Wyoming
Department of Transportation

"Providing a safe, high quality, and efficient transportation system"

5300 Bishop Boulevard
Cheyenne, Wyoming 82009-3340

Matthew H. Mead
Governor

William T. Panos
Director

December 31, 2018

Senator Bruce Burns, Co-Chairman
Representative Bob Nicholas, Co-Chairman
Joint Appropriations Interim Committee
213 State Capitol
Cheyenne, WY 82002

RE: Wyoming Department of Transportation – FY 2019 Budget Presentation

Dear Chairman Burns, Chairman Nicholas and Committee Members,

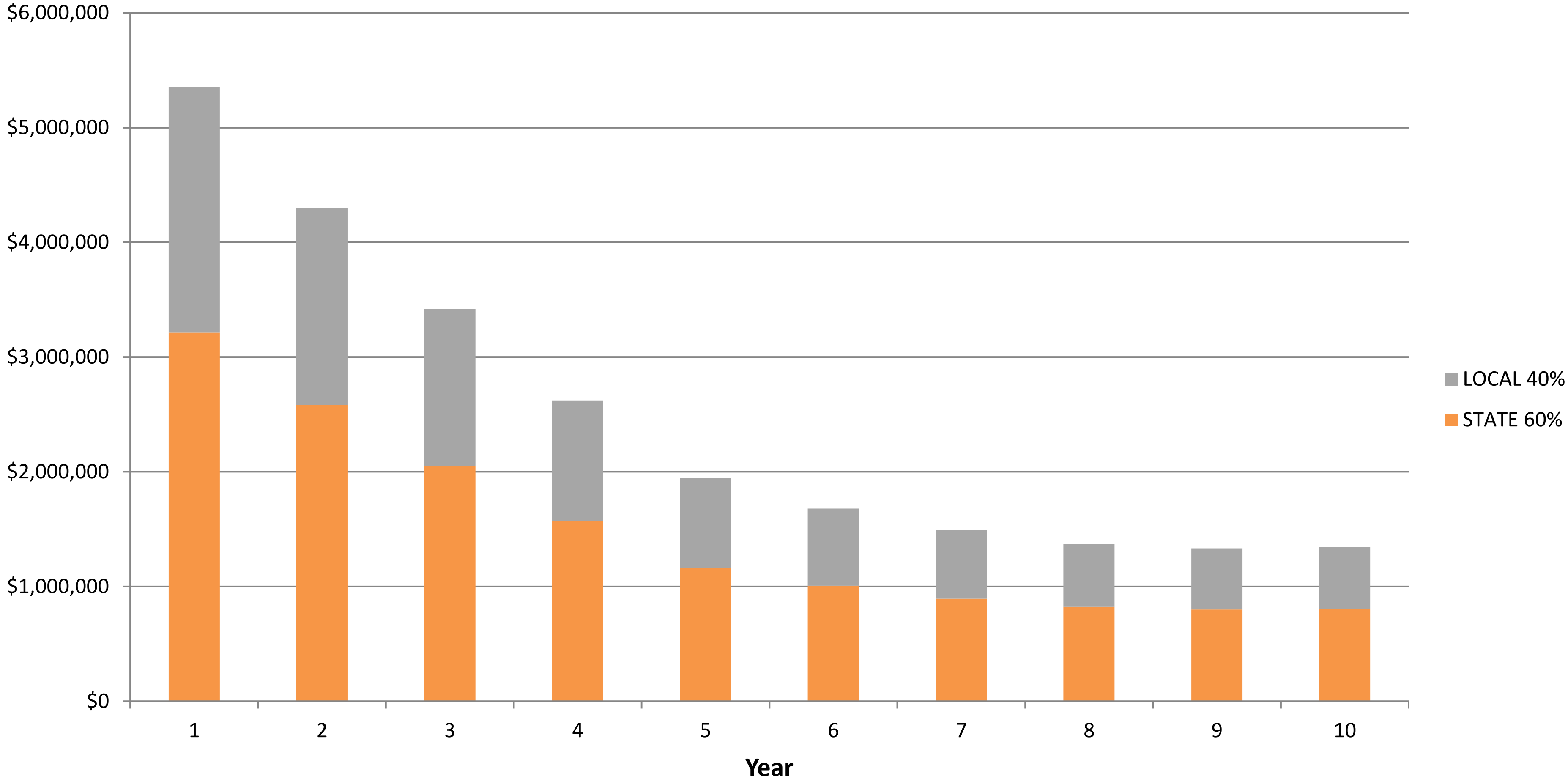
Enclosed please find additional information we have prepared in response to questions asked during our budget presentation to the Joint Appropriations Committee on December 14, 2018. I look forward to continuing these discussions during the follow up meeting in January.

