

Midland International Airport

Serving

Midland and Odessa, Texas

Grant Application Under The

Small Community Air Service Development Program

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I. Introduction

The Midland International Airport (MAF), serving the communities of Midland and Odessa, Texas, hereby submits its request to the Department of Transportation for a grant under the Small Community Air Service Development Program.

The Midland International Airport serves a catchment area with a population of over 793,000. The Midland International Airport generated about one million O&D passengers in 2007, with traffic growth of 4%.

The Midland area economy is booming, driven by rapid growth in the oil and gas exploration business, both domestically and internationally. Midland area companies play a very significant role in domestic oil and gas exploration, particularly in the western United States.

Deficiency: No Viable Westbound Access

Unfortunately, Midland International Airport today has virtually no access to a westbound connecting hub. In order to get to cities in the west or northwest, passengers must make a circuitous back track to either DFW or IAH, entailing as much as four hours additional travel time.

The only westbound service at MAF is represented by a single daily flight to Albuquerque and a single daily flight to Las Vegas. Both are operated by Southwest and offer only limited connectivity beyond these two points.

As an example of this lack of westbound access, a Midland passenger traveling to Denver or Phoenix is generally must fly via Dallas or Houston. This is comparable to a Washington D.C. passenger having to fly to Boston in order to get to Atlanta.

With the resurgence in the oil and gas industry, this access is of critical importance to the economy of the Midland/Odessa region. There are strong communities of business interest between MAF and the petrochemical industries in the intermountain west, Southern California, the financial centers of the Bay Area, and those in the Northwest.

Solution: Access to a Westbound Connecting Hub

This application is requesting a grant in the amount of \$600,000, to be matched locally by an additional \$100,000, to attract and support service to a west-oriented connecting hub. The realities of the industry indicate two strong potential opportunities.

The first is United Airlines hub at Denver International. The second is the US Airways hub at Phoenix. Both of these options represent alleviation of the current air service deficiency at Midland. They offer connectivity to key petro-related destinations, such as Los Angeles, key oil and gas

Midland International Airport serves a large area of west Texas with a very strong economy.

Unfortunately, changes in the airline industry have eliminated viable access to the entire western United States.

This grant will be the impetus to alleviate this major air service deficiency.

exploration centers in the intermountain region such as Grand Junction, as well as the key commercial and financial centers in the West.¹

Because of potential mergers that are possible between various airline systems, this grant is requested to allow support for service to one or the other of the two hubs mentioned. Furthermore, it is entirely possible that by the time the grant awards are announced, the two airlines involved could be in the merger process.

As this application will demonstrate, the traffic potential for either of the target carriers is substantial.² The community believes that this grant will establish service that not only meets the needs of Midland and Odessa, but also will ultimately represent a strong new revenue contributor to the carrier.

The Midland International Airport and the community appreciate the Department's time and efforts in reviewing this application, and look forward to favorable consideration.

Please direct all correspondence regarding this application to:

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Midland International Airport
P.O. Box 60305
Midland, TX 79711
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¹ The Delta Air Lines hub at SLC could be considered as well. However, the longer stage length to access this hub from MAF makes it a higher risk and provides less financial opportunity for the hubbing airline.

² It is a possibility that these carriers will have agreed to merge into one entity by the end of 2008.

II. Proposal Overview

Project Scope and Goal

Midland International Airport and the Community are requesting a program grant in the amount of \$600,000. This will be matched by local non-airport funds in the amount of \$100,000. In addition, \$100,000 in Airport Marketing support will be provided, for a total program funding of \$800,000.

These financial resources will be applied to a program to provide risk abatement, marketing and promotional support for the introduction of new westbound air service at Midland.

The community is requesting a grant in the amount of \$600,000 that will be matched by \$100,000 in local non-airport funds and \$100,000 in local airport funds.

The goal is recruitment of new west bound air service for the booming Midland area.

Official Sponsor & Community Participation

The legal sponsor of this application is Midland International Airport. The community sponsor and participant is the Airport Economic Development Committee, (see Appendix B for a Committee profile) which is a local public-private partnership comprised of organizations committed to improving Midland air service. This powerful public-private partnership will be responsible for the following:

- Working with the Airport in negotiating agreements with the target air carrier subsequent to grant award.
- Liaison with the Department in regard to carrier performance during the grant period.
- Administration of the total program funding, including contact with the Department.
- Preparation of quarterly reports, as determined necessary by the Department.

A Solution Designed for Success

With the resources provided by this grant, and those committed by the Community, Midland International will be able to pursue a simple, focused program to address the major deficiency in access to the Western United States. It consists of only two components:

- Recruiting new westbound air service that will compliment existing service and meet local oil and gas industry needs for effective travel options to points in the Western U.S.
- Communicating, via a comprehensive advertising, marketing, and public relations campaign, the existence of the new air service

This straightforward program has a high chance of success both in the short term and in the long term.

The service this grant will make possible will open access to important petro-centers on the West Coast, such as Los Angeles, Bakersfield, and Fresno.

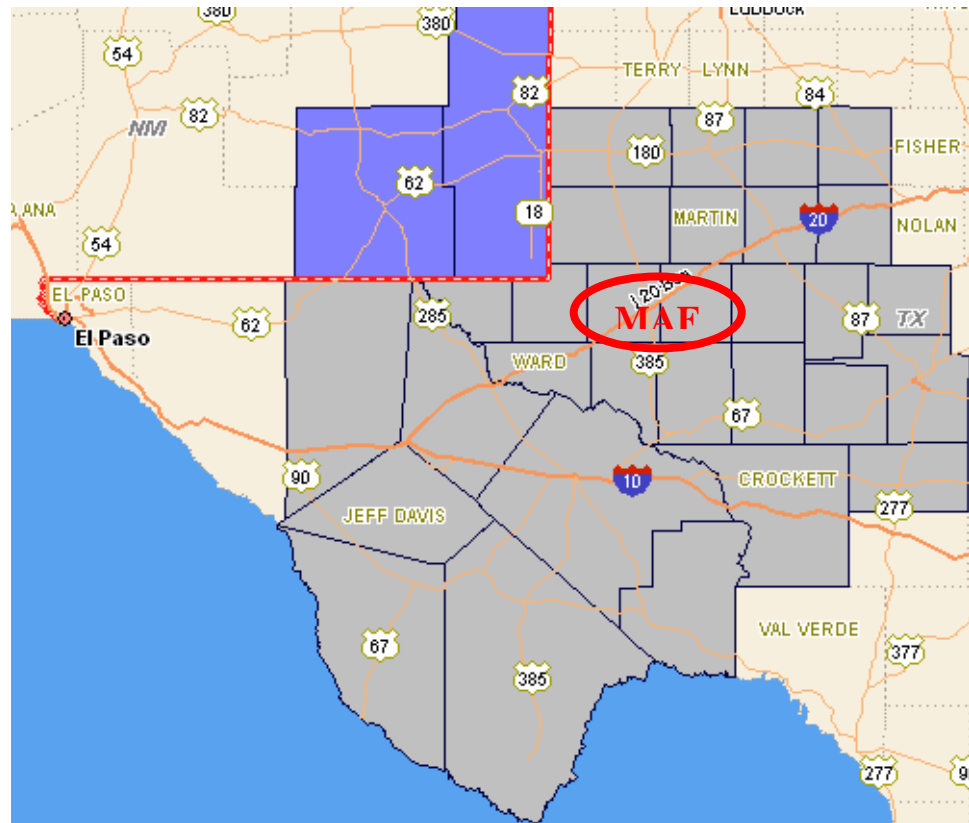
Initially, this type of plan is attractive to airlines, which see the risk abatement funds as insurance against short-term losses as a new route develops profitable momentum. In the long term, the marketing and awareness campaign builds a solid foundation for continued profitable service once the startup phase passes.

