 49.1% is applied to their least expensive proposal (Option C), it results in immediate violation of the $200 subsidy cap (estimated at $219 per passenger).

The fundamental reality is that 8/9 seat aircraft struggle to comply with the $200 cap in EAS markets. 16 of 18 cities listed in DOT's FY 2020 EAS Eligibility termination order (Order 2020-3-1) were served with 8/9 seat aircraft during the evaluation period.

TUP has dramatically grown its airline traffic and has become fully compliant with all EAS eligibility requirements in partnership with Contour. Should DOT select any of the seven traditional EAS proposals submitted by the three carriers, TUP traffic would collapse and place the Airport back on DOT's $200 cap violation termination list in FY 2021.

- The traditional EAS proposals rely on higher average ticket prices. Boutique's proposal relies on average one way ticket prices ranging from $51.00 to $62.00. Cape Air's bid is based on an average fare of $59.00 one way. The proposal submitted by Southern assumes average fares of $49.00-$56.00. All of these ticket prices exceed Contour's average of $45.00 one way. We recognize that average fare is not a factor considered by DOT in the carrier selection or AEAS approval process, but higher out of pocket prices combined with a less desirable gauge of service will no doubt erode demand, jeopardizing TUP's compliance with the $200.00 per passenger subsidy cap.

- Larger gauge aircraft are needed to sustain TUP's current traffic and promote further growth. On pages 5 and 6 of Order 2018-3-17, which authorized TUP's current AEAS Grant, DOT stated "Contour has a record of providing reliable EAS at Tupelo and the Department notes that passenger levels have increased since the airline commenced service at the community. ***The Department also believes that the proposed use of Jetstream 31/32 aircraft configured to accommodate up to 19 passengers, will continue to increase passenger traffic at the community***". [Emphasis added]. DOT's assessment regarding Contour's 19 seat aircraft proved to be correct.

  In fact, as shown above in Figure 2, TUP's passenger traffic increased even more with Contour's introduction of 30 seat service in April 2019. In the first paragraph on page 3 of Order 2020-1-6 requesting proposals for TUP, DOT acknowledges the value of larger gauge aircraft in maintaining and increasing TUP traffic, expressly stating that "The Department ***expects*** proposals that satisfy basic EAS requirements, ***specifically, 12 round trips per week using 30-50 passenger aircraft***". [Emphasis added]. DOT did not receive any traditional EAS proposals offering 30-50 seat aircraft in response to Order 2020-1-6.

  Recognizing the positive impact that larger gauge aircraft have on passenger traffic and as noted in Section III hereof, DOT approved TUP's 2018 AEAS application despite six other traditional EAS air service options, several of which contained options requiring lower annual subsidy levels than the amount of annual subsidy authorized in TUP's AEAS Grant. The traditional EAS options offered in response to Order 2020-1-6 are largely the same. Consistent with the

approval of TAA's 2018 AEAS application, DOT's evaluation of this application should be made in the context of the total subsidy that would be required to provide comparable, compliant service in 30-50 passenger aircraft, consistent with DOT's expectation as expressly stated in Order 2020-1-6.

Time and again, the community has expressed a strong preference for continuing service with Contour to BNA and is especially pleased with the ERJ aircraft. Based on its unique understanding of the TUP market, TAA believes that any change in carrier or destination would undermine the substantial progress that has been made with Contour.

After consultation with community stakeholders and Contour, TAA proposes the following basic terms for the new AEAS grant:

- A two-year term beginning on October 1, 2020 and ending on September 30, 2022.

- Fourteen (14) round trips per week (728 round trips/1,456 flight segments per year*) between TUP and BNA using ERJ 135/145 aircraft configured with 30 passenger seats operating at a 60% load factor**.

- All flights to be operated as 14 CFR Part 380 public charters with Contour acting as both Indirect and Direct Air Carrier.

- A subsidy of $2,670.07 per flight segment, not to exceed $3,887,625.00 per grant year*** and $7,775,250.00 for the two-year term of the new AEAS grant. Detail of TAA's financial proposal appears in the Attachment hereto.

Notes:

*A frequency of 14 round trips per week fulfills the requirements of 49 USC § 41732(b)(1)(A) and the requirements for service with 30-50 passenger aircraft stated in paragraph 1 on page 3 of Order 2020-6-1. TAA and Contour have agreed to this reduction in frequency in conjunction with a reduction in the annual subsidy as discussed in more detail below. A total of 43,680 passenger seats would available in the market during each grant year, providing significant capacity for continued enplanement growth.

**A load factor of 60% complies with the requirements of 49 USC§ 41732(b)(4) as they pertain to service in aircraft having more than 14 passenger seats.

*** The subsidy proposed for the new AEAS grant will be a <u>decrease</u> of more than $44,000 per year from the subsidy authorized under the current Grant. TAA and Contour arrived at this subsidy reduction in connection with their agreement to reduce the number of weekly round trips to 14. The level of subsidy proposed by TAA is lower than the amount bid by Boutique for its highest number of seats (24,960) in the TUP market and is within approximately 8.7% of the subsidies proposed Cape Air and Southern for far fewer annual seats than the 43,680 offered by Contour. TAA and Contour have agreed to

keep the rate of subsidy flat for the 2-year term of the new grant. TAA expects that the per passenger subsidy will be below $150.00 for the entire 2-year term of the new grant.

