

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT General Services Agency Airport Services	(2) MEETING DATE 7/23/2013	(3) CONTACT/PHONE Richard Howell 781-5205	
(4) SUBJECT Report to the Board on study of Airline Revenue Guarantee Programs in different communities.			
(5) RECOMMENDED ACTION It is recommended that the Board direct staff to work with the community and the County's air service development consultant to investigate an airline revenue guarantee program for the San Luis Obispo County Regional Airport (SBP).			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input checked="" type="checkbox"/> Board Business (Time Est. 15 min)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: 3/5/2013	
(17) ADMINISTRATIVE OFFICE REVIEW Vincent Morici			
(18) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: General Services Agency / Richard Howell
781-5205

DATE: 7/23/2013

SUBJECT: Report to the Board on study of Airline Revenue Guarantee Programs in different communities.

RECOMMENDATION

It is recommended that the Board direct staff to work with the community and the County's air service consultant to investigate an airline revenue guarantee program for the San Luis Obispo County Regional Airport (SBP).

DISCUSSION

On March 5, 2013 the Board requested specific information relating to the development and success of community airline revenue guarantee programs. Data collected from other airports that have embarked on such revenue guarantee programs will be presented and using this information, the report will quantify the expected ROI the San Luis Obispo County community might expect were it to establish a \$1 million supplement to the existing Federal Grant of \$500,000 obtained by the Airport.

The purpose of airline revenue guarantee programs is to offset the risk to an airline entering a new route in a market. A start-up flight can take a year to be profitable for the airline operator. A revenue guarantee program can be effective in recruiting and establishing a successful route and can be an important part of any small community's strategy to develop new passenger airline service. Airline revenue guarantee strategies come in two forms:

1. A direct incentive to help offset an airline's start-up costs, or
2. A pre-purchased travel program, which is supported by binding pledges from users of commercial air travel.

The incentive approach goes directly to the airline's bottom line in the event the airline fails to meet its financial targets for the market and the ticket purchase approach works to put passengers "in the seats" by encouraging regional air travelers to commit to tickets and use the new service. Depending on the preferences of the airline, one or both of the strategies can be used. Understanding that there are benefits to both options, this report will focus on the returns the County can expect if it were to participate in a direct incentive guarantee program.

Potential outcomes of revenue guarantee programs:

Positive Outcomes

1. Airline begins service, draws all the incentive and the route becomes self-sustaining.
2. Airline begins service, draws a portion of the incentive and the route becomes self-sustaining and the remaining incentive funding returns to the provider.
3. Airline begins service, draws none of the incentive as the route is immediately self-sustaining and the incentive funding returns to the provider.

Negative Outcomes

1. Airline begins service, draws all the incentive and the route does not develop and subsequently fails once the incentive it used up. The airline discontinues service.

2. Airline refuses incentive package and service does not begin.

San Luis Obispo County has been in discussion with United Airlines regarding service to Denver. United Airlines has suggested a revenue guarantee program of \$1.5 million for service to Denver is our most likely, if not our only viable alternative to obtaining this service.

Data was compiled from 10 revenue guarantee programs in nine communities throughout the United States. The facilities used were:

Bismarck, ND	Manhattan, KS
Branson, MO	Myrtle Beach, SC
Duluth, MN	Panama City, FL
Idaho Falls, ID	Springfield, IL
Kalispell, MT	

Table 1 presents a snapshot of the individual service incentive packages and a brief description of the programs. Please note that the term Mainline Jets refers to the larger aircraft (Airbus, Boeing) operated by the airlines and regional jets are those similar to the ones operating in San Luis Obispo.

<u>Community</u>	<u>Service</u>	<u>Airline</u>	<u>Incentive Amount</u>	<u>Incentive Source</u>	<u>Outcome</u>
Bismarck, ND	Mainline Jets to Denver	Frontier	\$250,000	Private/Public Mix	Service drew \$220,000 in first summer. Operates at 94% Load Factor
Branson, MO	Mainline Jets to Denver	Frontier	\$3 Million (Est.)	Branson Airport, LLC	Service drew no guarantee funding
Duluth, MN	Regional Jets to Chicago	United	\$300,000	Private Companies	Drew \$50,000. Service operates twice daily in third year
Idaho Falls, ID	Regional Jets to Denver	United	\$500,000	SCASD*	Service drew no guarantee funding
Idaho Falls, ID	Regional Jets to San Francisco	United	\$500,000	SCASD	Service drew full guarantee and failed after 14 months
Kalispell, MT	Regional Jets to Denver	United	\$500,000	SCASD/Private Resorts	Service drew full guarantee amount in two years. Operates twice daily now
Manhattan, KS	Regional Jets to Dallas/Ft. Worth	American	\$2 Million	State of Kansas Funding	Service did not draw on guarantee. Now Operates three times daily
Myrtle Beach, SC	Regional Jets to Dallas/Ft. Worth	American	\$500,000 (Est.)	Private Companies	Service drew entire revenue guarantee. Service operates seasonally
Panama City, FL	Mainline Jets to Nashville, Orlando, Chicago, and Baltimore	Southwest	\$25 Million	Private Resort Developer	Service drew no guarantee funding. Program considered successful and ended early
Springfield, IL	Regional Jets to Dallas/Ft. Worth	American	\$500,000	Small Community Grant (SCASD)	Service drew full guarantee amount in two years. Now Operates daily

