SPECIAL COMMITTEE ON AIRPORT ACTIVITIES
May 17, 2022 at 6:00 PM

Chairman E. Sapienza called the meeting to order.

The Clerk called the roll.

Present: Aldermen E. Sapienza, Cavanaugh, Stewart, Sharonov, Burkush

Messrs.: T. Kitchens

1. Update from Ted Kitchens, Airport Director, on the following:

- COVID-19 Pandemic
- Financial
- Operations

Ted Kitchens, Airport Director, stated it is my pleasure to give you an update on the third quarter of FY22 for the Manchester-Boston Regional Airport. I always like to start with a BLUF, the bottom line upfront. The airport continues to recover from the pandemic. Although the pace of recovery could be threatened due to persistent airline workforce challenges, the timing and impact of our debt restructuring that I brought forward to the Board back in 2019 and we closed in 2020 cannot be overstated. The fact that we did what we did when we did it was very, very important to the overall health of the airport. Each day that passes that becomes more and more clear. The airlines are beginning to add capacity to Manchester and Spirit continues to show an aggressive growth strategy and I will detail some of those growth opportunities shortly. This results in the airport enjoying a higher liquidity level than we did pre-pandemic, which is saying something since we lost 95% of our revenue during the pandemic. If the airlines can fly with a loaded schedule into Manchester and they have loaded for June, July and August and if the community flies the service like they did last summer then it is conceivable that we will achieve pre-pandemic activity levels for the summer months coming up. This will further enhance our financial strength closing out FY22 and beginning FY23. Regarding the pandemic recovery, I will share with some of the new members of the committee our rolling seven-day checkpoint counts pace of recovery versus forecast models that we developed as a team back in April 2020 and our outlook for summer 2022. I will also go over some financial highlights, operational and capital development projects that we have underway or are planning to get started shortly, and the most important one which is our new parking management service. We issued an RFP and have selected a new operator. Then we will have an air service update highlighting new opportunities for the summer of 2022. Despite January, which was a very bad January for a lot of airports due to Omicron going through the ranks of the airline pilots as well as the winter storms here in the northeast and the 5G roll out that happened in January, you can see how we cratered there for a little bit. We have rebounded very quickly for winter break and then again for spring break. You can see in that last peak that we actually eclipsed our pre-pandemic seven-day rolling average on people going through the checkpoint for a period of four or five days. That was the first time we have seen that level of activity since before the pandemic and people were jubilant up and down the terminal and the concessions were happy and the rental car agencies were happy and the parking operator was very happy. There were some good times and it kind of reminded everybody of what the airport could be if we got back to pre-pandemic activity levels. So far recovery is trending exactly as we thought. For the new members of the committee, back in April 2020…it is easy to spot where the pandemic occurred but we forecasted out four different growth scenarios and based everything from a financial perspective on the slow growth model, which is that third gray line with the squares. You can see the green line is almost painting that gray line step for step. There is a big jump in the fourth quarter of FY22. You can see in the red box that we forecasted y-t-d 453,262 passengers in our model and we are at 460,982 passengers nine months into the fiscal year. I wish I went and bought a lotto ticket after I developed these models because I have never seen a model that tight before. You can see in the 4th quarter of 2022 that back in April of 2020 we forecast an increase from 140,000 passengers to 216,000 passengers. Whether we can make that jump or not we don't know. We haven't seen the official numbers yet for April and the airlines are facing crew issues and can't just fly as many operations system-wide as they did pre-pandemic. So we may not hit those numbers just quite. The slow recovery model had us getting back to pre-pandemic activity levels by the end of this fiscal year. We may end up somewhere between the slow recovery model and the prolonged recovery model which is that last grey line. We may be reaching the finish line, which is the dashed red line, somewhere between those two models. We are setting up for a very strong summer again if the carriers can fly the loaded schedule. This compares June, July and August of 2019 to the same period in 2020 and 2022. To present the data fairly, I have normalized the scales so you can make effective comparisons from graph to graph. You can see in that far right-hand graph that we have about 80,000 to 88,000 loaded seats per month on about 700 flights. Pre-pandemic we were at about 92,000 seats per month on about 1,000 flights. We are flying just as many seats almost on 30% fewer flights. That means bigger airplanes are coming into the market and we call that the average gauge of the aircraft. You can see in 2019 we were averaging 94 seats per departure and in 2021 it was 92 seats per departure but in 2022 it is about 118 seats per departure so the airplanes are getting bigger out of Manchester and that is primarily driven by the larger aircraft that Spirit is flying into the market. We are seeing more visitors to the region as an increasing share of traffic. This shows what we call point of origin data which is the number of people getting on an airplane coming into Manchester or leaving Manchester that do not have Manchester or anywhere in NH as their point of origin. So on any given flight, your flight is made up of 50% of people typically from your market going to Orlando let's say and the other 50% are people from Orlando who are going home. You want to have that as close to 50/50 as you can. You can see that from 2016-2021 our percentage of visitors has increased 40% of our passenger traffic to 47%. Of course visitors are the ones staying in hotels. They typically travel in bigger groups and stay longer. They also shop here and eat in our restaurants so they are contributing to the rooms and meals tax to the state which then helps the city through the revenue share. Any questions on the pandemic recovery before I get to the financials?

