SPECIAL COMMITTEE ON AIRPORT ACTIVITIES
February 21, 2023 at 6:00 PM

The Chairman calls the meeting to order.

The Clerk calls the roll.

Present: E. Sapienza, Cavanaugh, Stewart, Burkush

Messrs.: T. Kitchens

1. Update from Ted Kitchens, Airport Director, on the following:
- Air Service Update
- Construction Projects Update

Ted Kitchens, Airport Director, stated it is always a pleasure to be here and I am here to give you an update on the second quarter activities in FY23. With the Chairman's permission, I would like to add a few more items onto the agenda and talk about cargo as well as an update on some properties activity that is late breaking. First, I will start with the bottom line upfront and then we will go through an update on passenger activity, some cargo activity, review some construction activities that are coming up for this year's construction season as I previously briefed the Special Committee on the Runway 17-35 reconstruction. We are approaching the beginning of that construction and as some of the members may be aware with the recent grant announcements, we received several discretionary grants from the FAA that I would like to touch upon and lastly a grant application that we had put in for some additional grant funding from the FAA. The bottom line upfront is it was a tough quarter for the airport due to operational challenges experienced by our largest carrier, and I think we all know what that means but also we have had some continued reduced levels of flying by other airlines due to the pilot shortage. We did welcome the beginning of air cargo operations by LS Air who has contracted with Amazon and links MHT and the entire eastern region of New England to the world of ecommerce. Despite the passenger enplanement challenges, the airport remains in a strong financial position. Our first half FY23 revenues are beating our budget by $500,000 and our first half FY23 operating expenses are beating our budget by $550,000 so we have a little over $1 million in additional net revenue than we had budgeted so far for FY23. Lastly, our liquidity remains really strong with 466 days' cash on hand. Talking about the enplanements, in the graph in the upper right hand corner, the pink shaded area, you can see the second quarter of this fiscal year or the fourth quarter of the calendar year. Speaking in fiscal year terms, we saw a steady decrease in passenger activity. We had a very strong October and you can see the peak but after that traffic demand fell off. There has been reduced flying to small markets like Manchester. As I mentioned, the other airlines are having workforce shortages and that is resulting in higher wages. Regional jet pilots are being hired by the main line carriers. So the American regional jet pilot is now being sucked in by the main line carrier to backfill retirements in the pilot ranks. Also, low cost carriers like JetBlue and ultra-low cost carriers such as Spirit, Frontier and Allegiant, all of those airline pilots are also being hired by the main line carriers. Quite frankly, the third bullet point is something that is the talk of a lot of the airline and airport industry right now and that is that there is a convergence in cost models meaning the low cost and ultra-low cost carriers are seeing their cost structures increase to the point of legacy carriers like Delta, United and American. That is due to the labor shortages and resulting pressure on wages. That is good for the worker but it is not good for the consumer. That is because historically passenger demand has been elastic to price. As the price goes up, demand goes down. In the past two years we have certainly seen inelasticity in demand. We have been away from families or told we can't travel so there has been a lot more of an acceptance in paying higher prices. $2 trillion in consumer savings on the sidelines certainly did not hurt. However, as many of you may be reading in your news feeds, the amount of credit card debt that the consumers have added is showing that that savings is now gone. I believe, and we are probably seeing it right now, that the consumer is returning to being more elastic to price. The question that I keep grappling with is what happens when that does happen which I think is happening now when you have higher unit costs on the airlines and you don't have higher unit revenues? That could spell disaster for the industry. Despite our decrease in passengers, airlines did put more seats into Manchester for this quarter than they did for the same quarter of last year. However, they did less flying. Again, the pilot and workforce shortage is requiring them to fly larger airlines into the market on fewer frequencies. We expect our load factor for the second quarter, still not in yet, to be around 74% which is about 8% lower than our pre-pandemic median level. I did some math here for you. If we just met our pre-pandemic level it would have been about 17,000 additional enplanements at the airport. We generally receive, one of our KPI's is operating and non-operating income per passenger and we typically receive about $40 per enplanement which means we lost $690,000 in revenue or missed revenue to the airport in the second quarter and over a $1.5 million loss in economic impact to the community. The leakage problem is coming back. I haven't reported on this quite a while but over 500,000 passengers left the Manchester market to fly out