Table 1: Sample Airports

*SCASD = Small Community Air Service Development Grant issued by Federal Department of Transportation

Incentive program payments are based on agreements between the community and the airline. Such agreements identify the trigger events when the airline has the opportunity to draw on the guarantee funds based on an agreed to formula. These trigger events can be based on passenger load factors, profitability of the flight segment over time, or some other

criteria. Should the service do well enough where the triggers do not occur, then the airline draws none of the guarantee. As demonstrated in Table 1, many of the communities did not use the entire guaranteed amount and some did not draw against the funds at all.

Table 2 uses the same nine airports, identifies when the new service started in each, and presents the passenger levels a year before and for a full year after the service started. The table is in alphabetical order by community, not by service start dates.

<u>Community</u>	<u>Service Start Date</u>	<u>Enplaned Passengers Year Prior to Service Start</u>	<u>First Full Year Passengers</u>	<u>Year over Year Growth</u>
Bismarck, ND	May-12	137,085	168,008	23%
Branson, MO	Apr-10	53,652	81,768	52%
Duluth, MN	Dec-12	127,247	150,017	18%
Idaho Falls, ID -Den	Jun-06	147,390	160,246	9%
Idaho Fall, ID -SF	Jul-2011	138,957	144,365	7%
Kalispell, MT	Jun-07	190,444	194,757	2%
Manhattan, KS	Aug-09	12,903	34,220	165%
Myrtle Beach, SC	Apr-10	660,123	785,043	19%
Panama City, FL	May-10	150,020	417,996	179%
Springfield, IL	Apr-11	51,091	57,447	12%

Table 2: Passenger Activity at Airports Using Revenue Guarantees

Analysis of Revenue Guarantee Effect Applied to SBP

Using the information in Table 2 we can make some analysis as to the potential effect of a revenue guarantee in our market. Taking revenue factors associated with an enplaned passenger (parking, concessions, terminal rents, etc.) into consideration, an enplaned passenger represents approximately \$13 to the Airport. In Table 3, using our enplaned passenger level for 2012 (131,421 passengers) as a baseline and the \$13 per enplaned passenger figure, we calculated the approximate potential revenue outcomes for a variety of scenarios based on the table above.

<u>Scenario</u>	<u>Community</u>	<u>Passenger Percent of Change Year over Year</u>	<u>Approximate SBP Revenue Generation</u>
Highest Growth	Panama City, FL	179%	\$3,058,167
Average	All	48%	\$820,067
Eliminate High and Low Average	Panama City, FL(H) Kalispell, MT (L)	49%	\$649,219
Eliminate Two Highest and Lowest Average	Panama City, Manhattan KS(H) Kalispell, MT (L)	26%	\$341,694
Lowest Growth	Kalispell, MT	2%	\$34,000

Table 3: Revenue Projection Scenarios for SBP

Examining the numbers above, other than replicating the Lowest Growth model, the Airport could apparently gain benefit from the implementation of a revenue guarantee program with a generally rapid ROI. It needs to be emphasized the volatile nature of the airline industry will affect results and no specific results can be predicted.

The County's air service consulting firm, Sixel Consulting Group (SCG) advised that in the last 2 years, of their 136 airports they have worked for, 82% have developed an incentive program that includes some kind of revenue guarantee.

OTHER AGENCY INVOLVEMENT/IMPACT

None

FINANCIAL CONSIDERATIONS

While the positive impact of an airline revenue guarantee program cannot be assured, it appears that as more communities make use of it, it has become a productive tool for airline recruitment. As demonstrated in Table 1 above, the involvement of public and private entities within a community contribute to a positive outcome for airline recruitment and retention. The County has demonstrated its support through the development of the air service initiative at the airport creating a program of reduced fees/charges to carriers offering new or expanded service. The County also sponsored the application and acceptance of the Small Community Air Service Development Grant in the amount of \$500,000. At this point, the support of the business community and other stakeholders in the region would be an important factor in creating a successful program.

RESULTS

Development of an airline revenue guarantee program appears to be the next step in the region's air service development initiative. It is believed that directing staff to work with all interested community stakeholders would be the best option in completing this program. The recruitment of additional air service would contribute to maintaining a prosperous community.

ATTACHMENTS