The Airport believes that MAF represents an opportunity to the target carrier(s), and in fact can assist the carrier in meeting the current crisis resulting from high fuel costs. The net-new revenue to the carrier will be substantial, which is a positive benefit. Unfortunately, in the current environment, carriers are not willing to take any risks. Therefore, this grant is imperative to attracting the needed service.

III. The Midland Market

Service Area

The service area of the Midland International Airport encompasses a vast area of West Central Texas and southeastern New Mexico, including 30 Texas counties and two New Mexico counties.



The local economy is strong and viable, anchored by a diverse set of Oil & Gas Exploration companies that specialize in a wide range of support functions, from drilling support & logistics to seismic services.

The airport's effective catchment area has a population of about 793,500. The airport is centrally located between Midland and Odessa, just off I-20 and between the I-20 junctions with Texas Highways 385 and 349.

The Midland/Odessa Area Economy

The combined Midland and Odessa MSAs have seen a strong 8% population growth in the period 2000 to 2007, caused mainly by business expansion and job growth in the region. The local unemployment rate is very low, at 2.9%, and the combined MSAs saw net growth of 4,800 jobs in 2007.

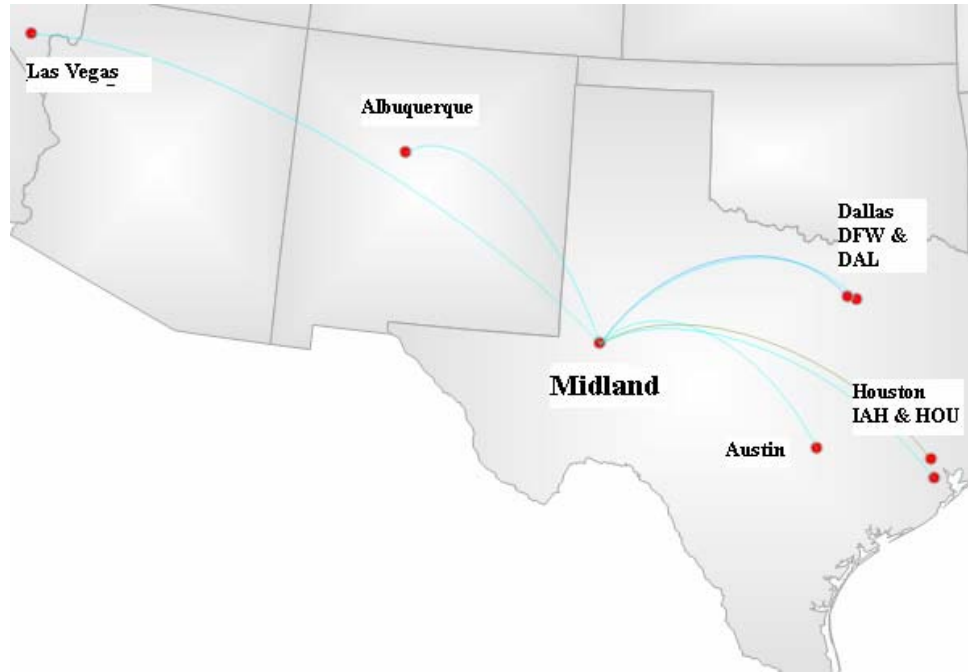
The growth in the area economy is driven by a diverse set of oil and gas exploration and drilling firms, most of which have communities of travel and business interest with points in the Western United States. These companies have broad and unique skill sets in specialties as varied as seismic data acquisition and interpretation, declining field recovery techniques, horizontal and special drilling circumstances and many others.

MIDLAND AREA MAJOR EMPLOYERS	
<u>Company</u>	<u>Business</u>
Warren Equipment	Oil & gas exploration services
Dawson Geophysical	Seismic data acquisition & processing
Patterson-UTI Drilling	Exploration & field management, U.S. & Canada
Key Energy	Oil & gas field support services
Schlumberger Oil	Industry leading oil field support services vendor
Halliburton Energy	Field support division of Halliburton
Pioneer Natural Gas	Gas exploration & production company
Conoco Phillips	Extensive drilling operations in west Texas
Baker Hughes	Gas & oil field management
Oxy Permian	Division of Occidental Petroleum, HQ in Los Angeles
Chevron	Extensive field operations in West Texas
Fifteen small companies	Specialists in pipeline functions, compression systems, drilling processes, pumping systems, field operation training, specialized drilling equipment & processes

These unique skill sets are in very high demand globally and in the Western United States, the Northwest and Alaska, where the oil and gas industries are also expanding. The lack of viable air service connectivity between MAF and these regions hinders future economic growth.

Current Air Service

Midland is served today by American Eagle, Continental Connection, and Southwest Airlines.



MAF is served by two network carriers and Southwest Airlines.

Note that there is no connecting hub service whatsoever to the West.

While Midland has excellent service to Dallas (Southwest and American Eagle) and Houston (Southwest and Continental) the market has only one Southwest trip per day to Las Vegas and Albuquerque respectively.

Midland Air Service: May 2008				
<u>Carrier</u>	<u>Route</u>	<u>Frequency</u>	<u>Equipment</u>	<u>Daily Seats</u>
American	DFW	6 RT	RJ	600
Continental	IAH	6 RT	RJ	600
Southwest	ABQ	1 RT	737	274
Southwest	AUS	1 RT	737	274
Southwest	DAL	6 RT	737	1,644
Southwest	HOU	2 RT	737	548
<u>Southwest</u>	<u>LAS</u>	<u>1 RT</u>	<u>737</u>	<u>274</u>
Total	LAS	23 RT	Various	4,214

Source: Airline websites for travel May 2008

The air service deficiency is readily identified on the route map. Midland has only two flights a day going west, out of a total of 23. More tellingly, both of these flights are on Southwest Airlines which offers limited connectivity to the rest of the West.