of Boston in the first quarter. The graph on the right shows the percentage of leakage to Boston in the brown and the percentage of capture that Manchester has of local demand. We are back to 80/20. I have always looked at that white dash line as sort of 50% which is the historical average that Providence has leaked to Boston and have a fundamental thought that we should be no different than Providence. I am looking at the missing middle which is that portion of brown that is above the dash line. If you were to calculate and add out for just the second quarter of the fiscal year, it was over 150,000 missed enplanements. That is over $6 million in lost airport revenue. One of the common refrains that I hear is it is too expensive to fly out of Manchester. Things do change. The graph on the right shows our average fares out of the market before Spirit started. The graph on the right shows the average fares out of the market after Spirit started. We are the orange line and Boston is the gray line and you can see our median price is $123 versus $152 out of Boston. It is a myth that you can't find cheaper fares out of Manchester. I think it is perception more than reality. You can find those fares out of Manchester. You just have to book them earlier than you would out of Boston. Moving on to cargo, 2020 was our peak year at about 212 million lbs. of cargo moved through the airport. Since 2020, volumes have contracted about 3% each year driven by the relaxation of the ecommerce demand coupled with the higher inflation rates and weaker consumer position here in 2022. We do have a high level of utilization of our existing facilities. A typical planning factor is about 2,000 lbs. per square foot per year moved through a warehouse and we were at about 4,224 at the peak and just right at 4,000 last year. We are putting almost twice as much cargo through our existing warehouses as the traditional industry average. We have a new player in town. As I mentioned earlier, Prime Air which is being operated by Atlas started in November 2022 with one daily 767-300 flight from Alliance-Fort Worth Airport which is one of their hubs to Manchester and then turning to go back to their global hub in Cincinnati. That has increased to two daily flights as of February so they are pleased with this. Like anything, it is driven by a bunch of algorithms and those algorithms are trying to figure out how the Manchester node plays in the greater Amazon network. I think we are starting to see how that is playing out. In December 2022, they carried about 4 million lbs. Of course that is a peak month with everybody getting their Christmas shopping delivered. It dropped off in January to about 2 million lbs. This, again, serves as an important connection to the world of ecommerce not only for Manchester and southern NH but for a majority of New England. I am pleased to say and report to the committee that of the 195 employees working in that building, about 90% of them are NH residents and 60% are Manchester residents. These are full-time, year-round, 2,080 hours a year jobs with full benefits at $18.50/hour average wage. They do provide additional salary or compensation during the peak periods. There is a lot of salary and wage revenue getting reinvested into the city of Manchester. Shifting to the construction season, Runway 17-35 begins again this April. Just to reorient everybody, this is our north-south runway showing east-west. South is to the right of the plan and north is to the left. I won’t read all of these things but essentially we are starting the main construction of the runway on April 25 through May 8. We will start on the very north end. There is a critical period, Phase 2, which is May 14 through May 20. That is when the purple area which is the intersection of Runway 6-24 and 17-35 is going to be worked on. It is important to let your constituents know and for everybody to know that the airport is going to remain open but we are going to have a shortened Runway 17-35. It will make for some fun approaches for those six days so buckle in. It is safe. We have gone through a safety review panel with all of our airlines and their chief pilots and they have all signed off on the plan as well as the FAA. After that we will shift to the south side which is the green hashed area. That will go from May 21 until July 21. All operations at that point will be on Runway 6-24. We will have a reconstructed intersection and the full length of Runway 6-24 but that will put traffic over Alderman Burkush’s ward as well as Ward 6. Traffic will shift during that timeframe. However, before that we have to do some enabling work on Runway 6-24. We have to mill and overlay what we call the keel section of the runway, which is the middle, so that we can put the full load of the operation onto that runway while we have Runway 17-35 closed. That will start on April 1 on the left side of the map in the green hashed area and end on April 15. Then they will switch over to the 17-35 project and come back and finish up on the other end of Runway 6-24. Any questions on that? Just pay attention to the traffic pattern for those 60 days please. Replacement of pre-condition air and ground power units. That was one of the projects that we just recently got awarded through what is called the Voluntary Airport Low Emissions Program or VALE Program to the FAA. This is going to replace the pre-condition air units