

**CITY OF FLAGSTAFF**  
**STAFF SUMMARY REPORT**

**To:** The Honorable Mayor and Council

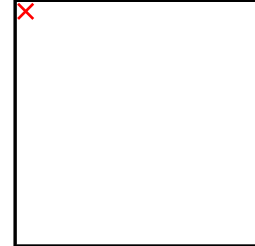
**From:** Stacey Brechler-Knaggs, Grants, Contracts & Emergency  
Management Director

**Co-Submitter:** Charity Lee, Real Estate Manager

**Co-Submitter:** Barney Helmick

**Date:** 02/27/2019

**Meeting Date:** 03/05/2019



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**TITLE:**

**Consideration and Approval of Contract:** Approve the Minimum Revenue Guarantee Agreement for air services between the City of Flagstaff and United Airlines.

**STAFF RECOMMENDED ACTION:**

Approve the Minimum Revenue Guarantee Agreement (MRG) with United Airlines for air services from the Flagstaff Airport (FLG).

**Executive Summary:**

The City of Flagstaff has requested that United Airlines commence operating scheduled non-stop air service between Flagstaff Airport (FLG) and Denver International Airport (DEN) and in connection therewith the City shall, if United Airlines does not generate sufficient revenue, compensate United Airlines, from funds received by the City through a U.S. Department of Transportation Small Community Air Service Development Program Grant.

**Financial Impact:**

The financial performance guarantee during the period that United Airlines is operating the FLG flights, the City will unconditionally guarantee that United Airlines will receive "Minimum Revenues" (as such term is defined below) for operating the FLG flights.

The MRG payments the City will be required to pay with respect to the FLG flights under this Agreement for the one year term shall not exceed \$550,000 (the MRG Cap).

**Policy Impact:**

**Connection to Council Goal, Regional Plan and/or Team Flagstaff Strategic Plan:**

Transportation and other public infrastructure: Support the airport with needed infrastructure upgrades in order to enhance our tenant and patron experience as well as additional airline attraction.

**Has There Been Previous Council Decision on This:**

No

**Options and Alternatives:**

- Approve the MRG Agreement
- Do not approve the MRG Agreement and de-obligate the grant. This may potentially jeopardize our airline service with United Airlines.

**Background and History:**

On September 29, 2011, the city received a grant from the U.S. Department of Transportation, Small Community Air Service Grant in the amount of \$800,000 to assist in the City's efforts to address the air service needs of the community.

This Small Community Air Service Grant Program is developed on a "first come, first served" basis. The City staff met with many potential carriers to market a new route and shared the revenue guarantee and its parameters. MRG's for new routes are the norm throughout the airline industry and have been used to launch many new routes using community revenue guarantees.

Commercial air service is essential to Flagstaff businesses to ensure continued growth, sustainability, and future prosperity. Flagstaff's largest private employers are W.L. Gore & Associates, Northern Arizona Healthcare, Joy Cone, and Nestle Purina. Each of these companies relies on quality, dependable air service to stay connected to their suppliers and customers. Flagstaff is home to Northern Arizona University and has experienced tremendous enrollment growth, where 36% of the freshmen class is outside of the state of Arizona.

Business attraction efforts are currently focused on digital products and bioscience sectors. This work relies on reliable air service so businesses are able to thrive in our bustling economy and travel as needed.

Flagstaff's current data indicates that the Flagstaff Airport had over 70,176 enplanements in 2018. This was a record year for our market even with experiencing a runway overlay project that shut the runway down for a week.

In 2018, the City of Flagstaff put together a team from Flagstaff including the Deputy City Manager, Economic Vitality Director, Convention and Visitor Center Director, Business Attraction Manager, Associate Vice President of Northern Arizona University, and Airport Director who attended a meeting with United Airlines at their Chicago Headquarters. The group presented a broad spectrum of information on Flagstaff, the business community and how our passengers flying patterns fit into the Denver and San Francisco markets served by United Airlines. We created a 12-page brochure for this meeting and left several copies for the entire group as well as presented on each of the pages. The meeting was well received and follow-up information was provided to the United Team. United consultants expressed that Flagstaff was being considered because they desired to expand their market in the west.

This meeting was made possible after attending several airline conferences throughout the years. At these conferences, we would meet with United Airlines as well as other airlines seeking additional service for Flagstaff.

**Key Considerations:**

Air service in Flagstaff and the surrounding community is critical to the economic vitality of the region.

Starting March 31, 2019, Flagstaff Airport (FLG) will partner with United Airlines to provide daily, non-stop service to Denver International Airport (DEN). This flight will provide an additional carrier for FLG and a new market for United Airlines.

The route will fly seven days a week, with two flights per day departing in the morning and mid-day on an ERJ-145 aircraft which seats 50. This new carrier offers customers new opportunities to connect to United's domestic and international route network.

**Community Benefits and Considerations:**

None

**Community Involvement:**

Our airport having a second airline and route will offer another flying option for our community. The Flagstaff to Denver route will help assist business and leisure travelers with making their east coast connections the same day.

**Expanded Options and Alternatives:**

The Airport Director and Economic Vitality Director made over 25 presentations in the community to several groups such as the Economic Collaborative of Northern Arizona (ECoNA), Moonshot at Northern Arizona Center for Entrepreneurship (NACET), Flagstaff Rotary, Flagstaff Leadership Program, AZ@Work Business Services Team, Northern Arizona University (NAU) Leadership Group and more sharing our work to gain additional service as well as asking what routes they desired.

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**Attachments:**     [United Airline Minimum Revenue Guarantee Agreement](#)