SPECIAL COMMITTEE ON AIRPORT ACTIVITIES
October 16, 2023 Immediately Following Special BMA

The Chairman calls the meeting to order.

The Clerk calls the roll.

Present: Aldermen E. Sapienza, Stewart, Burkush

Absent: Aldermen Cavanaugh, Kantor

Messrs.: T. Kitchens

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

Ted Kitchens, Airport Director, stated good evening. Thank you for your time today to give an update on the third quarter of this calendar year regarding airport activities. As I like to normally start, I'll start off with a "BLUF", the bottom line up front and then give an overview of airport operations, review some passenger activity in numbers, what we are seeing so far for the first two quarters of this year, and then cargo activity, an overview of airport financial activity, how we did on fiscal year 2023 versus our budget as well as our liquidity position, and then review some of the major capital projects that are under way including the 1735 reconstruction and repairs. So bottom line up front, there are storm clouds that are gathering on the horizon in this industry. Over the past three years we have obviously had to deal with the pandemic, the uneven recovery of demand across the country that we have talked about as a committee, labor shortage particularly in the two front seats with a view up in the front of the aircraft and that's resulted in cost convergence in the wrong direction for the consumer, meaning labor wages are increasing which are resulting in increasing ticket prices. Now we have a new issue because of this cost convergence and a lot of the reaction of the airlines towards this pilot shortage and increased labor costs and we are starting to see that show up in the third quarter earnings. Delta has recently issued theirs, but they are not really a harbinger of the industry. Other airlines are all slashing their third quarter earnings almost in half across the board because of the increased labor costs. We are starting to see the beginning of a next business cycle in aviation and one that could be particularly difficult for airports like Manchester. Right now, airlines are flying enough seats into Manchester. That is shown in the blue line. The red line is how well we are filling up those seats from January of last year through June 2023. The dash line is where the airlines want us to be. That is the national domestic average load factor that is then for each month applied to the number of seats that we have in the market. You can see the red line is generally below the dash line and in some cases by quite a lot. There are zero reasons in my opinion for our market not performing at or above the national domestic market. We have some of the highest per capita incomes, highest discretionary incomes of any airport our size in the United States, and really as airline economics continue to be challenged by those increasing unit costs or performing routes in the system, those are going to be the first to be trimmed. The airlines are going to cut the bottom 20%. I don't see that right now in any of our markets, but there may be a few routes that are falling in that number. Airfare is not the driver, it is underperformance. Over the same timeframe as that underperformance, looking at it on a quarterly basis which is the basis that we have to get airfare data because we can't get it on a monthly basis, we have been lower than the US average and far lower than the average out of Boston. The roundtrip ticket out of Manchester has averaged at $439. The average roundtrip ticket for the second quarter of this year out of Boston is $77 extra to fly out of Boston but the perception continues that you can't find low fares out of Manchester. People change, organizations change, markets change, we changed when we got Spirit Airlines and then Avelo Airlines into the market. That has forced airlines to compete. That has brought airfares down, and that is to the benefit of the consumer. The problem is you have to book early in Manchester. That is one thing that I keep telling everybody. When I speak to a community group, I say that you can find the lower fare but you have to be four to six weeks out from travel. You cannot book two weeks out or the weekend out and expect to find that fare unless you are going on Spirit or Avelo Airlines, which generally have low fares all the way up to departure. In fact, the top fifty markets that our airlines like to fly to, all those green dots, are markets where we have lower fares than Boston. That is about 60% of the markets that are green on that slide including all the markets in Florida except for some reason Jacksonville. You can get to any of those major markets in Florida cheaper than you can out of Boston. Even hot spots like Austin, Nashville, Charleston, Las Vegas, and the Bay Area. I was curious about the cost this consumer impact has on our cost per flight. As the committee knows, we have been interested in lowering the cost that we charge the carriers. As those unit costs are going to continue to increase along with fixed labor and fuel costs, the airlines are really going to start looking at the airport cost as a big determinate as to where they are going to place additional capacity. That really is the only cost that is variable in their cost structure. Thanks to the combination of our debt restructuring, which we would not be able to do without the support of the Board, and our holding our airport cost steady since 2014 – we have only increased our airport at less than 1% compounded annual growth rate, that is one third, maybe even one quarter or one fifth the rate of inflation and it has placed us in a very strong position if the consumers choose the airport. You see on the graph on the right our actual fiscal year 2023 CPE, $14.38. That is what we generally charge the airlines to operate out of the airport. If we just added 150 additional daily passengers last year, which is not a lot, 150 is an easy lift for this market to do, flying out of MHT on an annualized basis that would have lowered our CPE by over $1.00 or $1.11 in fact. Conversely, if we were able to find another $500,000 magically somehow in a cost structure that has grown at one fifth of the inflation rate, our CPE would have only gone down $0.73. So, the consumer then, if you divide $1.11 by $0.73, the consumer has 1.5 times the impact. The consumer's choice has 1.5 times the impact on our airport cost than we do as airport management. The bottom line is help us to help you to the consumers out there. Choose the airport, we will lower those CPEs and the airlines can add more flights. Looking at our passenger activity level so far through June 2023, it is up over the same timeframe of the previous year by 3.9%. We had a weak summer as you can tell by that red line which is the 2023 actual dipping below the gray line which is 2022. If you include June and July preliminary numbers from the airlines, we are at about a 1.6% year to date positive through August. As you can tell, last year the gray line went off a cliff come October, November, December. Maybe the committee remembers a graph I showed at one point that showed a splaying of the load factor between the United States national average and our average. That is what drove that. We cannot afford to have a repeat performance of that this year. We have to end this year strong and that will be hard with a lot of additional costs coming into households not only through inflation but now with the end of the student loan forbearance which may take $300 to $500 depending on the level of your student loan out of your discretionary income. Switching over to cargo, it is a completely different story. Although there is a winter of despair heading towards the industry mostly because of the global economy and those headwinds that I just mentioned on the global economy not to mention what is going on in the Middle East, the airport has enjoyed seven straight months of record-breaking cargo volumes. January through July of 2023 exceeded any other January through July since 2000. As I mentioned, what is impacting the passenger side is going to impact the cargo side. There is some soft new demand as consumers pull back on expenditures. For example, Amazon was planning to go up to five daily flights, now they are forecasting just to stay at three for the holiday peak period. I got curious as to how the cargo is moving between the different