at nine gates – 1, 3, 4, 10, 11, 12, 14 and 15. That is what keeps the aircraft cool while you are sitting on the aircraft before the engine starts or keeps it warm before the engine starts in the winter time and the ground power units or GPU’s. Each of those gates, and we do cover all four airlines in this plan, will receive one 45-ton unit. Our existing units are 30 tons. As I said, we are getting larger aircraft and there are more bellybuttons on those airplanes and that means more body heat which means we need more pre-conditioned air. Plus, the units that are there are old and original to the terminal. They are inefficient and causing GHG emissions that we are trying to reduce through more efficient units. The ground power units you can see on the lower left-hand corner photo. We have GPU units. What a GPU does is allows airlines to use electricity while they are on the ground to run critical systems on the aircraft. Did you ever notice that whenever you come to the gate and the aircraft plugs in there is always a little blip on the airplane? That is the switchover from their own power to ground power. Without these, airlines have to use what are called APU's or auxiliary power units which are essentially mini jet engines on the back of an airplane obviously burning jet fuel which has the GMG emissions. Our existing GPU's are less than reliable which is forcing a lot of the airlines to run their AHU's and we have made changes to our rules and regulations that require that they plug-in to the GPU's as soon as practical. That was for this grant application. This installation will begin April 27 and be completed for next winter. Another one that we just got awarded is the Translucent Panel Replacement Project. This is about $2.3 million. The yellow highlighted areas on the terminal roof are the translucent panels. You can see some representative photos. I am sorry that it doesn't come over as poor as it looks in reality. Those panels are almost orange in color and they should be white. Again, these are original to the terminal building and have lost some of their insulative properties. This would be a replacement of all of the translucent panels which are again in those highlighted areas right over the security checkpoint which is that arrow shaped area there in the lower right-hand corner of the terminal, right above our escalators, which is the middle rectangular piece and over our baggage claim and ticket areas which is that circular shaped piece of the terminal roof. Lastly, we just applied for an Infrastructure Investment Jobs Act Airport Terminal Funding Program to replace three HVAC units on the roof and five RTU rooftop units that serve the pedestrian bridge that are all utilizing R-12 refrigerant. We know that R-12 is no longer allowed. It is very expensive to find and has negative impacts on the environment. We have not heard word back from the FAA but we expect to hear in mid-March. We are cautiously optimistic that we will receive this funding. It is about $8.3 million in total. We have requested $5.2 million from the FAA. Typically, the FAA funds at 90% of project costs but this is less than that because the RTU's serve both the public and non-public areas so we had to prorate the FAA request to just the percentage that is available to the public. We will carry about $3.1 in our CIP for this but if I can get an $8.3 million project done for $3.1 million then I am going to take that all day long. Lastly, a properties update. As approved by the BMA last February, the airport is proceeding with the sale of the airport land near the Executive Health Club. The blue areas in the upper graph show the land that will be sold. We hope to close later this month or the first part of March. There has been some delay because we had to go through the Town of Londonderry sub-division approval process since this is located in the Town of Londonderry. The sale is going to generate about $1.83 million in cash to the airport and further strengthen our liquidity position. Subsequently the lighter blue near the north part of the map is going to be a secondary lease hold to the Benton Family Trust which owns the Executive Health Club and that is going to generate a recurring revenue stream for the airport over the course of 40 years. The dash line that you can see on the very top of the graph shows the demarcation between the city and Londonderry. This lease hold is just south of that area. There is a little sliver of Brown Avenue that actually dips down into Londonderry and that is right at the entrance to that potential lease hold. They are going to build a new hotspot access roadway that ties into Brown Avenue that will open up the western part of airport land there for other leasing activities. Lastly, the airport was approached late last year or early this year by EFI, Electronics for Imaging. For those of you who have come into the airport on Ray Wieczorek Drive it sits off to your right just before you get to the first roundabout that heads into the airport. They have expressed a desire to renegotiate their current lease. We took the opportunity to clarify some language that I was not too happy about regarding the upkeep and maintenance of the facility. They were amenable to that so we have an agreement in principle on a new term sheet and I will be bringing that forward to the Lands & Buildings Committee sometime in March. That concludes my remarks.