Alderman Stewart stated I am just curious. I love those point of origin numbers moving towards parity. Do we have any reasons or guesses as to why that may be the case?

Mr. Kitchens answered I think you see a big jump between 2020 and 2021 because of what NH has to offer. People are seeking those wide open spaces and places they can escape density and do something new. I think we should see that number continue. Now you have to ask yourself 47% of what right? I mean a percentage is one thing but if the case that you are applying it to is a different number…the absolute numbers are smaller but the share is larger. I think that is because people are seeking out the outdoor recreational opportunities that NH is replete with. As we continue to grow, it will be interesting to see if that number comes back down a little bit or if it stays at that 47%. This does not include any of the Spirit traffic because they started in the 4th quarter and as you can tell this is year ending in the 3rd quarter of FY21. It will be interesting to see what the Spirit effect is and if we are getting people from Florida coming to NH. Status of our federal Coronavirus Relief grant draw downs. We are 100% exhausted on the CARES grant. For the new members of the committee, we received about $25 million in the three Covid-19 relief grants – CARES, CRSAA and ARPA. We are about 75% drawn down on the CRSAA grant and we have not yet touched our ARPA grant. We are using 100% of our relief grants towards debt service. We are not using this for any new capital development but to service our monthly debt service. Our monthly drawdowns are averaging about $500,000 and we have $10 million left in the ARPA grant and the 25% of the CRSSA grant. Based on this draw down rate, we should have enough to get us through December 2023, which is another 19 months of recovery time. If we see an increase in passenger traffic, particularly during the summer, that will help us reduce those drawdowns. We have to offset the drawdowns based on what we call a facility charge which gets paid by a passenger who is flying out of Manchester. That will allow us to extend that relief further into the future. Hopefully by the time we get to December 2023, we are back to 100% of pre-pandemic activity level. Through March, our fiscal year-to-date performance has been good. I am sorry you can't read the numbers on the right but I will summarize for you. We are beating our budget. $30.3 million is our fiscal y-t-d actual revenues. Fiscal y-t-d actual expenses total $26 million. We are forecasting that to come in at about $40 million on the revenue side and about $34 million on the expense side so right now we are carrying about a $4.3 million net revenue and we are forecasting that to grow slightly over the last quarter. That includes those federal grants on the revenue side so if we were to take out those federal grants, we would be $170,000 in the negative for this fiscal year. That sounds bad but it is not nearly as bad as we were last year where if we were to take out the federal funds we would have lost $5.6 million in revenue. We have plugged the hole by $5.5 million in one year which is quite remarkable. Granted that the relief funds are the relief funds and we are using them for debt service but they are real money for us. I like to take it out just to see how healthy we are because at some point the federal funds will disappear and we should be in the positive at that point. With $170,000 in net loss if we were to not have those federal funds and us being about 25% down still, I think that is a very good position for us to be in if we can get back to pre-pandemic levels. As I mentioned earlier, our cash position is strong. That yellow bar shows that what we were on February 29, 2020. We are at 489 days' cash on hand. As of April 30, we are at 507 days' cash on hand and you can see that during the pandemic we were drawing down on some cash but then right about the time of summer last year we started building up our cash revenues. It goes with the passengers. You can kind of squint and see the shape of the recovery is very much the same as the shape of the forecasted recovery. You can even see the dip in January. Any questions on finances? We have one major project underway right now which is taxiway Hotel Kilo reconstruction. For new members of the committee, this is a piece of pavement that is no longer in compliance with FAA design standards. It was identified as something called a hot spot on our chart. It is a place where there could be higher levels of incursions between aircraft and aircraft vehicles. We worked with FAA to come up with a new design last year. Audley won the construction contract. It is 100% federal grant money and is a $6.3 million project. There is no local match or state match required. Construction has commenced and you can see some of the milling and overlay or actually more milling right now because they haven't quite gotten to the overlay piece but they are milling the old asphalt. This is up in the northeast corner of the airfield. Our access to the