What this means is that the Midland economy and its critical role in the nation's development of domestic oil and gas resources is measurably constrained by lack of effective westbound air service.

Circuitry of Westbound Access Is an Economic Threat

For eastbound destinations, MAF has good air service both from Southwest and network carriers American and Continental.

American Eagle provides regional jet service to the American hub at DFW. Continental Connection provides regional jet service to the Continental hub at Houston Intercontinental. Each route was flown six times per day in May of 2008.

These two carriers are Midland's only network carrier link to the national and international air transportation system.

The problem is that both of these hubs are well east of MAF. The two Dallas airports are located over 300 miles east of Midland. The two Houston airports are located about 430 miles east/southeast of Midland. This means that any westbound air travel to major points in the West must make a very circuitous – and time consuming - routing east in order to go west.

Historical Air Service

Midland air service has been relatively stable over the past three years. The only real shifts have been with Southwest flights, where Austin service has been cut to one flight, and a traditional flight to El Paso was eliminated.

HISTORICAL MIDLAND AIR SERVICE				
Nonstop Route	2005	2006	2007	2008
Albuquerque	1 RT WN	1 RT WN	1 RT WN	1 RT WN
Austin	2 RT WN	2 RT WN	2 RT WN	1 RT WN
Dallas Love	6 RT WN	6 RT WN	6 RT WN	6 RT WN
Dallas DFW	6 RT AA	6 RT AA	6 RT AA	6 RT AA
El Paso	1 RT WN	1 RT WN	1 RT WN	No Service
Houston Hobby	2 RT WN	2 RT WN	2 RT WN	2 RT WN
Houston Intercontinental	5 RT CO	6 RT CO	6 RT CO	7 RT CO
Las Vegas	1 RT WN	1 RT WN	1 RT WN	1 RT WN
Total Daily Flights	24 RT	25 RT	25 RT	24 RT

Source: Airports:USA DataMiner Schedule Database

While the Midland International Airport believes its current service to Dallas/Love and Houston/Hobby are permanent parts of the Southwest network, there are significant concerns about the long term viability of the Albuquerque and Austin service.

Furthermore, once Wright Amendment restrictions fall away in 2014 Southwest can operate nonstop from Dallas Love to any domestic city.

This means that even Midland – Las Vegas service may be in jeopardy at that time since that service is currently a one stop routing Dallas – Midland – Las Vegas. With Southwest able to operate nonstop Dallas – Las Vegas in 2014, the loss of Dallas – Las Vegas thru traffic over Midland may compromise the economics of Midland – Las Vegas flights.

Midland Traffic Distribution

A look at Midland's domestic O&D traffic by region of the United States clearly shows the influence that the lack of westbound access has on O&D traffic.

MIDLAND TRAFFIC BY REGION

<u>Region</u>	<u>O&D</u>	<u>% Total O&D</u>
Northeast	64,586	7%
Southeast	77,807	8%
South Central	570,906	59%
Midwest	48,170	5%
Intermountain	48,513	5%
<u>Far West</u>	<u>158,783</u>	<u>16%</u>
Total	968,765	

Source: Airports:USA® Dataminer for 2007

Lack of westbound access is estimated to cause MAF a loss of over 128,000 enplanements annually.

Only 21% of Midland's total market O&D is exchanged with cities in the Intermountain or Far western United States. This compares to El Paso, which has omni-directional hub access, and where over 34% of the traffic distribution is to these same regions.³

Without question, the air service deficiency this grant will address is currently causing loss of passenger traffic at MAF. Safely assuming that MAF's true traffic generation is at least similar in destination distribution to that of El Paso, this loss of traffic due to lack of westbound access represents approximately 128,300 O&D passengers.

This is another indication of the importance of this grant to the economic underpinning of the MAF business community.

³ Source: Airport:USA® DataMiner analysis of full year 2007 ELP O&D.

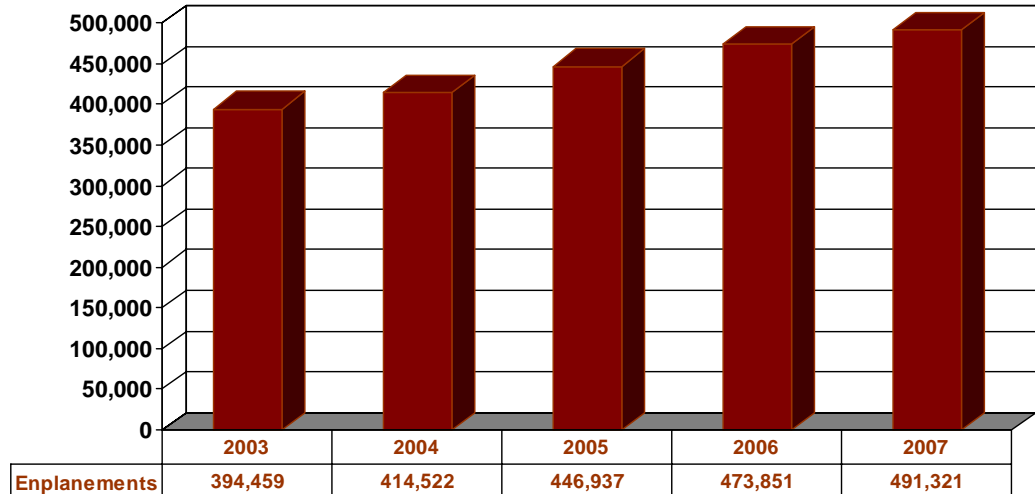
Historical Traffic

The resurgence in the oil and gas industries is reflected in annual enplanement growth at MAF since 2003.

Midland O&D traffic has grown 25% in the period 2003 to 2007.

However, the natural growth that would have been experienced from destinations in the west was likely choked off due to lack of adequate air service.

Midland Enplanements 2003 - 2007



This economic growth is continuing, and enplanements are up YTD 2008 by approximately 4%. It is noted that analyses of the lost westbound traffic (covered above) would indicate that year 2007 enplanements would have been about 13% higher had the community had the benefit of viable westbound air access.

Midland Fare Levels Are Artificially High

The Midland market is really two markets when it comes to airfare pricing.

Southwest Airlines is the dominant carrier at Midland with 68% of total market traffic. In 2007 about 687,000 Southwest passengers traveled in fifty eight Southwest city pairs at an average net fare of \$104.58. Just over one half of total 2007 Midland O&D traffic was generated to or from Southwest’s nonstop destinations of Dallas, Houston, Las Vegas, Albuquerque, and El Paso.

Consistent with Southwest’s pricing strategies, these 485,000 plus O&D passengers only paid a net one way fare of \$90.27.

However, network carrier connect traffic via DFW and IAH constituted 22% of total market traffic and paid a net average fare of \$230.30. This equates to over \$270 in a gross one way fare or over \$540 round trip.