WYDOT is grateful for the support of the Governor, the Legislature and your Committee to continue our mission during a time when the state has faced a significant downturn in resources and funding options. As always, please contact me or my office if you would like to discuss this or any other matters concerning WYDOT operations.

Respectfully,

William T. Panos
Director

WY Capacity Purchase Agreement Cost



State: $14,911,600
Local: $9,941,067
10 Year Total: $24,852,667

Assumes: 2x Daily flights to Sheridan, and Riverton; 3x Daily flights to Rock Springs and Gillette

WYDOT AERONAUTICS

<table>
<tr><th colspan="2">Short-Term Agreement (MRG) vs. Capacity Purchase Agreement (CPA)</th></tr>
<tr><td>Negotiated year-to-year
Does not address industry challenges including:
Worsening pilot shortage
Aircraft retirements
Competitive market</td><td>Multi-year agreement
Mitigates industry challenges
Secures scarce airline resources for Wyoming</td></tr>
<tr><td>Uncertainty
Flight schedule uncertainty beyond contract period
Higher risk of service being discontinued by airline</td><td>Stability
Customers, businesses, and communities know the service will be there
Reduces overhead of negotiating year-to-year agreements</td></tr>
<tr><td>Higher long-term costs
Uncertainty in longevity of service drives down ridership and revenue
Year-to-year agreements can vary on cost</td><td>Lower long-term costs
Competitive bidding process
Better opportunity for self-sustaining service
Stable service drives more passengers and revenue</td></tr>
<tr><td>Carriers can change flight schedules
Wyoming is at a greater risk due to low performance during winter months
High potential for disruption to service</td><td>Develop deeper relationship with airline
Will help airlines better understand Wyoming markets
Continually monitor fares and schedule
Penalties for performance/reliability</td></tr>
<tr><td>Weak performance criteria
Lacks the necessary structure to hold local sponsors more accountable</td><td>Stronger community performance
Continual improvement benchmarks</td></tr>
</table>

Key differences:

- More efficient and cheaper;
- Better understanding of aircraft and airline economics;
- Partnering with a proven, reliable airline operator; and
- Improves potential for higher state and local economic impact.

Current Minimum Revenue Guarantees at Sheridan and Riverton (Combined MRG)

	STATE	LOCAL	TOTAL
Percentage Match	60%	40%	100%
Dollar Match	$ 1,193,873.80	$ 795,915.86	$ 1,989,789.66**

- Contract period July 1, 2018 – June 30, 2019
- 13 weekly roundtrip flights*

Note:

*Schedule was to be operated with one individual roundtrip flights to each city during the day. However, due to lower than expected passenger growth and revenue during the last half of 2018, the airline provider opted to combine the schedule between the two cities beginning in early January 2019 which reduced overall seats

**Because of lower than expected passenger numbers and higher than anticipated fuel costs; this combined state MRG match is predicted to increase by $500,000 ($250,000 for each community).

Gillette Air Service History and Assessment

- **2014 - Gillette had 3 daily flights to major hub airports:**
    - 2 flights per day to Denver (7 days a week)
    - 1 flight per day to Salt Lake City (7 days a week)
    - All flights were covered by an MRG with the same airline operator
    - The state paid 40% and Gillette paid 60% of the MRG
- **2015 - the 2 Denver flights moved off of an MRG; Salt Lake City flight remained on MRG**
- **July 2017 - Gillette moved off all MRGs; 3rd flight shifted from Salt Lake City to Denver**
    - Moving off MRGs placed Gillette "at-risk" meaning the airline believed there was sufficient revenue to cover their costs and did not require an MRG or other contract.
    - In exchange for the dropping 3rd flight to Salt Lake City, the airline carrier agreed to add a 3rd daily roundtrip flight to Denver (7 days a week).
- **December 2017 - airline dropped Gillette's 3rd flight**
- **January 2018 - the 3rd flight returned to Gillette**
    - Schedule reduced from daily to only operate on Mondays, Thursdays, Fridays, and Sundays.
- **August 2018 - airline eliminated 3rd flight completely**
- **January 2019 - airline will reduce Saturday flight schedule**
    - The Saturday afternoon flight will be discontinued from January through February 2019, leaving one flight on Saturdays.

➢ ***Having the CPA contract would have prevented these flights from being discontinued***
    - In an "at risk" market, airlines can adjust schedules as they see fit.