northeast ramp and the DEKA hangar will be maintained throughout the project. The DEKA hangar has not only Dean Kamen's aircraft but it is also home to DART so that is very important as that is a medical life-saving operation that we need to insure has access to that area. Another project that we started last year which is another 100% federally funded project is the fire alarm replacement project. This is replacing all of our hidden equipment and all of our peripheral devices including our fire alarm panels, strobes and horns. It is a $1.2 million project and this is throughout the entire terminal complex. We are about 90% complete and they had the first test with the Londonderry fire marshal yesterday for the first phase. That project is moving forward and we anticipate…it may slip a little past June 1 but we are holding on to a June 1 completion date. The big project that is coming up next year is runway 1735 and Perimeter Road reconstruction. We bid out the design and had two bids for a $20 million project which is a problem in and of itself. In the past when we had $20 million projects we would fill up the Airport conference room during the pre-bids but we only had three companies show up for the pre-bid. We had two bidders – Audley and Pike. Pike Construction won and we are awarding the project or $17.4 million of the project…we phased this in a very creative way. We have six different bid add alternates because we didn't know exactly what the bidding environment would look like and how the prices would come in particularly for asphalt considering the oil environment and the price of gas. We decided to structure this in a way that we could cut the project in any phase and still have a usable unit of work for FAA bidding purposes. The final grant will be a complete mill and overlay of runway 1735 and some electrical work to decouple some of our critical airfield lighting systems that are running on the same circuit right now which is not the best idea to have. So we will decouple some circuits and also upgrade both of our approach lighting systems to runway 35 and runway 17. This is important for aldermen to understand but we will at some point need to shut down runway 1735 and all operations will be moved over to runway 624 and that is coming in over wards 6, 8 and 9. All of those areas will be impacted with a change in flight operations. It has to happen because we can't repave the runway in one day. We will work with the contractor to try to minimize that amount of time but I think the runway will be closed for about 90 days. This will happen during the summer next year. Runway 624 will be fully operational and we should not see any impact from an air service perspective. The peak area, which we call the iron cross, is the intersection of the two runways. That is going to be a seven-day shutdown where we will have to relocate the runway 17 threshold and shorten the runway, runway 1735, for seven days because that is going to be an area where they have to have full access to both runways. Again, it should not be an impact to operations. We are working closely with each of our airlines chief pilots to make certain that the runway length still meets their operational needs. I will continue to brief the committee as we get closer to the construction. Obviously, submittals, shop drawings and all of that will be submitted throughout the summer. Supply chain issues are going to be a difficult element in that project. In review of the 2021-2022 snow season, $885,000 of potassium acetate was used on the runway or about 174,200 gallons. That is a lot more than we would like to see being used but it was a very expensive winter because of the precipitation type that we received, which was a lot of mixed precipitation as we know and that required chemical treatment in order to keep the ice from bonding to the pavement and the duration of the storms also led to some overtime hours. You can see that we used about $1 million worth of material to fight the snow in both the airfield and land side. The last thing is we issued an RFP for parking and ground transportation management services. We selected LAZ Parking out of Hartford, CT to take over from SB Plus on July 1, 2022. LAZ is the second largest public parking operator in the country and they are growing in the airport space. They have airports like Providence, LA, Sacramento and John Wayne among others. This will result in a complete overhaul of our parking technology and our approach to revenue generation. I cannot overstate that. What you will see come July 1 is going to be a completely different technology from the ticket spitter to the gate exit. We will have multiple payment options for you including reserving your space online and paying in advance to Google Pay and Apple Pay and text to pay as well. We will have space guidance systems. How many of you have been in a garage where you have the red lights and green lights to allow you to find the open spaces easier so you are not constantly having to drive around and search for an open space? We will have the space guidance