MIDLAND IS TWO MARKETS IN TERMS OF AIRFARES			
Sector	Traffic	% Total Traffic	Avg Fare
Southwest Airlines Nonstop Routes	485,031	51%	\$90.27
Southwest Airlines Connecting Traffic	201,109	21%	\$138.90
American Airlines Dallas (vs WN)	31,780	3%	\$93.23
Continental Airlines Houston (vs WN)	23,285	2%	\$115.26
Nonstop Traffic Sub Total	741,205	78%	\$104.38
American Airlines Connect Traffic	108,497	11%	\$210.19
Continental Airlines Connect Traffic	94,445	10%	\$250.07
Delta Connect Traffic (Via CO codeshare)	2,463	0.3%	\$357.84
Network Carrier Connect Traffic Sub Total	205,405	22%	\$230.30
Market Total	946,610		\$131.70

Source: Airports:USA® DataMiner reports on DOT Traffic Survey

Travelers who do attempt trips between MAF and the West not only pay much higher air fares, but spend as much as the equivalent of one entire workday in travel time.

Clearly, outside of cities where Southwest flies or has measurable pricing influence, Midland travelers pay very high airfares. Demonstrating this in particular is a review of actual average fares to key destinations in the west paid by MAF consumers, compared to average fares paid at El Paso.

Westbound Fare Premiums			
Market	ELP Fare	MAF Fare	Premium
DEN	\$161.61	\$224.01	38.6%
SAN	\$160.29	\$192.18	19.9%
PHX	\$92.86	\$161.60	74.0%
SEA	\$160.29	\$228.65	42.6%
OAK	\$178.01	\$212.00	19.1%
SMF	\$195.58	\$254.85	30.3%
TUS	\$121.86	\$303.06	148.7%

Source: Airports:USA® DataMiner Year 2007 Gross Avg Fares Paid

The lack of viable westbound access – which will be resolved by this grant – is costing MAF consumers and the local economy millions of dollars annually.

Circuitous Routings and Long Elapsed Travel Times

In addition to the substantially higher airfares paid by MAF consumers to get to western cities, there is another hidden, yet substantial cost: elapsed travel times.

Because of the need to fly either 300+ miles (DFW) or 430 miles (IAH) east to connect to the west, approximately 4 extra travel hours are needed – each way - compared to the situation if the market had nonstop

flights. On a round trip, that equates to one entire extra workday tied up in travel time.

MIDLAND DISTANCE & TIME COMPARISON: WESTBOUND TRAVEL

<u>Distance</u>		MAF		MAF	
Destination	Nonstop	Via DFW	Circuitry	Via IAH	Circuitry
Denver	561	952	170%	1,291	230%
Phoenix	580	1,174	202%	1,434	248%
Los Angeles	948	1,539	162%	1,802	190%
Salt Lake City	817	1,295	159%	1,620	198%

<u>Elapsed Time</u>		Difference		Difference	
Destination	Nonstop	Via DFW	In Time	Via IAH	In Time
Denver	1:50	4:36	2:46	5:42	3:52
Phoenix	1:50	5:24	3:34	5:58	4:08
Los Angeles	2:25	6:06	3:41	6:25	4:00
Salt Lake City	2:10	6:25	4:15	6:30	4:20

Source: Nonstop mileage table and Airline websites

Midland’s current westbound air service is good for accumulating frequent flyer miles, but not for getting to a destination in a rapid manner.

Routings to major western cities via DFW or Houston Intercontinental involve a travel circuitry of at least 160% and often well over 200%. A trip with 200% or more circuitry means a passenger would travel over twice the nonstop distance of the trip.

Connection routings via DFW or Houston also then require significantly more travel time, with three to four extra hours required (vs. nonstop service) for a one-way trip to Denver or Phoenix. Furthermore, these elapsed time penalties are before consideration of frequent hub congestion delays at DFW and Houston Intercontinental, which can add additional minutes or hours.

This circuitry and time penalty has a crippling effect on the utility and effectiveness of business travel between the Midland area and the entire western United States.⁴

⁴ This compares existing travel time v the theoretical existence of having nonstops. Nevertheless, connections over PHX or DEN, which is the aim of this grant, will still represent enormous reductions in hours of travel compared to the current situation.

Incremental Petro-Destination O&D = Big Dollars

A review of known existing passenger levels between MAF on one hand, and small petro-related communities in the intermountain west once again underscores the need for better westbound access at MAF.

2007 MAF TRAFFIC - Petro-Related Cities						
City Pair	Est Traffic	PDEW	MAF Origin	Net Fare	Trip Yield	Current Trip Miles
ASE	30	0.0	71%	\$285.63	\$0.204	1,402
BFF	20	0.0	100%	\$240.28	\$0.218	1,100
BIL	409	0.6	49%	\$296.76	\$0.193	1,548
BIS	101	0.1	57%	\$599.17	\$0.347	1,727
BTM	20	0.0	100%	\$251.87	\$0.152	1,654
BZN	91	0.1	100%	\$381.00	\$0.235	1,614
COD	42	0.1	60%	\$537.41	\$0.362	1,634
COS	946	1.3	53%	\$214.03	\$0.233	917
CPR	427	0.6	24%	\$552.49	\$0.449	1,286
CYS	31	0.0	100%	\$291.00	\$0.280	1,040
DEN	12,979	17.8	49%	\$237.68	\$0.233	1,022
DIK	30	0.0	100%	\$422.16	\$0.294	1,438
EGE	206	0.3	85%	\$277.28	\$0.258	1,036
FCA	101	0.1	40%	\$294.13	\$0.150	1,966
GCC	56	0.1	39%	\$558.29	\$0.408	1,367
GJT	520	0.7	38%	\$422.29	\$0.303	1,338
GTF	64	0.1	65%	\$315.23	\$0.180	1,758
GUC	65	0.1	100%	\$290.22	\$0.284	1,023
HDN	82	0.1	62%	\$339.72	\$0.272	1,247
HLN	32	0.0	50%	\$428.27	\$0.252	1,777
IDA	31	0.0	60%	\$488.37	\$0.329	1,526
ISN	48	0.1	21%	\$452.69	\$0.296	1,527
JAC	177	0.2	94%	\$284.24	\$0.204	1,417
MSO	102	0.1	39%	\$409.70	\$0.231	1,825
MTJ	43	0.1	55%	\$292.74	\$0.284	1,134
PIR	43	0.1	45%	\$271.91	\$0.150	1,813
RAP	70	0.1	71%	\$376.63	\$0.259	1,452
RIW	40	0.1	100%	\$376.03	\$0.302	1,246
RKS	71	0.1	55%	\$540.04	\$0.446	1,210
SHR	34	0.0	70%	\$299.00	\$0.181	1,649
VEL	20	0.0	100%	\$207.72	\$0.145	1,428
Total	16,930	23.2	50%	\$263.89	\$0.25	1075

Source: Airports:USA® DataMiner From DOT DB1B for year 2007

These 31 cities produced almost 17,000 O&D in 2007. Over 3,000 of these O&D trips required an interline connection. All required extended travel time via DFW or IAH.⁵

⁵ Note: these data reflect the passengers that were estimated to have actually traveled. The chart does not reflect "demand" – it has already been established that traffic to the west from MAF is artificially truncated due to lack of adequate air service.

