

Legislative Budget Committee

Manhattan Airline Revenue Guarantee

Thursday, November 15, 2012, 9:30 a.m.

Written Testimony of Lauren Palmer

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Good morning Chair McGinn, Vice Chair Rhoades, and Honorable Members of the Legislative Budget Committee. My name is Lauren Palmer, and I am an Assistant City Manager for the City of Manhattan. Joining me today is Peter VanKuren, Director of the Manhattan Regional Airport. We appreciate this opportunity to share with you Manhattan's success story with regional jet service and to thank the legislature for its ongoing support.

In 2008 the legislature approved an appropriation through the Kansas Department of Transportation to support an airline revenue guarantee program for Manhattan Regional Airport (MHK). The legislation authorized \$2 million (\$1 million each year in 2009 and 2010), provided that state funds were matched locally by at least \$250,000 in each year. The funding allowed the City and our partner, the Manhattan Area Chamber of Commerce, to negotiate an air service agreement with American Eagle Airlines. In August 2009, American Eagle began providing twice daily regional jet service to Dallas-Fort Worth International Airport.

The air service agreement with American Eagle was structured as a revenue guarantee incentive. The airline was eligible to draw funds only if passenger revenue did not meet a quarterly target as established by a formula in the agreement. As long as passengers utilized the service, incentive dollars would not be distributed to the airline.

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The service has been a tremendous success. Annual enplanements more than quadrupled from just under 12,000 in 2008 to nearly 55,000 in 2011. Over the two year life of the agreement, the revenue guarantee fund was tapped just once for approximately \$161,000 of local dollars, covering the first two months of operations, and not at all unexpected for a new service. For the remainder of the agreement period, we recorded a revenue surplus of approximately \$2.2 million, which is indicative of the profitable success of the service. In later quarters, even if the indicators in the formula would have triggered a revenue guarantee payment, we could have applied the recognized surplus before ever having to expend more funds.

By the time the agreement ended in August 2011, the airline had increased its service to include three daily flights to Dallas and a daily flight to Chicago. A second flight to Chicago was added in November 2011. The revenue guarantee account was closed that same month, and the State of Kansas received back its full investment of \$2 million, plus about \$20,000 in accrued interest.

We are proud of the success, and we know that there is room to grow. MHK's catchment area includes over 173,000 residents and is generally bounded by Council Grove and western Pottawatomie County, to the east, Abilene and Clay Center, to the west, and the Nebraska state line, to the north. A 2011 Passenger Demand Analysis indicates that just 23 percent of travelers in our catchment area are using MHK. While this is an improvement over the 8 percent who traveled through MHK in 2007 before regional jet service, we believe it is realistic to capture 30 percent or more. An overwhelming 73 percent of travelers from our catchment area chose to fly out-of-state from Kansas City International Airport. With more destination options and competition for fares at MHK, we believe more of those travelers will remain in Kansas and fly from MHK.

Last year the legislature renewed its sound investment in Manhattan and re-appropriated to the Department of Commerce \$1 million of the returned revenue guarantee dollars to help expand air service at MHK. The local community will once again match the investment with at least \$250,000 of local funds. We are grateful for the state's continuing support and are working now to maximize these dollars by expanding commercial service in Kansas via MHK. An economic impact analysis completed this year shows that MHK supports 489 jobs in Kansas and contributes over \$46 million the state's economy. Given the competitiveness of air travel, it is critical to demonstrate to the airlines that we have a firm commitment of funding from the State of Kansas, as well as locally, so again, we thank you for your support.

Thank you for your time and attention. Peter and I are happy to answer any questions.

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