V. Marketing Plan

Contour uses a variety of social media initiatives to market the service including their tremendously popular Super Saver Fares. The Super Saver program offers highly discounted fares as low as $18.99 each way for last minute travel and have gained a loyal following in the community. Contour has also sponsored and participated in a variety of community events to increase awareness. We expect the same strategy to be deployed in a new AEAS term. It is possible to book Contour flights on their website, all major online travel agencies, and via their call center. Contour participates in all major GDS systems (Sabre, Amadeus, Worldspan, Galileo, and Apollo).TAA anticipates that Contour's standard one way fares would remain in the $18.99 $79.00 range with an average of $45.00 for the entire term of the new grant and also that Contour would maintain its interline arrangement with American Airlines for the duration of the new grant.

TAA's prior experience with Contour and the air carrier's stellar performance in the TUP market give TAA confidence that Contour can achieve its performance targets under the new AEAS grant.

VI. Monitoring Results

TAA's objectives for the new AEAS grant are simple and straight forward:

1. Provide the opportunity for increased enplanements by making more than 40,000 seats available annually
2. Reduce the total annual subsidy for the service
3. Through 1 and 2 above, keep the average subsidy per passenger below $150.00 for the two-year term

TAA will monitor each of these factors through monthly reports submitted by Contour, along with its own airport operating data. In the event that actual enplanement or average subsidy per passenger values experience an unfavorable shift, TAA and Contour will consult regarding the underlying cause(s) and implement the appropriate action(s) to approaches resume the incremental decreases in average subsidy per passenger.

VII. Grant Compliance

TAA understands that it will need to execute a new grant agreement and various grant assurances in order to continue AEAS at TUP. Having executed the Grant and assurances for the current AEAS service, TAA is well versed in its various obligations and requirements for participation in the program.

Upon the execution of the new AEAS grant agreement and assurances with DOT, TAA will enter into a new written agreement for AEAS with Contour that flows through the

appropriate terms, conditions, and assurances from the grant, as well as other provisions appropriate to the performance by each party in relation to the subsidized air service.

In addition to successfully administrating the current AEAS Grant, TAA has been the recipient of other grants and has in place policies, procedures, and safeguards to ensure that grant funds are not comingled with other funds, diverted for unapproved uses, or paid for services not rendered in accordance with the grant and the agreement for air services.

VIII. Continued EAS Eligibility

49 U.S. Code § 41731 – Definitions sets forth the eligibility criteria for EAS.

TUP meets and by definition will continue to meet the requirements of 49 USC § 41731(a)(1)(A) and (D) for so long as those provisions are in effect.

TUP is not subject to the requirements of 49 USC§ 41731(a)(1)(B) and presently complies with the requirements 49 USC§ 41731(a)(1)(C). TAA's participation in AEAS in accordance with this proposal is designed to continue to decrease the average per passenger subsidy and increase number of passengers on a year over year basis. TAA will monitor these factors at least monthly using data provided by Contour and its own airport operations records. In the event that actual enplanement or the average subsidy per passenger experience an unfavorable shift, TAA and Contour will consult regarding the underlying cause(s) and implement the appropriate action(s) to approaches to reverse the trend.

The Department of Transportation and Related Agencies Appropriations Act, 2000, Pub. L. No. 106-69 (Oct. 9, 1999), prohibits DOT from subsidizing EAS for communities located within the 48 contiguous States when per passenger subsidy amounts exceed $200, unless the communities are located more than 210 miles from the nearest large- or medium-hub airport. As noted above, TUP achieved an average subsidy per passenger of $136.47 during the Federal government's most recent fiscal year ended September 30, 2019. TAA's participation in AEAS in accordance with this proposal is designed to continue to decrease the average per passenger subsidy and increase number of passengers on a year over year basis. TAA will monitor these factors at least monthly using data provided by Contour and its own airport operations records. In the event that actual enplanement or average subsidy per passenger values experience an unfavorable shift, TAA and Contour will consult regarding the underlying cause(s) and implement the appropriate action(s) to approaches resume the incremental decreases in average subsidy per passenger.

Attachment – Proposed Annual Subsidy Detail

Tupelo, MS
AEAS – 14 Weekly Round Trips TUP-BNA-TUP ERJ 135/145 with 30 Seats

Annual Projection

Operations			
Scheduled Flight Segments			1,456
Completion Factor/Completed Flight Segments	99%		1,442
Scheduled Seats	30		43,680
Revenue			
Estimated Average Load Factor/Total Annual Passengers	60%		26,208
Average Fare		$	45.000
Total Revenue		$	1,179,360.00
Expenses			
Fuel		$	1,000,100.00
Maintenance and Reserves		$	1,019,200.00
Pilot Costs		$	920,000.00
Aircraft Fixed Costs		$	300,000.00
Marketing		$	25,000.00
Other Indirect Costs		$	1,561,400.00
Total Expenses		$	4,825,700.00
Profit Component (Percentage of Total Expenses)	5%	$	241,285.00
Proposed Annual Subsidy		$	3,887,625.00
Projected Average Subsidy Per Passenger		*$*	*148.34*