Furthermore, a detailed review of the 2007 domestic Midland O&D traffic of American and Continental reveals:

- Over 34,000 American O&D traffic (31% of total AA connect traffic) was to or from a domestic city west of the Missouri River. About 10% of this traffic involved an interline connection.
- Over 18,000 Continental O&D traffic (19% of total CO connection traffic) was to or from a domestic city west of the Missouri River. About 5% of this traffic involved an interline connection.

Clearly the lack of westbound air service is creating significant additional travel time, with all its associated economic costs, for Midland, its residents and its business community.

You Can't Get There From Here So Charter a Plane

There is extensive business travel between Midland and many smaller cities in the intermountain west, mostly driven by the petroleum industry.

Travel between almost all of these cities and Midland currently requires a double connection, one in Dallas or Houston and another in another hub. Because double connections via these hubs take so long there is significant charter traffic between Midland and smaller cities in the intermountain region.

In the month of March 2008 alone the Midland International Airport identified 79 individual IFR charter or general aviation flights between Midland and 22 small intermountain region cities.

City	Charter or GA Trips, March 2008
Farmington, NM	15
Denver, CO	13
Grand Junction, CO	12
Aspen, CO	7
Eagle, CO	4
Alamosa, CO	3
Hayden, CO	3
Casper, WY	3
Lamar, CO	2
Colorado Springs, CO	2
Ft Collins, CO	2
Rock Springs, WY	2
Telluride, CO	2
Durango, CO	1
Evanston, WY	1
Longmont, CO	1
Sidney, NE	1
Rifle, CO	1
Rangley, CO	1
Bozeman, MT	1
Montrose, CO	1
Crawford, CO	1
Total	79

Source: Flight Aware Commercial Services Databank

To be sure, not all of these charters are the result of lack of westbound air service at MAF. But one thing is certain: time effective access to the intermountain region cannot be accomplished in any case today, without charter service.

It is difficult to estimate the burden this puts on the business base at MAF. It is not difficult, however, to make the point that the service this grant will support will improve access and cost to get to these points.

IV. Addressing the Deficiency

Solution: Denver/UA or Phoenix/US

The largest connecting hubs in the intermountain region are Denver, Phoenix, and Salt Lake City.

Denver and Phoenix are both approximately 570 miles from Midland, Denver to the northwest and Phoenix directly west. Salt Lake City is 817 miles to the northwest.

Detailed route forecasts illustrate that, even in this difficult airline operating environment, Midland can support new westbound service to either Denver or Phoenix.

United Airlines Denver

Two round trips per day to Denver, with service provided by a United Express carrier with a 50-seat regional jet, appears to achieve segment breakeven results at the end of the first year.

Service to Denver or Phoenix would dramatically improve Midland's westbound air service.

The high-yield additional passengers will also benefit United, which is a reason the carrier has written in support of this application.

UNITED EXPRESS MAF - DEN PROJECTED OPERATIONAL STATISTICS

MAF - DEN Mileage	561
Equipment	CRJ-200
Service Pattern	2 RT
Annual Segments	1,400
Block Time	1.8
Annual Block Hours	2,520.0
Annual Seats	70,000
Annual ASM	39,270,000
Estimated Cost Per Hour	\$2,883
Estimated CASM	0.185
Estimated Route Cost	\$7,264,950

UNITED EXPRESS MAF - DEN TRAFFIC & REVENUE SUMMARY

	Traffic	Revenue	MAF Seg Rev
Local Traffic @ \$254	13,298	\$3,377,794	\$3,377,794
Domestic Connection DEN @ \$230	35,497	\$8,164,284	\$3,347,357
Double Connect Via ORD/SFO/IAD/LAX @ \$300	2,400	\$720,000	\$237,600
Great Lakes Connect DEN @ \$400	600	\$240,000	\$144,000
International Connect DEN @ \$700	300	\$210,000	\$69,300
Onboard Traffic & System Revenue	52,095	\$12,712,078	\$7,176,050
First Year Segment Projected Operating Profit			-\$88,900
Segment RPMs			29,225,457
Segment Load Factor			74.4%

This new service makes a significant contribution to the United and United Express system beyond Denver with almost 39,000 connecting O&D across the huge United network the first year.

The Midland International Airport has discussed Denver service with United Airlines. The carrier has a keen interest in the Midland market and has written a letter of support for this Grant application.

US Airways Phoenix

Two round trips per day to Phoenix, with service provided by a US Airways Express 50-seat regional jet, appears likely to achieve breakeven status the second year of operation.

US AIRWAYS MAF - PHX PROJECTED OPERATIONAL STATISTICS

MAF - PHX Mileage	580
Equipment	CRJ-200
Service Pattern	2 RT
Annual Segments	1,400
Block Time	1.8
Annual Block Hours	2,520.0
Annual Seats	70,000
Annual ASM	40,600,000
Estimated Cost Per Hour	\$2,819
Estimated CASM	0.175
Estimated Route Cost	\$7,105,000

US AIRWAYS MAF - DEN TRAFFIC & REVENUE SUMMARY

	Traffic	Revenue	MAF Seg Rev
Local Traffic @ \$157	28,950	\$4,545,150	\$4,545,150
Domestic Connection PHX @ \$205	22,531	\$4,618,855	\$2,309,428
International Connect PHX @ \$420	300	\$126,000	\$56,700
Onboard Traffic & System Revenue	51,781	\$9,290,005	\$6,911,278

First Year Segment Projected Operating Profit	-\$193,723
Segment RPMs	30,032,980
Segment Load Factor	74.0%

Phoenix service generates significantly more Phoenix local traffic, but it alternatively generates less connect traffic to the northern intermountain region than via Denver.

Delta Air Lines Salt Lake City

Delta regional jet service from Midland to Salt Lake City does not appear viable at current (\$130 per barrel of crude) fuel prices, given current Midland airfares and connection traffic potential of the SLC hub.

However, the Midland International Airport recognizes the potential value of nonstop service to the Salt Lake City hub. It is possible that some combination of fuel price moderation and domestic airfare increases results in moderately improved regional jet operating economics. The combined Delta / Northwest Airlines may offer expanded connections at SLC. Thus, Salt Lake City may be a viable western hub for Midland within the life time of this proposed grant.⁶

⁶ The Community also considered Frontier Airlines as a marketing target. The fact the carrier is in Chapter 11 bankruptcy led to the decision not to include it in this application.