carriers. Brown is UPS in the graph, purple is FedEx, and blue is Amazon. UPS and FedEx total volume is down 22 million pounds year to date, 2023 versus 2022. The total cargo is up 21.4 million pounds. This suggests there is some shifting of volume underway but if you look at the UPS numbers it essentially starts at 8.9 million and ends at 8.2 million pounds. FedEx is 5.8 to 5.8, and Amazon goes from 1.2 to 6.1 million pounds. That really is more telling that Amazon is starting to tap into a market and moving incremental volume through the airport for the first eleven months of their operation. This is seen in this graph. Obviously whenever you have a new entrant into any market there is a mathematical change with the players in that market. Particularly if the volume stays the same or the amount of sales stays the same, you are not increasing anything, your market share is going to mathematically change. Amazon quickly grew to 30% share by their fifth month of operation which was March 2023. UPS has decreased from 60% to 40% share, and FedEx has lost 10%. Again, this is a growing denominator not a shrinking numerator. While their piece of the pie is getting smaller, the area of the pie is getting bigger. So, they are still getting a bigger piece, it is just on a smaller piece of a bigger pie. Directionality has certainly changed. Amazon Air is a completely different business model than UPS or FedEx. Not many people ship their packages with Amazon, unlike shipping packages to another person or a letter or a FedEx package. It is more directional, not as bi-directional as UPS or FedEx. You can see that showing up in that last stacked bar chart on the right where our outbound cargo has still remained at 40% but our inbound cargo is now 60% of the total cargo volume moved. Historically it has been about 50-50. That is because usually Amazon is delivering things, they are not taking things out because it is your package coming in or packages that are moving throughout New England coming in on that aircraft. Not many people shipping things out on Amazon. Switching over to our budget, it was a very good year for the airport. Our revenues exceeded budget by about $6 million, while expenses beat budget by about $2 million. For the last two years, we have been administratively removing relief funds. Those revenues and expenses do include the use of our COVID relief. We have removed those knowing that those were going to be finite. When we did remove those, which is going to be the second column of revenue numbers there, we still beat our forecast by about $2 million. Removing all relief funds, our net revenues exceeded our budget by $4 million, which is the far-right hand two columns. You can see actual revenue net of everything was $2.5 million. We were forecasting a $1.5 million loss for last year. Sources of revenue still continue to be rental facilities, which is about one quarter, parking is another one quarter, and landing fees are about 20%. Sources of expenses include purchase property services at about 30% for fiscal year 2023, personnel was about 26%, and debt service was about 26%. Rewind about four to five years ago, debt service was close to 40%. We were spending more and giving more money to banks than to our personnel. I had a problem with that so we fixed that. Airport liquidity remains strong and we are now at 568 days' cash on hand. This is the strongest position we have been in since July 2017. This is despite the pandemic, lower passenger levels, increased benefit costs, and slow rates of capital reimbursement. It has been painful to get money out of the FAA to reimburse ourselves. The financial moves made during the pandemic have set us up for success. I strongly believe that if we can get passenger traffic to rebound, we will see a tremendous amount of net revenues that we can then pay down debt with, hire more employees, and do other things with those revenues. However, we have completely drained our relief monies. We are on our own power. August was our first true month without having any COVID relief monies and our operating margin was still 11% which is good for the airport. 1735 is done and there is a nice drone shot that our certified drone operator took. I do not encourage any citizens to try to get this shot. Our certified drone operator did get this shot as he flew in a section of the runway. It is completed. We had a lot of challenges from the weather. I appreciate everyone's patience in your wards as well as our surrounding communities and towns for understanding and being patient as we got through this project and the changed air traffic patterns. We re-opened the runway on September 15, 2023. I landed on it and it was really smooth. It was a nice experience. Another runway was subsequently closed for a few days. We seal-coated it to prolong the life of that pavement and then we had to repaint all the pavement markings because they had taken a beating over the last four months as it took 100% of our operations but now both runways are fully operational. We are getting back our runways on an as needed basis like we used to previously to take care of maintenance items or whatnot. Right now, both runways are fully operational and traffic patterns have returned. Outfall number four repairs. As some of you may know, myself and Chief Cashin gave a presentation to the Committee on Public Safety which was also circulated to the Board of Mayor and Aldermen regarding the failure that we had on Outfall number four and Pine Island Pond. Phase two repairs are now under way. The contract was issued back in mid-September. You can see some of the work there. You can see in the foreground the punchbowl, as we call it. The area where it widens out a little bit, that is to help slow down the rate of storm water as it is coming down towards Pine Island Pond and then it will go into the pond at a much slower velocity. Those are very large rocks. On the left side near the orange construction fence you can see somebody in yellow. That is the certified drone operator. That gives you a sense of the scope as he is six feet tall. It is a big project and there is a lot of area there being covered. That project is on schedule. They are set to be completed in just a few days. There will have to be some tree removal as you can tell. On the right side of that photo there is a steep cliff going down toward the rip-rap. We will have to take down the large oak tree on that corner so they can cut the hill to more of a 2:1 slope. As it is now, half the root ball is exposed so that tree is going to die by us taking it down or over time. So, we decided to take it down and make a more stabilized slope. It is unfortunate because it is a beautiful tree. No word yet on any FEMA declaration. FEMA did make a declaration for several counties in the state, but not for Hillsborough or Rockingham. We believe that is a future declaration that is hopefully coming our way. We are continuing our coordination with local, state, and federal agencies and our engineer on this project is working on the Phase 3 more permanent repairs on this project. This was to get us to a point to where we can handle storm water runoff and snow melt associated with winter and not have further erosion of the site. Lastly, the Kalwall project. I sent an email to everyone on the Board that work was to start in mid-September. Not a day after I sent that, I got a note from the contractor saying they have a production delay. That is now set for October 23. The contractor is mobilizing this week to do a lot of interior protection. You can see Kalwall in that photo; it is the peaked roof there. They are going to come in and put some plywood and netting underneath. Everything is done from the outside, so it is just there to capture a screw or anything that may fall down. It is not there to capture any heavy items. That is happening this week and we are working with the contractor on a contingency schedule if work can't be completed prior to winter. We are thinking it is not going to be and there will have to be a stoppage in the project. They are working right now with Kalwall and a detail that will allow us to maintain heat inside the building. Because this panel is about two inches thicker than the previous panel, there is going to be a two-inch gap there that they will have to winterize and protect from any heat loss. With that I will take any questions you may have.