Alderman Stewart stated thank you Director Kitchens for the always great informative reports that you are able to provide us. They are much appreciated. My question is with regard to passenger levels and leakage and comparing Providence and Manchester. It showed that Providence has a much lower leakage level into the Boston market than does Manchester and we are both are at approximately an equal distance from Logan. I am curious on whether you have any thoughts or theories or knowledge of why that is. What is the difference between us and Providence?

Mr. Kitchens responded that 50% number was something that I researched and discovered very early on in my tenure and at the time I thought it was just because they had low fares out of their market and we didn't. That is why I was so hopeful that the introduction of Spirit would turn that tide here. We have talked to JetBlue for 20 years two or three times each year. I think they have made their indication on what they think of our market pretty clear. I was hopeful that the recruitment of Spirit would get the competitive juices flowing but that hasn't happened quite yet. That is of concern to me. Spirit is really good when it is good and it is not good when it is not good. It seems to be very seasonal and that is something they are not happy about either. We have to do better in filling in the valleys. For example, I was just on a radio show this morning and I looked up going to Orlando from March 13-16. I built up three itineraries – one on Southwest, one on Spirit and one on JetBlue out of Boston. JetBlue out of Boston was like $750. Spirit with a seat and a bag out of Manchester was like $280. Southwest was $370. I think there is a behavioral issue that is going on in the market. It is not an awareness issue. As I have shared with the committee, we have raised awareness to a very high level. It is just that people are not gravitating towards the service. I don't know why yet but we are looking into a behavioral study that is going to get some focus groups pulled together to figure out why the decisions are still not being made. Part of it is also for 15 years it has been beat into our heads that if you want low fares you have to go to Logan. That is not the case and the reason I showed the fare differential. Things can and do change. Competition is good for the consumer. We all know that. One time to get to Orlando personally it cost me over $1,000 on Southwest roundtrip and that was not two weeks out. That was maybe booking the flight six weeks out. Now they are at $300 magically because there is a low fare competitor on that route. I think if we want to see those lower fares and a stronger airport we support the airlines that we have. That makes it easier to get the airlines that we don't have.

Alderman Stewart stated speaking of competition and Spirit and JetBlue, what is the latest on that merger and how it might potentially impact travelers at MHT.

Mr. Kitchens replied well I don't think it will be good for any traveler anywhere. JetBlue pretty much came out…I don't know how many of you saw the article in the Union Leader and read between the lines of what Robin Hayes who is the CEO of JetBlue was saying but they want to turn the Spirit aircraft into the JetBlue CD and they want to pay the pilots the JetBlue wages. The wages are higher and the seats are fewer so if you have higher costs and lower units, what is going to happen to the cost of the ticket? It is going to go up unless you are planning to lose money and I don't know any business that plans to lose money. I don't think it is good for the consumer anywhere but as far as the status of the merger, there is a rumor out there that I have not confirmed yet that the DOJ will be issuing an opinion on that merger in the next month which, in my professional opinion, is not good for the prospects of the merger because they have yet to adjudicate the lawsuit that DOJ has filed against American and JetBlue for the northeast alliance. So you are not going to allow the largest ultra-low cost carrier, Spirit, get gobbled up with an airline that could then still have an anti-trust immunity with American Airlines and JetBlue. I think either they are going to sue JetBlue or DOJ could just outright block it. It is still to be determined.

There being no further business, on motion of ***Alderman Cavanaugh****, duly seconded by* ***Alderman Stewart****, it was voted to adjourn.*

A True Record. Attest.

Matthew Normand

Clerk of Committee