V. Grant Administration

The Midland International Airport is requesting \$600,000 in grant funding. This amount will be matched by \$100,000 in local, non-airport, funding. Furthermore, the Midland International Airport will contribute \$100,000 in airport marketing funds in support of the new air service.

Total funding available to support new westbound air service at Midland is thus \$800,000.

The combined Grant and local matching funds will have two primary applications.

Risk-abatement Funding

Risk-abatement funding would be provided for the airline providing new nonstop air service that will improve westbound access for Midland.

Upon award of grant funds, the Airport Economic Development Committee and the Airport will negotiate with prospective airlines. The best service proposal will be identified and a risk abatement contract between Midland and the carrier (subject to Department approval) would be negotiated.

Risk abatement funding would support the initial phase of new air service. The airport will negotiate a detailed service agreement that is consistent with DOT guidelines for grant fund use with the candidate carrier.

The costs of operating the new service will be defined in discussions with the carrier and outlined in a contractual manner. Industry cost data for appropriate aircraft and stage length will guide the airport in these discussions.

A target for overall revenue associated with the new service and the component of that revenue that will be directly credited to the new route will be agreed upon. From this, a target revenue per flight that ensures the carrier of adequate revenue will be established.

Midland will monitor carrier provided traffic and revenue reports for the new service.

Any shortfall of target revenue per flight will be made up by risk abatement funds, upon detailed invoice from the carrier to Midland. Midland will in turn invoice the Department for its share of risk abatement funding in the manner prescribed in the Grant Agreement between Midland and the Department.

The airport will seek a one-year risk abatement agreement with the airline for new service.

The community has a clear plan to assure that the new service reaches economic viability quickly.

Risk abatement funding will support the carrier in the initial phase of service while marketing and promotional funds will ensure the new service gets maximum exposure in the Midland area.

Marketing and Promotional Support Funding

A Marketing Support Program would be customized to the carrier and new service route. This program would have a primary focus on local business and leisure traffic, with emphasis on overcoming incumbent carrier brand preference.

As this application has noted, Midland has had a relatively stable set of airlines for some years. Indeed, the market has not seen a new airline since 2003. This means that most local residents have established airline brand preferences among the incumbent carriers, perhaps driven by accumulated frequent flyer miles.

The primary and number one focus of the Marketing and Promotional Support Program will be to ensure that the new air service, most likely being provided by a new entrant airline, has a high visibility among key business and leisure travel generators.

A particular emphasis will be on combating the power of the incumbent carrier frequent flyer programs and the tendency of local residents to “follow their miles” when booking air travel.

Promotional Mailings to key travel generators in the Midland area, outlining the new service and encouraging use of the new service.

Contact With Travel-Generators. Extensive and aggressive contact with the Midland catchment area corporate community. This contact effort will be undertaken by the Airport directly and also in coordination with the new carrier’s sales team.

Liaison With Travel Agencies. The Midland International Airport maintains a close working relationship with the Travel Agencies in its catchment area. The Airport will work closely with these agencies to ensure that they support the new service to the fullest extent possible.

Press Releases. The use of the local media will be an important informational channel in this program. This will include press releases during the year outlining the progress of the new service, as well as providing information regarding the greatly improved travel utility created by the new westbound service.

Targeted Advertising. The Airport and Airport Economic Development Committee will work together to identify existing and potential traffic streams for the new service and design targeted promotional efforts to communicate with those streams. This may include everything from select email promotions to targeted radio, newspaper or TV ads.

Community Meetings. A promotional program outlining the new service will be developed for presentation to key civic organizations.

Tracking Grant Expenditures and New Service Progress

The Airport and the Airport Economic Development Committee will jointly monitor the program and assure that all expenditures will be consistent with DOT guidelines and grant application objectives. Key to this effort will be contractually mandated reports from the new carrier to the Airport on new service performance, including load factor, average airfares, traffic origin and destination, and total segment revenue compared to targeted revenue.

The Midland International Airport will file quarterly reports on progress of the program with the Department.

Timeline for Grant Implementation

The Airport Economic Development Committee and the Midland International Airport have designed a Grant Implementation Plan to ensure that Grant funding is utilized promptly and effectively.

Midland believes that in the event of Grant award a new service agreement can be reached with an airline within a few months.

TENTATIVE GRANT IMPLEMENTATION TIMELINE			
Time Frame	Entity	Action	Anticipated Completion
June, 2008	Midland Int. Airport	Submit Grant Application	June, 2008
June - Sept 2008	Midland Int. Airport	Maintain contact with airlines on MAF market	Sept, 2008
Upon Grant Award	Airport & DOT	Reach prompt agreement on a Grant contract.	October, 2008
Upon Grant Award	Airport	Notify interested parties of Grant Award.	October, 2008
4th Quarter 2008	Airport	Contact first choice carrier and meet to discuss MAF market opportunity. If a satisfactory agreement is not reached with first choice, move to second.	4th Quarter 2008
4th Quarter 2008	Airport	Submit agreement with carrier to DOT for review.	4th Quarter 2008
December, 2008	Recruited Airline	Announce new service start date.	December, 2008
January, 2009	Airport & Task Force	Begin marketing and promotion efforts that support the announced new service.	January, 2009
March, 2009	Airport, Airline, & Community	New service startup.	March, 2009
March, 2009	Airport, Airline, & Community	Monitor traffic and revenue results from new service. Adjust marketing and promotional efforts if needed.	March 2009 to February, 2010

The Airport and Airport Economic Development Committee anticipate a quick resolution of new service contract matters with an airline once a Grant is awarded to Midland.

The balance of the implementation timeline follows airline industry norms concerning lead times on schedule loading and the timeframe between schedule loading and service startup.

Traffic Improvement Goal for the New Air Service

The Midland market is seeing consistent growth in O&D traffic, despite the loss of two of its Southwest frequencies (El Paso and one of two Austin frequencies) and the glaring lack of reasonable air service access to the western United States.

The Airport and Airport Economic Development Committee believe that new air service, as described in this application document, will cause

The Airport believes that at least a 5% growth in local O&D traffic will result from the new service, with little impact on incumbent carriers.

Midland traffic to increase 9% in the first year of new service operation, with 5% of this growth attributable directly to the new service.

In 2007 Midland generated just under 1,000,000 O&D passengers. Traffic is growing at a 4% rate annually, suggesting 40,000 new O&D will be generated in a steady state scenario without any new service. The new service, using Denver as an example, can very reasonably be expected to stimulate the Midland market by an additional 5% in 2009.

MIDLAND MARKET GROWTH PROJECTIONS									
Period	O&D Traffic	Southwest		American		Continental		New Entrant	
		Share	Traffic	Share	Traffic	Share	Traffic	Share	Traffic
2007	982,642	69%	678,023	17%	167,049	14%	137,570	0%	0
2008	1,021,948	69%	705,144	17%	173,731	14%	143,073	0%	0
2009	1,113,923	66%	739,645	16%	178,228	13%	144,810	5%	51,240
2010	1,158,480	66%	769,231	16%	185,357	13%	150,602	5%	53,290

Due to overall market growth, both organic and from the new service stimulation, the new entrant service has no aggregate impact on the incumbent carriers.