system. That will not be there on July 1 but they will start the process and it should be operational sometime in the spring if not sooner. We will have new space level counters at each level. Right now it is based on just a loop and an arm system but this will now be tied into the space guidance system so you have real-time and accurate number of open spaces by level. We will even include in future years the potential for valet parking at the airport. We are already easy to get through but if you are running late you can throw the keys to somebody and they will take your car for you. We are working towards a smooth transition but of course hiccups will be inevitable. Both LAZ and their sub-consultant which is Flashpark which has the IT system and the actual technology will have plenty of resources here on hand for customer service issues and more importantly on customer service recovery. Flashpark is a pretty neat system and the wave of the future. It is completely plug and play so if a component breaks, let’s say the credit card reader, they can take that out and put a new one in. Any maintenance person can do it and you don’t need to have expensive maintenance contracts. It is a really neat product. Air service. Spirit is increasing seats for Manchester to both Ft. Lauderdale and Orlando for the summer of 2022. We are right now enjoying A320 operations once daily to both of those markets. They are now going to their A321 which is the largest aircraft they have in their fleet with 228 seats. This is the first time we will have regularly scheduled A321’s at the airport to any market since April 2006 when USAir flew A321’s between Manchester and Philadelphia. I think this is the biggest airplane this airport has ever seen in terms of seats. We have had 757’s in the past but they did not seat 228 passengers. This is a really big announcement by Spirit and I think it shows a lot of faith in the market. I will not tell you where they are taking the aircraft from to fly Manchester to Orlando but let’s just say it is a very large market that they are pulling that aircraft out of and putting into our market. That is a big statement about what they are seeing out of Manchester. American is returning to Chicago O’Hare twice daily on larger aircraft than what they flew last summer and into the winter time. These will be 175 aircraft instead of CRJ700’s. It is about another five or six seats available per departure. They are also upgauging and in aviation that means going from one aircraft type to a larger aircraft type on two of the three daily flights to Charlotte to A319's. We will have mainline service from American Airlines. It is not going to be a regional service. This is the first time that we have had a mainline American since December 2017 to Charlotte. We did have mainline American in 2019 to Philadelphia for about a minute but then it disappeared. United is adding a third daily Newark flight on June 3. They are starting to grow their presence out of Manchester as well and we are excited about that. Last but not least, Southwest is adding a second daily Chicago Midway flight and the Orlando, Tampa and Baltimore service remains the same. During the summer we will have four daily flights to Chicago – two on Southwest and two on American. That is good service for those that are going to Chicago or to points west of Chicago. That is all I have and I would like to open it up to any questions.

Alderman Stewart stated thank you. That is very good news and was a good report all the way around. I am curious to know with regard to Spirit and reading in the news about a hostile takeover from Jet Blue. Do you care to comment on what that could mean?

Mr. Kitchens responded no. I think the biggest thing for everybody to remember is just to continue to fly Spirit. Certainly there is a lot of interest by both Frontier and JetBlue to buy Spirit but I think if we do our job as a market and continue to support the route like we have then whatever happens I think we will be okay as a market because no airline is going to walk away from a marketable route. I would say that I think there is one that would be more favorable to us than the other but I trust that the shareholders of Spirit Airlines will make the right decision on June 10. That is when the shareholder meeting will be held and that is where we will see the next step in this. I think either the JetBlue or Frontier merger would have significant regularly scrutiny place don them but I think there is one that is easier. That doesn't mean it is easy but there is an easier path for one than the other.

Alderman Sharonov asked is there a lot of demand for valet parking at airports our side.

Mr. Kitchens answered yes there is. Other airports have offered that and it is popular. I will say that we will carefully evaluate that. We didn't pull the trigger on that immediately. We will wait until we get more business travelers coming back and pull the trigger at the right time.

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

A True Record. Attest.

Matthew Normand

Clerk of Committee