Alderman Burkush stated over the past several months, the Board of Mayor and Aldermen approved positions and reorganization. Has that helped your efficiency?

Mr. Kitchens answered yes, sir. We have several on the agenda tomorrow that are regulatory required by TSA. Yes, that has helped. We have been able to absorb those additional costs without fear of increasing our costs.

Alderman Burkush stated we have no control when the planes come in the middle of the night. They call me and ask what has changed, and I explain to them cargo is cargo. We don't have any control, correct?

Mr. Kitchens answered correct. We try to work with cargo carriers to mitigate that but at the end of the day, they have to tie back into their network just like any other airline would need to.

Alderman Burkush stated I got a call from a constituent up on Gold Street asking what has changed. It had been quiet for a year. I explained it to them and they were happy with the explanation.

Mr. Kitchens stated I have received similar calls from Londonderry because now they are landing over there. It was only shut down for four months. It is amazing how people get used to the quiet. I've had some people ask if we extended the runway. No, we did not. I can show a pre and post. If we were extending a runway, it would cost a lot more and it would take a lot longer for us to get through the project. I can show pre and post and all you'll see is a dark runway versus a light gray runway.

Alderman Stewart stated with regard to the change in the relative volumes of inbound/outbound cargo that you mentioned is an effect of Amazon, are there any negative budgetary or other effects with regard to that not being in balance anymore.

Mr. Kitchens stated no. It helps us because FAA provides us some cargo entitlement money based on our share of deplaned cargo nation-wide. It helps us get additional funds through the FAA for some of our capital projects.

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

A True Record. Attest.

Matthew Normand

Clerk of Committee