Incumbent carriers will carry less westbound traffic as the new entrant service starts, but Midland market organic growth in demand to the east and northeast will make up for incumbent carrier loss of westbound traffic to the new entrant.

While Midland would like to see a dramatic reduction in air fares from the new service, a more realistic goal in this era of \$100 a barrel plus fuel is a mitigation of airfare increases on westbound routes and a significant reduction in the current \$500 or more one-way average fares for travel between Midland and the "oil patch" cities of the intermountain west.

New Service Self-sufficiency and Sustainability

The Airport will monitor the performance of the new service closely, in coordination with the providing air carrier. In the event the route is not profitable, by agreed upon standards of measurement, at the end of the grant supported risk abatement program and beyond, the Airport and Airport Economic Development Committee will take steps, as needed:

- A renewed marketing and promotion effort supporting the service.
- Creation of various soft money or in-kind incentives for the airline.
- Raising additional local risk abatement funds from the private sector.

The traffic and revenue forecasts for both Denver and Phoenix service suggest self sufficiency in year two, with modest operating losses occurring in the first year of service.

Grant Funding Allocation

The grant application is for \$600,000. This will be matched with local non-airport funds totaling \$100,000. The City of Midland Department of Airports, via its Midland International Airport Air Service Development Incentive Program, will contribute \$100,000 in airport funding for marketing and promotion of the new service. (see Appendix B for Program details)

In discussions with prospective airlines, Midland understands that both risk abatement and marketing and promotion are critical to the success of the new air service.⁷ The network carriers Midland has talked to believe that risk abatement is essential in this high and uncertain fuel cost environment and that significant and aggressive local marketing and promotion is essential in order for a new entrant network carrier to succeed in Midland.

Network carriers believe that, in the case of Midland, the carrier's existing marketing and promotional infrastructure will be more than adequate for promoting Midland as a new destination outside the Midland area in the carrier's domestic and international network.

The carriers feel that a significant and aggressive local Midland area marketing and promotion program will be needed to overcome incumbent carrier preference barriers.

Based on this carrier feedback and with full recognition of the Inspector General's audit report, Midland proposes the following tentative allocation of Grant funding;

Midland Grant Program Fund Allocation			
	Risk Abatement	Marketing	Totals
MAF Community Funds	\$100,000	\$0	\$100,000
Grant Program Funds	\$600,000	\$0	\$600,000
MAF Airport Funds	\$0	\$100,000	\$100,000
Totals	\$700,000	\$100,000	\$800,000

In this scenario Department and Community funds would be allocated to risk abatement and Midland Airport funds would be allocated to marketing and promotion. Midland emphasizes that this is a tentative allocation proposal. It recognizes carrier feedback about the importance of risk abatement but also allows for \$100,000 (12.5% of total funds) to be allocated to Midland area marketing and promotion.

Midland is flexible on fund allocation. Should the Department prefer a different allocation formula, Midland will make appropriate adjustments.

⁷ The DOT's Inspector General, in an audit report on the Small Community Program, supports this notion, with particular emphasis on new service marketing and promotion.

Should a prospective airline prefer a different formula, then adjustments can be made with Department approval.

Tentative Marketing and Promotion Plan

The Midland International Airport, aided by the Airport Economic Development Committee, will oversee an aggressive local marketing and promotional effort in support of new air service.

An outline of the Marketing & Promotional Plan (subject to carrier concurrence) is as follows:

- A first flight of TV, radio, newspaper and outdoor media in the 60 days prior to first service. (\$30,000)
- Lunch or dinner presentations to local corporate and leisure traffic generators outlining the new service. (\$2,000)
- Facilitation by the Airport of direct meetings between the new airline's sales staff and key corporate travel generators. (no cost)
- A frequent flyer introduction program, to be ongoing from before service startup thru the first few months of operation that will introduce the new airline's frequent flyer program and provide modest incentives for local residents to sign up. (\$5,000)
- A series of new service startup functions on or near the startup date, including an inaugural airport event and press conference, carrier representative introduction to local media, and a free ticket give away. (\$3,000)
- A second flight of TV, radio, newspaper and outdoor media just after new service startup. (\$30,000)
- A third flight of TV, radio, newspaper and outdoor media six months after new service startup. (\$15,000)
- A Marketing and Promotional reserve fund to be used as needed in the second six months of the new service. (\$15,000)

The Marketing and Promotion plan is layered and designed to be flexible.

The Airport and Airport Economic Development Committee are confident that this marketing and promotional program will successfully introduce the new service (and probably new airline) to the Midland area.

The Airport and Airport Economic Development Committee will work closely with the new airline on marketing and promotion. Changes to this outline will be made as the carrier suggests or as the market environment suggests.

VI. A Clear Need and a Clear Solution

The Midland air service story is a clear one:

- A booming local economy, driven by oil and gas exploration and mining, with low unemployment and solid population growth.
- A clear current air service imbalance, with 88% of current daily departures (21 of 24) being to Dallas or Houston airports. Westbound service is limited to single Las Vegas and Albuquerque flights via Southwest. This carrier has indicated that it may continue to pull-back such flying, refocusing lift at Dallas/Love.
- Solid traffic growth with enplanements up 25% since 2003 and growing at a 4% clip so far in 2008 despite the loss of two Southwest daily departures and all service to El Paso.
- Even with this growth, it is estimated that MAF lost over 128,000 O&D passengers in 2007 due to lack of westbound air access.
- A glaring lack of westbound service to large, medium, and particularly small communities. Connections over DFW or IAH require passenger travel of over double the nonstop distance to even large western cities.
- Elapsed times via DFW or IAH to western cities only 500 nonstop miles away are a 5 to 6 hour or even 7 to 8 hour duration. Air travel times in some westbound city pairs were most likely faster in the DC-3 era. A passenger can get most of the way, via DFW, to London, England before he can get to Grand Junction or Billings.
- A clear need for westbound service as exemplified by frequent charter flights to western cities. Of particular need is westbound air service that will open up online or at least single connection service to oil and gas exploration regions in the intermountain west. Midland corporations are playing a key role in developing domestic energy sources and lack of westbound air travel options at Midland is hindering that effort.
- Viable new air service options, even at current fuel prices, to key western hubs at Denver or Phoenix. Keen interest on the part of hubbing carriers from these cities in providing that service, if modest startup phase support is available.

- A clear plan has been outlined for implementing new service, including aggressive and extended local marketing and promotion in close coordination with the new airline.

In summary, Midland is pleased to offer this Grant application to the Department and is determined to be successful in implementing any award it is given.

