



Commission on Fiscal Stability and Economic Growth  
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Kevin A. Dillon, A.A.E.  
Executive Director  
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Dear Co-Chair Smith, Co-Chair Patricelli and distinguished members of the Commission on Fiscal Stability and Economic Growth,

My name is Kevin Dillon, and I am the Executive Director of the Connecticut Airport Authority (CAA).

Thank you for the opportunity to provide further testimony as the commission continues its important work. Recently, I offered insight into various constraints that restrict the CAA's ability to control costs at Bradley. Today, I would like to share additional information regarding route development initiatives at the airport.

An airport's nonstop route menu is critical for the surrounding economy, as it provides regional companies with convenient connectivity to their partners and clients, helps attract new businesses, and promotes the state tourism industry. In recognition of this importance, the CAA has relentlessly pursued route development opportunities in recent meetings with the airlines. However, after undergoing significant consolidation over recent years, airports are increasingly competing between each other for services from a limited number of airlines with limited aircraft resources. When meeting with an airline to discuss route development opportunities, the airport must demonstrate a strong market, demonstrate area connectivity to the proposed destination, and offer a competitive cost structure. But a strong market and an impressive pitch are not enough to gain an airline's attention. Unfortunately, the competitive nature of the industry has created expectations for airports to offer incentive assistance when pursuing new services. These incentives take many different forms. Many times, an airport will allocate marketing funds to promote the airport and its new service, and it is also common for an airport to offer to waive its normal airline operating fees for a promotional period. However, higher-profile services to larger, capacity-constrained airports can require even further assistance.

In recent years, "minimum revenue guarantees" have been utilized increasingly to attract major, new airline services, especially at small- and medium-sized airports like Bradley. In this arrangement, a minimum revenue target is mutually agreed upon, and an airline is paid (up to a predetermined amount) if its revenues from the service fall below that revenue target. To complicate matters further, federal regulations restrict airports from using their own revenues and resources for such direct subsidies to airlines. As a result, state and local economic development agencies, as well as private businesses and chambers of commerce, can pool resources to fund revenue guarantees when they determine that enhanced connectivity to a particular destination would be beneficial for their business community and would generate significant economic impact to the region. For illustrative purposes, imagine that a state economic development agency enters into a revenue guarantee arrangement with an airline to provide new nonstop service to London. The two parties agree to set the target at \$100 million, and the agency offers a revenue guarantee in the amount of \$10 million. If the airline's revenues fall below the \$100 million target in the first year of the London service, the agency will pay the difference, up to \$10 million. If the airline's revenue exceeds the \$100 million target, the agency is not responsible for any payment. While the exact terms and length of these deals vary greatly depending on the service, a typical revenue guarantee operates in this fashion.

Revenue guarantees have proliferated nationwide since the early 2000's. A revenue guarantee was reportedly negotiated in 2005 with AirTran (now Southwest) for service between Wichita, Kansas and Atlanta, and recent versions of that agreement have been capped at approximately \$6.5 million per year. There are also reports that Maryland has provided approximately \$5.5 million annually over recent years for British Airways to maintain nonstop London service at BWI Airport. The list of airports that have benefitted from revenue guarantee arrangements include T.F. Green Airport in Rhode Island, John Glenn Columbus International Airport, Pittsburgh International Airport, Raleigh-Durham International Airport, and others. Recognizing this trend and the significant economic impact of reestablishing nonstop transatlantic service, the State Department of Economic and Community Development entered into a revenue guarantee agreement with Aer Lingus in 2015 to establish nonstop Dublin service at Bradley. This effort has already

proven to be a worthy investment, as the CAA has been able to capitalize on the momentum of that major service launch by convincing a number of other airlines to reconsider their prospects at the airport and start additional new services at Bradley following the Dublin route launch. However, as we examine many of the top services that the CAA is currently pursuing for Bradley, including new nonstop London/Paris/Frankfurt services, additional frequencies to Los Angeles, year-round San Francisco service, and new nonstop Seattle service, it has become readily apparent that all of these services may require new revenue guarantee arrangements.

If we are to stay competitive with other US airports in the current industry environment, it is clear that revenue guarantees will need to factor into the equation moving forward. Therefore, the CAA recommends that the State consider establishing a Bradley Route Development Fund to support the CAA's activities. One of our primary regional competitors, T.F. Green Airport, already benefits from such an arrangement. The Rhode Island General Assembly passed legislation in 2016 to establish an "Air Service Development Fund", which is administered by a council within the Rhode Island Commerce Corporation. The Rhode Island General Assembly has provided a direct appropriation to the account since its creation, and it is also authorized to accept funds from private sources. This arrangement provides an established, coordinated system to help promote the development of new services at T.F. Green Airport, and a similar initiative would be a major boon to route development at Bradley. If the state established such a fund with an annual appropriation of up to \$10 million, this would make the airport much more attractive for airlines, and it should be of sufficient size to allow for multiple, simultaneous arrangements. Certainly, the CAA is sensitive to the difficult fiscal condition in the state. However, it is also important to recognize that targeted investments can pay large dividends for the regional economy. The establishment of a dedicated air service development fund could prove critical to Bradley's future route development efforts, and the economic impact derived from such new services would far outweigh the costs of providing insurance for new routes.

However, landing a new service is only a part of the battle. Once we launch a new service at Bradley, it is imperative that the business community support the service. We stay in regular contact with major regional employers to understand their travel needs and tailor our route development efforts accordingly. However, we have been disappointed in the past when these businesses have been unable to support Bradley's new services due to fare shopping, flight time, or frequent flyer considerations. We frequently hear examples of business passengers choosing to utilize New York or Boston airports because they were able to save a minor amount on their fare, or because they would be able to use frequent flyer perks, or even because they preferred a different flight time. This is a very problematic mindset. We will never be able to convince airlines to grow their offerings if our passengers do not commit to using our current services. We strive to provide the safest, most convenient services possible at Bradley for our travelers. When regional passengers choose other regional alternatives (many times forgoing a quicker drive, faster security processing, and cheaper parking at Bradley), they are undermining all of our route development efforts. We understand that our fares may not always be the absolute cheapest in the region. We understand that sometimes we offer a red-eye rather than a more desirable flight time. But, if you choose another airport instead, we will never be able to demonstrate to the airlines that our market is strong and that our airport is ready for the services that you seek. When we are able to do our part and convince an airline to launch new services, we need our passengers to provide the support necessary to sustain them.

Air service development is an increasingly competitive business. However, it is an important one for our state. To continue attracting new businesses, providing the connectivity our current businesses need to thrive, and sustaining a healthy tourism industry, the CAA will need support from all of our stakeholders. We have been able to achieve a number of major successes together over the past few years, but the industry landscape is too competitive for us to be complacent. We need a team effort to continue developing new services at Bradley.

Thank you again for the opportunity to provide this testimony. Please feel free to contact my office at (860) 292-2054 if you have any additional questions or concerns.

Sincerely,



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