Second Quarter Issues Update

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Regional Airline Role in U.S. Air Service Network

- Regional airlines operate 40% of all U.S. departures and serve over 160 million passengers each year.
- 66% of the nation’s commercially-served airports are served exclusively by regional airlines.
- Regional airlines provided more than half of the air service in 30 states.
- Regional airlines provided more than 75% of the air service in 15 states.
COVID 19 Airline/Air Service Impacts

- Congress crafted the Payroll Support Program (PSP) of the CARES Act to keep airline workers employed and at a ready-status, able to reconnect communities and rebuild our economy.

- Regional airline departures and block hours dropped sharply and remain depressed. Airports -- particularly smaller airports -- lost significant air service, despite CARES Act’s minimum service levels.

- Right-sizing workforce to pandemic-influenced demand – as a patchwork of domestic and international quarantines suppresses travel – is unthinkable, so Congress has extended the PSP twice.

- During a lapse in the PSP program, airlines shed 50,000 workers in five days as small community air service loss made headlines.

- PSP extensions are a lifeline; but as of March 25, 2020 some small regional airlines had not yet been funded. Larger carriers were funded within days of enactment.

- These carriers will likely see PSP3 delays because the statute bases PSP3 allocation on PSP2 awards, perpetuating inequities between small and large carrier relief.
Airlines that Ceased Operations in 2020

• Compass Airlines’ contract with Delta was not renewed; they prematurely ceased operating for American in April.
• ExpressJet ceased operating for United in September.
• PenAir/Ravn Alaska entered bankruptcy protection in April.
• TransStates Airlines lost its contract and ceased operating for United in April.
Regional Airline COVID-19 Operational Impacts

- **Market shifts.** Due to travel restrictions and changes in contracts with the major airlines, some reorganization of regional schedules have taken place.
  - Regional airlines have had changing city pairing schedules due to passenger travel changes.
  - Regionals are assuming city pairings that majors would have flown but do not warrant a larger aircraft.
  - Changing contracts due to reduced number of regionals has affected schedules as regional airlines remaining, pick up the task.
  - The results of the show cause order from CARES 1 affected some schedules as city pairings were eliminated or reduced.
Regional Airline Business Impacts

• Major airlines lost passenger revenue; regional airlines lost partner revenue.
  • Most regional airline revenue flows from ASM agreements tied to block hours (flying/production hours).
  • Block hours plunged to a nadir of 90% summer 2020 for some carriers. When block hours are down, revenues are way down.
  • While block hours have ticked up, it takes more aircraft to fly them as the schedules have become less productive.
• Decision timelines have been accelerated - regionals and majors have had to react quickly and cooperatively.
  • Flexibility rules the day but comes at a cost.
  • Heavy labor and cash toll associated with supporting dynamic schedule swings to meet day of week and time of day demand with more precision than ever.
  • Markets that had several flights before may have one early morning flight and one evening flight. Aircraft do not make money while parked between flights, and crew and aircraft ferrying expenses mount as carriers move aircraft around to meet demand.
Small Community Air Service Risk

- Historically, some markets may not have survived on their own, but in strong years, survived if they supported the network overall.
- With resources strain, we will see fewer instances of strong markets justifying the existence of other markets.
- **Instead, decisions are likely to turn on highest, best use.** In this scenario, marginal markets are exposed to higher risk with faster consequences.
- International networks are a key influence on feed demand influencing the regional space and small community air service, as well. Today, these international gateways are heavily impacted by restrictions inside and outside of our borders.
- During the Great Recession, smaller communities lost more than 31% of their departures, and lost departures at a rate that was five times greater than losses at larger airports.
- **This economic crisis is magnitudes worse than that one.**
YOY Air Service Reductions

CARES Act air service requirements insulated most airports against **total air service loss**; however:

- One in five markets (20%) operated in November 2019 was not being operated in November 2020.
- Total U.S. carrier frequency was down 43% in November 2020 vs. November 2019.
- November was chosen due to the lapsed minimum air service guarantees at that time; although the anticipation of renewal continued to bolster service.

When air service guarantees expire, small airports face high risk of total air service loss or harmful destination choice and frequency degradation.

### Commercial Airports with Scheduled Passenger Air Service:

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Source: Diio Mi via Cirium
What’s Next?

PSP3 provides provies funding through September 30, 2021.

• Though flying is safe due to strong contagion mitigations in place, including constant air filtration and refreshment, health authorities have warned against travel and against gatherings that drive travel.

• Continuation of quarantines and other domestic and international travel restrictions continue to constrain demand.

• With vaccine distribution comes hope and confidence in long term recovery; short term outlook remains murky.
Regional Air Service Opportunities

- Regional airlines are rightsized for reduced demand environment – even in medium/large markets, where they add frequency, help to rebuild hubs, etc.

- People are increasingly open to living in smaller market communities. Resettling trends could drive new air service needs to smaller communities, where demand is best met by regional aircraft.

- Business travel may take some time to recover and individuals who have grown accustomed to less travel may strive to “daisy-chain” their trips more, seeking to reduce travel time. There are many unknowns, but a regional airline that connects directly and reduces travel time can add much efficiency.