Appendix A: Summary of Air Service Improvement Efforts

MIDLAND INTERNATIONAL AIRPORT MARKETING & PROMOTION SUMMARY

Marketing Efforts:

- ✦ In March of 2005 and 2006 we hosted an Employee Appreciation Reception for all airline employees to celebrate 12 consecutive months of positive enplanements.
- ✦ The Midland International Airport advertises annually in the San Angelo Tonemen production program.
- ✦ Midland International Airport partnered with the Midland and Odessa Convention and Visitors Bureaus to be the Southwest Destination City in November 2005, March 2006 and October 2006. Results:

IMPACT OF MIDLAND DESIGNATION AS SOUTHWEST AIRLINES DESTINATION CITY

<u>Metric</u>	<u>November, 2005</u>	<u>March, 2006</u>	<u>October, 2006</u>
Tickets to MAF	912	1280	858
Tickets from MAF	2112	3136	1096
Car Bookings in period	up 32%	up 47%	up 31%
Car Rental Days	up 54%	up 123%	up 40%
Hotel Bookings	up 245%	up 54%	up 80%
Room Nights	up 316%	up 53%	up 120%

- ✦ In June 2007 the Department of Airports assisted Southwest Airlines with the Celebration of their 30th anniversary of service to MAF.
- ✦ In July 2007 staff traveled to Southwest Headquarters and handed out gifts to Southwest Employees thanking them for their service to MAF.
- ✦ Several Rotary Club presentations have been made in: Midland 2003, 2006, Odessa 2006, 2008 and Big Spring 2003 highlighting the role of the Airport and Airlines in the community.
- ✦ Quarterly meeting with appointed Permian Basin Community representatives from the following cities. Texas Cities: Pecos, Monahans, Odessa, Big Springs, Abilene, San Angelo, Ft. Stockton, Seminole, Andrews, Lamesa; New Mexico cities: Roswell, Carlsbad, Hobbs, Artesia.
- ✦ Visit with Southwest Airlines CEO Gary Kelly 2005, and Steve Sisneros annually, annual meetings with American Eagle and Continental.
- ✦ Attended American Eagle Partnership Conference annually.
- ✦ Meeting in Chicago with United Airlines, April 2008.
- ✦ Hiring of The Boyd Group in July 2007 to assist Midland with air service development.

Appendix B: Airport Economic Development Committee Membership

Members:

Marv Esterly, City of Midland, Director of Aviation

Boley Embrey, Oil and Gas Properties, Owner

Doug Henson, SBC Corp. & Midland Development Corp. Chairman

Justine Ruff, City of Midland - Deputy Director of Airports

Curt Pervier, Midland College, Dean of Technical Studies

Gary Vest, Odessa C of C and of Director of Economic Development

Mike Hatley, Midland Development Corp, VP Economic Development

Robin Donnelly, Eastland International Inc., Owner

Earl Erdmann, Advanced Quick Lube Services, Owner

Robin Williams, Deer Horn Aviation, General Manager

James Beauchamp, Midland Odessa Transportation Alliance, Director

Duties:

The Airport Economic Development Committee shall assist the airport in retention of existing air service, expansion of existing air service, and recruiting of new air service.

Assistance will include, but not be limited to, oversight of local air service promotional efforts, the raising of and allocation of public and private funds in support of air service, and oversight of any incentive or assistance programs involving the Midland International Airport and its airlines.

**SMALL COMMUNITY AIR SERVICE DEVELOPMENT PROGRAM
DOCKET OST-2008-0100**

SUMMARY INFORMATION

All applicants must submit this information along with their proposal. In addition, applicants must also fill out form SF424 on *http://www.grants.gov*. (See Appendix C for the SF424 filing process)

A. APPLICANT INFORMATION: (CHECK ALL THAT APPLY)

- Not a Consortium Interstate Consortium Intrastate Consortium
- Community now receives EAS subsidy
- Community (or Consortium member) previously received a Small Community Grant

If previous recipient, expiration date of grant: _____

B. PUBLIC/PRIVATE PARTNERSHIPS: (LIST ORGANIZATION NAMES)

Public

1. City of Midland, Texas
2. Midland Development Corporation
3. Midland College
4. Odessa Chamber of Commerce
5. Midland Odessa Transportation Alliance

Private

1. SBC Corporation
2. Eastland International, Inc.
3. Advanced Quick Lube Services
4. Deer Horn Aviation
5. Oil and Gas Properties

C. PROJECT PROPOSAL: (CHECK ALL THAT APPLY)

- Marketing Upgrade Aircraft New Route
- Personnel Increase Frequency Low Fare Service
- Travel Bank Service Restoration Subsidy

- | | | |
|--|---|--|
| <input type="checkbox"/> Surface Transportation | <input type="checkbox"/> Regional Service | <input type="checkbox"/> Other (specify) |
| <input checked="" type="checkbox"/> Revenue Guarantee | <input type="checkbox"/> Launch New Carrier | _____ |
| <input checked="" type="checkbox"/> Start Up Cost Offset | <input type="checkbox"/> First Service | _____ |
| <input type="checkbox"/> Study | <input checked="" type="checkbox"/> Secure Additional Carrier | _____ |

D. EXISTING LANDING AIDS AT LOCAL AIRPORT:

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> Full ILS | <input checked="" type="checkbox"/> Outer/Middle Marker | <input checked="" type="checkbox"/> Published Instrument Approach |
| <input checked="" type="checkbox"/> Localizer | <input type="checkbox"/> Other (specify) | |

E. PROJECT COSTS:

Federal Amount Requested: _____ \$600,000.00 _____

Total local cash financial contribution: _____ \$100,000.00 _____

Airport funds: _____

Non-Airport funds: _____

State cash financial contribution: _____

Existing funds: _____

New funds: _____

Airport In-kind contribution: _____ \$100,000.00 _____
(local marketing and promotion of new service)

Other In-Kind contribution: _____ \$800,000.00 _____
(amount & description)

Total cost of project: _____

F. ENPLANEMENTS:

2000 _____ 467,458 _____	2004 _____ 415,522 _____
2001 _____ 437,045 _____	2005 _____ 446,937 _____
2002 _____ 405,917 _____	2006 _____ 473,851 _____
2003 _____ 394,459 _____	2007 _____ 491,321 _____

G. IS THIS APPLICATION SUBJECT TO REVIEW BY STATE UNDER EXECUTIVE ORDER 12372 PROCESS?

- a. This application was made available to the State under the Executive Order 12372 Process for review on (date)_____.
- b. Program is subject to E.O. 12372, but has not been selected by the State for review.
- c. Program is not covered by E.O. 12372.

H. IS THE APPLICANT DELINQUENT ON ANY FEDERAL DEBT? (IF "YES", PROVIDE EXPLANATION)

- No
- Yes (explain) _____

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