

## **St. Cloud Regional Airport**

### ***Commercial Air Service Overview***

The City of St. Cloud is assessing demand for a jet service from the St. Cloud, Minnesota airport (STC) to the Chicago O'Hare airport (ORD). The service would provide two round trip flights per day, likely one round trip in the early morning and likely one roundtrip in the early evening. The service would be provided by a regional carrier with a code sharing arrangement with a major carrier providing full phone, web, and travel agent ticket purchasing options for the flight segment from STC to ORD and across any subsequent flight segments as well. The carrier would provide all ordinary and customary "network" services including baggage handling and transfers, security, and frequent flier programs. Fares would be "flat" and "fixed" in the \$200 to \$250 range for a calendar year, or other specified period of time, for the STC to ORD flight segment.

The service would be governed and managed by and as a "purchasing cooperative", an independent legal entity, authorized by the City of St. Cloud to use its airport facilities. The cooperative would contract with the commercial carrier for network services, set schedules and fares, and oversee the marketing and operations of the service. The cooperative would be governed by a Board of Directors constituted by a subset of its members. The cooperative would be managed by a General Manager hired by the Board. Various professional service providers would be contracted to provide legal, accounting, banking, insurance, marketing, and related work for the entity.

Cooperative "patrons" – businesses, non-profits, government entities, and individual travelers – would commit and sign a legal contract to purchase a certain number of round trip "tickets" from STC to ORD each calendar year. For example, a block of four (4) round trip tickets would equate to a \$1,000 contract commitment if the fixed price were to be set at \$250 per ticket. This \$1,000 example would be the "minimum" contract amount in order to become a "patron" of the cooperative.

During the calendar year, tickets could be booked in advance and used on a "first come first served" basis. Advance planning and booking would be important to ensure seat availability for a particular trip. Patrons could choose to pay their pledges upfront or would be invoiced at the beginning of each of the twelve months of the calendar year for one-twelfth of the cost of the block of tickets contracted for the year. Payment would be made electronically via electronic funds transfer from an account specified by the patron. For example, a patron with an annual contract commitment of \$1,000 would have \$83.33 drawn on the first day of each month of the calendar year from the checking account they provide to the cooperative. Any ticket value not used by and remaining at calendar year end would be forfeited by the patron.

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Ticket prices - in the \$200 to \$250 range - and advance ticket purchase requirements by the cooperative before commencing operations – in the 70% to 80% occupancy range - would both be set to ensure a small surplus of revenue over expense in most operating scenarios for the cooperative. Small surpluses would likely be retained by the cooperative, at the discretion of its Board, as a reserve for future service development. Some portion of any large surpluses could be distributed as dividends to Patrons, at the discretion of the Board, in proportion to each Patron's usage of the air service over the prior year.

While ticket prices and advance purchase requirements and occupancy thresholds would be set to minimize the chances of operating losses and cash deficits for the cooperative, such outcomes are possible given risks in fuel cost spikes, weather cancellations, safety hazards, Patron non-payment, cost overruns, and other risks inherent in the macro environment and/or this type of operation in particular. Cash deficits would call for debt funding, Patron contributions, sale of the entity, and/or the winding down of operations, potentially in advance of patrons receiving the full value of using their entire contracted amount.

In March and April of 2010, thirty (30) St. Cloud area organizations with significant air travel spends were surveyed to assess their interest in and demand for such a commercial air service. All of the organizations surveyed - 30 out of 30 or 100% - said "Yes" when asked "Should there be commercial air service of some form out of the St. Cloud Airport"? These 30 organizations have a collective annual airfare spend of approximately \$6 million.

During the summer of 2010, the City will be polling additional businesses, non-profit organizations, government entities, and individual travelers in the St. Cloud area, and well beyond the St. Cloud area within the 60 mile "catchment area" for the St. Cloud airport, to assess their demand for a commercial air service like this.

An analysis by an independent air transportation consulting firm estimated a cost to operating these two round trip flights per day at around \$4.4 million per year. Securing pledges, and ultimately contracts, for approximately \$5 million in annual ticket purchases would allow the cooperative to be formed, organized, and operating with a small surplus after paying additional operating expenses of approximately \$400,000 per year.