- As markets recover and markets transition mainline traffic back (smaller narrowbodies reintroduced for some activity), flexible regionals can fill in the gaps to other places to continue to rebuild and strengthen hubs.
Regional Air Service Challenges

Scope Clause Agreements

• Regional airline benefits for smaller communities may be constrained by major airline scope – some carriers have added new percentage restrictions as an element of furlough/capital savings negotiations that require regional airline partners to pull revenue seats out of existing aircraft.

• Ultimately, mainlines cannot reach all the markets flying 100+ seat aircraft; networks have evolved to rely on smaller airplanes and this need will not vanish; **strong regional airlines will be needed to provide this important service.** However, scope increases the marginality of small communities, already struggling to retain service in a highest, best use environment.

• Scope also exerts downward pressure on regional airline wages by limiting the revenue potential of the aircraft in service.

Pandemic Direct Impacts

• Increased travel to smaller markets and use of right-sized aircraft may not offset the loss of people traveling 4-5 times a week – a problem for all of aviation.

• Severe capacity discipline could lead to upgauging, with larger aircraft at sharply reduced frequency and more limited destinations for some markets.

• International networks remain heavily impacted by restrictions driven inside and outside of our borders. Those are important factors influencing feed demand for regional routes.

• Regional airlines had to wait longer for less relief from government relief programs than larger carriers – a factor that could hinder recovery and should be remedied.
Small Community Air Service Supports

- As our nation recovers, government backed programs like Essential Air Service (EAS) will be needed to restore and maintain service to smaller communities. We must keep them appropriately funded.

- Communities today risk losing their subsidy if temporary pandemic impacts undercut daily enplanements or increase costs above per passenger subsidy caps. Continued waivers are appropriate.

- The EAS program is restricted to communities who were participating as of 2012. Congress should temporarily allow new communities to qualify for short-term EAS assistance until market conditions stabilize.

- The EAS program must be flexible to carriers’ cost and revenue fluctuations, given the influence the pandemic is exerting.

- The Small Community Air Service Development Program (SCASDP) should be funded to allow its full use as a tool for communities to mitigate air service impacts from COVID.

- Airline stability may not mean small community air service stability; supports will be needed beyond 2021.
Mitigating the Looming Pilot Shortage

- In early 2020, nearly half of all U.S. qualified pilots faced mandatory retirement within 15 years.

- The COVID 19 pandemic drove early exits, accelerating trends & shrinking the pilot pool overall. Analysis of FAA civil airmen data indicates 12% of U.S. qualified pilots will reach mandatory retirement age within five years.

- As these retirements loom, review of FAA airmen data shows 2021 is on pace to produce 66% fewer new ATP AMEL airmen than 2019, an eight-year low.

- An Oliver Wyman study predicts a pilot shortage will reemerge quickly and exceed 12,000 pilots (13% of total demand) by 2023. Historically, industry shocks led to nonreturn of furloughed pilots and deterred future pilots. In five years after 9/11, new pilot certificates fell 30-40%.

- We must ensure a strong airline industry is healthy for workers today to restore confidence while reducing barriers to career entry that deter pilots, including the gap between available student loans and cost of pilot education/training.
As of February 1, 2021, there are 93,704 active ATP AMEL airmen with valid 1st class medicals. This is 17,054 fewer than March of 2020.
Early Out Estimates

Search of ALPA and APA publications as well as other published reports indicate at least 3,341 “early-out” exits.

These are likely all depleting the >age 40 category of prior slide, as most airline/union LOAs required certain age/longevity for eligibility.

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• 46.0% of all ATP AMEL airmen with valid 1st class medicals will reach mandatory retirement age within 15 years (43,162 airmen).

• 12.4% of all ATP AMEL airmen with valid 1st class medicals will reach mandatory retirement age within 5 years (11,584 airmen).
If production continues at the current rate, 2021 is forecast to produce 2,232 new ATP AMEL airmen. This is -66% less than 2019 and -77% less than 2016.
Percentage of Original Issuance ATP AMEL with Restricted Privileges

- 2013: 0.5%
- 2014: 10.6%
- 2015: 18.9%
- 2016: 23.3%
- 2017: 31.0%
- 2018: 30.4%
- 2019: 33.0%
- 2020: 28.5%
Airmen Ratings Issued by Month
Steps for a Strong Pilot Supply

• Aviation stakeholders (USG and industry) must advance policies and priorities that keep the airline industry healthy and attractive.

• Stakeholders must amplify and broaden outreach to diverse populations in middle school or earlier to attract tomorrow’s pilots to the profession.

• In addition to attracting and support pilots, we must reduce substantial barriers of entry that today bar all but the wealthy from the career path.

• The cost of pilot training and education far exceeds the limits on student loan dollars available; making the career path unreachable for students without wealth or private financing.

• RAA is backing legislation to close this gap and expects introduction this Congress.

• Closing this gap helps will make pilot careers more equitable and inclusive to all and will mitigate harm from a returning pilot shortage as our nation recovers.
FAA Certificated Airmen Analysis

RAA Analysis of FAA Airmen Certification Branch Data