



TMRAO SUMMARY

Telluride and Montrose is looking at 25% drop in airline service for winter 20112012

This airline service reduction would mean:

- 11,000 Less Visitors
- 25,000 Less Room Nights
- 15% less Visitor Spending
- 10% Less Sales Tax Collections
- 700 Less Jobs
- Severe drop in the overall local economy

Steamboat Springs saw about 21% less taxable sales in 2010 vs. 2008 on 25% less flying visitors!

We've approached addressing this severe air service reduction issue by taking the following steps:

- Created a Short Term Plan:
 - + Raise \$500k in Gap Funding to reduce severity of cuts from Government and Stakeholding businesses
 - + We've gained approval from Telluride, Mountain Village, TMVOA, Montrose and Telski - \$300k
 - + We're requesting support from local business for the other \$200k

What Short Term \$500k Funding Does for the Flight Service...

- Reduces cuts to 10-15% from 25%
- Capacity is close enough to where we hope we can increase occupancy to stabilize program to where income can match expenses in short term.

TMRAO's Short Term Plan is a first step to a Sustainable Future:

Second step is to identify mechanism to achieve long-term funding solution and to pursue this regionally with key stakeholders. Work on second step begins soon...

Additional Background Information:

This air service reduction and request for TMRAO short-term Gap funding is being caused by a fundamental change in the airline industry economic model.

1) The Problem Starts with Airline Fuel Costs:

Up 40-50% from a year ago!

2) Guarantee Programs are a shared risk agreement between the community and the airline:

Community Share of Risk is up...Community paying a higher % of this maximum risk level!

3) Bottom-line Impacts:

Airline Payouts and Organization Expenses Now Exceeding Income

4) Air Service Marketing Support From TMRAO - GONE

\$0 Budget for Air Service Destination Marketing Support – First TMRAO Adjustment to NEW NORMAL

5) TMRAO's Short-term plan to Re-Set the organization to Airline Industry NEW NORMAL

Raise \$500k to get close enough in seat capacity to sustain passenger levels via higher flight occupancy and drive annual funding to a sustainable level.

6) TMRAO's Short Term Plan is a first step to a Sustainable Future:

Second step is to identify mechanism to achieve long-term funding solution and to pursue this regionally with key stakeholders. Work on second step begins soon..

The Air Service Investment – PAYS!

"In 2009, visitors contributed \$689 million in state and local taxes. Without tourism spending in Colorado, every family would roughly have to pay an additional \$364 in taxes. Tourism creates jobs and is one of the largest industries in the state, employing more than 144,000 people." Quote from the Colorado CTO

Straight From the Airline Executives:

"We must fully recapture our costs on every flight every day to maintain and improve our earnings performance," *Delta Chief Executive Richard Anderson* told analysts on a conference call, adding that high fuel was "the new norm."

"*Anderson* expects Delta's fuel expense for the year to increase by \$3 billion. Fare increases earlier this year only covered 70 percent of costs, *Anderson said*. That "isn't enough," he said, added that where the airline can't offset increased costs, it will cut flight capacity. He emphasized the airline's interest in financial performance -- particularly on making an operating margin. "This isn't a hobby," *Anderson told the analysts*.

"No one foresaw the dramatic increase that has occurred over the last three months," *Chief Executive Officer Gerard Arpey told American Airlines employees* in an April 20 e-mail. "It is beyond frustrating to see the fruits of our labor wiped out by something over which we have seemingly little control." *Gerard Arpey - Apr 28, 2011 - Bloomberg*

More on Airline Industry Fundamental Change – TMRAO Re-alignment to Airline Industry NEW NORMAL

- 1) Airline Industry Fuel costs are 40- 50% higher than a year ago!
 - a. Now biggest cost an airline has is Fuel
 - b. None of the Airline Fleets were designed for Fuel over \$3.00 per gallon and we're over \$3.50 per gallon
 - c. Early Airline Reactions are to reduce capacity and park aircraft to allow for raising fares to get to revenues that meet or exceed costs
 - d. Guarantee programs and ALL service markets are being reviewed for if and how airlines want to have these programs and service to work within whole system of air service
 - e. Airlines are now more risk averse and will likely push more of the risk onto air guarantee communities
 - f. All of the above-particularly the much higher range of fuel costs is being referred to as the NEW NORMAL!
- 2) TMRAO has seen annual maximum community risk (Caps) increase as fuel has increased over the years
 - a. % of annual maximum community risk actually paid as a % has also *increased*
 - b. This *increase* in annual air service expenses now **EXCEEDS TMRAO annual income**
- 3) TMRAO will eventually go bankrupt unless it corrects its investment level in air service to match annual funds coming in to support program
 - a. TMRAO either reduces max community risk (Caps) and corresponding service and seat capacity levels or...
 - b. TMRAO increases revenue to a level to sustain present air service capacity levels or...
 - c. TMRAO both reduces maximum community risk (Caps) and increases revenues to minimize or reduce air service capacity reductions

- 4) There are no funds going forward to continue the level of air service specific marketing support that TMRAO has invested in over the last 4 Years (About \$2.7 Million) and marketing support is also critical to the long term air service success.

What \$500k in Short Term does:

\$500k reduces all winter air service reductions from an estimated 25% reduction to between 10-15% reduction. This should allow enough available seats to where if TMRAO is able to increase flight occupancy's the organization can sustain present visitor spending levels and thus get to a sustainable financial position with the air organization.

- 5) TMRAO will be working with various stakeholders in the regional communities to pursue a long-term plan that targets, \$500,000 - \$750,000 to TMRAO to reset TMRAO's annual income to meet the NEW NORMAL Airline Industry investment requirements. Additionally TMRAO will be supporting \$500,000 - \$750,000 to TTB to help this marketing organization achieve funding at the level that the Radcliffe group recommended they get to 7 years ago. \$2 Million was the minimal level suggested for "Effectiveness" of the Telluride tourism marketing organization and the TTB has been operating at about \$1.3 Million since its recreation in 2004.

It is critical to reset both organizations in order to effectively compete in the tourism arena against other resort markets. The past 4 years (20067 – 2010) between the Telluride/Montrose Airports we have seen an increase (8%) in air visiting guests despite the recession, fuel cost increases etc...this compares to all other ski resort markets with an air program, except Aspen, showing a reduction in visiting guests via air service. This shows that with proper air service and Telluride Tourism Board Funding we can compete effectively with our competitive set in the Tourism Industry.