

**U.S. SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
AVIATION SUBCOMMITTEE FIELD HEARING
GULFPORT, MS
July 27, 2004
10:00 a.m. Great Southern Club**

Remarks of Bruce A. Frallic, AAE
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**IMPORTANCE OF AIR SERVICE TO SMALL COMMUNITY
ECONOMIC DEVELOPMENT**

Time: 10 Minutes

Senator Lott and distinguished panel members, my name is Bruce Frallic, Executive Director of the Gulfport-Biloxi International Airport. Thank you for scheduling this Field Hearing of the Senate Aviation Subcommittee today in Gulfport, MS.

Some have characterized the growth of Gulfport-Biloxi as a "rocket ride" over the last decade. A 400% increase in the number of passengers over the period is a lot of growth. *What's caused it?* Our growth has been driven by \$3.3 billion investment in resorts, 16,000 new direct jobs, and record personal income and retail sales growth. But most important, the investment in casino resorts has fueled hotel room growth from 5,400 rooms in 1992 to over 17,000 today. In other words, our growth has come from creation of an entirely new industry, and from the business activity related to it, and without an Airport it could not have been so successful.

The economic achievements of the Mississippi Gulf Coast, like every other small community, occur in proportion to the transportation infrastructure generally, and specifically, in the case of the gaming industry, the Airport's ability to expand, to move more people and goods, and provide more services.

There is little question, then, that the quantity and quality of air service is inseparable from a small community's opportunity for prosperity. Our economic development agencies tell us, one of the first questions asked by any Fortune 500 company, or for that matter, any company or person who plans long-term business success is, "*tell us about your airport and air service and can you grow?*"

Our facility answer today, as in the past is, we can grow double digit for 50 years as long as we can attract the capital. Although I must tell you that Gulfport-Biloxi had a very difficult time from 1994 to 2000 when Airport Improvement Program (AIP) funding was cut, yet we had to find \$10,000,000 to expand. This year, based on expected demand, we've sold a \$38,000,000 revenue bond to again double the size of our terminal. We believe the Airport is a tool for economic development ... it must never be a bottleneck.

The other question is, "*Has airline capacity kept up with growth?*" Clearly, capacity has been down since 9/11.

- With load factors high, and demand stronger than ever, Gulfport-Biloxi spills 34% of its passengers to New Orleans (100,000 passengers per year).
- In short, we are starving for seats.

Please keep that thought. I'd like to come back to how we plan to increase airline capacity a little later.

But first let me talk about the economic importance of our Airport. Every company, agency, military or government activity is positively affected by Gulfport-Biloxi and its air service. With respect to economic impact, a simple comparison will tell this story.

- In the 1980's Gulfport-Biloxi served 180,000 passengers per year. Our scheduled airline service consisted of 3 non-stop cities, 12 daily flights, no jets and a \$100,000,000 economic impact.

- Today, in the first part of the 2000's, Gulfport-Biloxi has served as many as 949,000 passengers per year and scheduled service has grown to 5 non-stop cities, 21 daily flights, nearly all jets and over \$600,000,000 annual economic impact.
- That is unprecedented value added to the Mississippi Gulf Coast and access to the national air transportation system is everything for our:
 - Business and Industry
 - Military and Government
 - Tourism, and
 - New Businesses like a cruise ship for Gulfport.

None of these opportunities can continue without air service, and all of them prosper because of it. Simply stated, the benefits of Small Community Air Service at Gulfport-Biloxi are represented by a 500% increase in Airport economic impact.

Ten years ago it was really hard to fly from Gulfport-Biloxi. Prices were high and we had a fraction of the seats, cities and airlines we have today. The Coast business and industry sector that has "pushed" the Airport to its present record level is the casino resort industry, and the market driver is principally:

- First class hotel rooms and condos. By example, 1,000 new rooms create 150,000 new annual passengers. (In Las Vegas, a more mature market, the room effect is double that.)
- Right now more than 1,000 hotel rooms and 1,500 condos are planned to open in the next 36 months. That equates to 375,000 new annual passengers. (60% of the passengers created will be business oriented employees, investors, vendors, suppliers and conventioners. 40% will be visitors and tourists.)
- Those 2,500 rooms and condos represent an additional \$300,000,000 private investment.
- From a facility standpoint, then, when they break ground ... we must also break ground. And we've done that.

However, we have entered a new phase of Airport growth. While the casino resorts “pushed” the Gulfport-Biloxi market to a new level of passenger demand by constructing thousands of first class hotel rooms and bringing low fare carrier AirTran to the market, it will be existing Coast business, industry and airlines that will “pull” our passenger market to the next level.

It’s a very tough airline market for small communities. Airlines operate on a razor’s edge. Fuel costs are out of sight ... there is great uncertainty ... and legacy carriers are struggling. The airlines won’t take the risk, in this climate, to add new flights and cities alone. With our competitor New Orleans so close, and many communities offering airlines cash, it’s a real challenge for Gulfport-Biloxi to take the next step to that “critical mass” of seats.

And that returns us to the subject of airline capacity. Like most small communities, demand for seats here exceeds the supply. This has very powerful economic implications for our area. Passenger leakage from Gulfport-Biloxi to New Orleans (34% or 100,000 passengers) is a costly drain. We are not just spilling passengers, we are sending our dollars to New Orleans. For these 100,000 passengers, each year ...

- Airline revenues of \$25,000,000 are lost
- Credit for AIP funding of \$550,000 is foregone
- PFC revenue of \$450,000 are collected elsewhere
- We never see \$30,000,000 local spending by passengers
- Local and State taxes of \$2,000,000 are not realized, and
- Airport revenues approaching \$500,000 for six daily flights go to New Orleans.

This \$58,500,000 in economic impact belongs to the Mississippi Gulf Coast. Our SCAS application for Dallas-Ft. Worth and Orlando as new non-stop cities can swing the pendulum back our way.

- It is the “jump start” the Airport, airlines and community need.
- It’s about providing needed capacity and more options for Coast passengers.

- It's about competition and keeping our earned money here.
- It's an investment in the most basic element of airport infrastructure, the airline "seat".

The SCAS program is vital, especially today and we recommend funding it to the maximum possible extent because it is a sign of the times that airport communities step up and express value in their airlines. Just like finding the money to build, we're putting up lots of money to sell.

- Gulfport-Biloxi already invests more than \$500,000 per year marketing our airlines and this destination
- Beau Rivage and Grand Casinos have a revenue guarantee agreement with AirTran
- Tourism invests several million.

In closing, the Gulfport-Biloxi Regional Airport Authority is again putting its money where its mouth is. Our consortium of airline marketing partners including the Airport, Harrison County Development Commission, Harrison County Tourism Commission and the private sector casino resorts are pledging at least \$760,000 in cash and in kind to get a \$1,000,000 SCAS grant. Our consortium of airline marketing partners would not be able to establish marketing funds without the continued support of Harrison County and the Cities of Gulfport and Biloxi. The payback will be 20 times that amount within one year. We need this program and we need your support.

Thank you for allowing me the opportunity to speak before the Subcommittee. I'll be happy to answer your questions.