

SPECIAL COMMITTEE ON AIRPORT ACTIVITIES

October 24, 2001

6:00 PM

Chairman Pariseau called the meeting to order.

The Clerk called the roll.

Present: Aldermen Pariseau, Pinard, Shea, Vaillancourt, Thibault

Messrs: K. Dillon

Chairman Pariseau addressed Item 3 of the agenda:

Discussion of current Airport activities.

Mr. Dillon stated I thought what I would do is give you a little bit of background as to what has been occurring at the Airport since the tragedy on September 11 and then I wanted to talk about some specific capital programs at the Airport following that. We were very impressed, quite frankly, with the ability of FAA on September 11 to shut down the system as quickly as they did. Within minutes of the tragedy and the first plane striking the World Trade Center airports across the country were notified to prepare for an orderly shut down of the system and quite frankly when you think about the complexity of the air traffic control system to get all of the planes on the ground that quickly was certainly a major feat and I think certainly the FAA probably saved a number of lives by making that very timely decision. Manchester Airport unlike other airports across the country did not end up with extra aircraft at the airport. That is simply because the air space in New England was shut down first because the highjackings emanated from Boston. Aircraft ended up at inappropriate airports across the country simply because they were told to land at the nearest airport. The system start-up though was a lot more difficult for airports across the country. Airports needed to put various security measures on line to get recertified by the FAA. Manchester Airport, I think we were very fortunate that we put ourselves in a position to return to service very quickly because we did anticipate the types of things that the FAA would be looking for and as a result the airport was one of the first in the country to reopen after recertification. That is certainly due to a lot of the hard work by the City staff at the airport and certainly the staff at the airlines and support tenants and concessionaires. We actually were able to get the first flight in Wednesday night of that week. As you know the tragedy occurred on Tuesday. We actually had

cargo activity on Wednesday night because we were recertified on Wednesday night. However, passenger start-up was very difficult because of the aircraft misalignment. You had aircraft at airports where flight crews had left. They needed to get those flight crews back to fly the aircraft back to the airports where they should have been so it was a number of days before the system could get back to normal. As a result, Manchester Airport, like most airports across the country, suffered a significant passenger drop. In the days immediately following the tragedy, we had a drop in passengers in excess of 50% of our normal traffic. That translates into about a 30% drop in revenue day by day. Why there isn't a direct match between the revenues and the passengers is, I think Congress acted very quickly to institute an airline bail out bill so there was not an immediate drop in flight schedules across the country. In terms of our revenues, airline payments, meaning landing fees and rental that they pay, represents about 28% so that was a steady revenue stream. The other 72% of our revenues are passenger driven meaning that we need the revenues from passengers parking and passengers using the concession. When you balance everything out, that came to about a 30% revenue drop. Some of the new security measures that we were required to put on line are some things that are very obvious to passengers. There is parking restriction in place. All airports needed to eliminate public parking within 300 feet of the terminal building. We are very fortunate at Manchester Airport that our parking garage is outside of that 300-foot limit. As a result, the airport only lost 100 parking spaces in our short-term lot. We have an inventory normally of 8,200 so we are down to 8,100. Again, we were fortunate unlike Logan for example that lost in excess of 3,000 parking spaces because of the proximity of their parking to the terminal buildings. In fact, right now Logan Airport and Manchester Airport probably have the same number of parking spaces at our respective facilities. It has been a major impact at Logan. We also had to eliminate curbside check-in, however, some carriers have reinstated curbside check-in. If you were to go to the airport today, US Air, Northwest and Southwest have reinstated curbside check-in. Simply what the carriers needed to do was insure that they had the same level of security in their system out on the curb that they had in the terminal building. Once you enter the terminal building there is an obvious higher level of checks that passengers are subjected to, not only at the screening point locations where all carry on baggage is checked, but also at the check-in locations at the ticket counters where everyone is subject to search and checked baggage. Approximately 15% of all of the baggage going through the airport on a checked basis, that is the baggage that goes in the cargo hold, is being hand searched at this point. As a result there are a number of delays that people are encountering during peak period times at most airports across the country. However, at Manchester Airport we are really only encountering delays between our peak period of between 4:00 AM and 6:30 AM. That period, if people need to both check-in at the ticket counter and then certainly go through screening they can anticipate close to a two-hour wait to go through the system. However, most people have already

adapted and realize that if they don't have to check baggage and they have an itinerary or an e-ticket they can go directly to security and check-in at the gate. You can do that most mornings in well under an hour. Pretty much if you know how the system works any time during the day you can be processed in Manchester under an hour. Other airports and major hubs when this first occurred we were getting reports in that down in New York for example it was in excess of three hours to navigate the system. Again, at Manchester we are doing pretty well with regard to that. In addition to the security measures that I talked about there are a myriad of other security measures that are on-line that I cannot share for obvious reasons because of FAA confidentiality but certainly I think you should all be very assured that Manchester Airport is at the highest state of alert and we feel very confident in the security that we have in place. One of the additions that we were given through the Governor's Office was the activation of the National Guard. We now have the National Guard stationed at our security screening points at the airport. They are a welcomed addition and a whole new layer of security. I have been asking the Governor's Office to consider pressing the Federal government to ask for utilization of the National Guard at other locations in the airport. Right now the State will only be reimbursed if they are used at the screening point. I have asked for the Governor's Office to push so that we can use them for perimeter patrols and building patrols to supplement the Rockingham County Sheriff's Department that provides our law enforcement services and I am hopeful that we will get permission to do that. That will be very helpful to the airport because in the face of some of those revenue drops that we had up front the additional security that we had to put on line with additional Rockingham County personnel and some of the other measures, if you annualize them are costing the airport about an additional \$1 million. It is a difficult thing to balance in the face of dropping revenues and increasing costs of \$1 million. There is a lot of discussion about the future of aviation security. I think to understand the future of security you really need to know a little bit about how security works today at the airport. There are three entities that are responsible for security. There are the airlines, the airport and the FAA. The airlines today are responsible for aircraft security and anything that gets into the aircraft. That is why the airlines are responsible for passenger screening. A lot of folks don't realize that the airport is not responsible for the screening point security, it is the airlines. The airport itself is responsible for physical plant security. We are responsible for securing the airfield and terminal doors and the terminal building itself. Then you have the FAA who is responsible for setting policy for both the airport and the airlines. There has been an awful lot of discussion in the past few weeks in the industry as to the future of airline screening. Most airlines agree that they should give up that function and that it would be better served by another entity dedicated to security. However, the reaction has been to turn it over to the Federal government. That is something that I do not support, the federalization of security. I think quite frankly that security at the airport should be vested in the airport operator. I think

to put it in the Federal government's hands and then still leave a piece with the airport and still have the FAA setting policy you will still end up with a fragmented system that doesn't work too well but there is a lot of debate that is going on about that. I think one thing is for certain and that is that there will be a change in terms of how screening point security is conducted. There is also a lot of discussion and some Federal legislation that has already been passed regarding technology improvements, particularly as it relates to the aircraft, i.e. hardening of cockpit doors. Some airlines have already undertaken action on their own and put keblar doors in cockpit locations, but I do believe it will be mandated by the Federal government. Certainly air marshals will be returning to flights in much greater numbers. Those are armed, FAA trained people that will fly undercover on various airline flights. Then there is also talk about some future technology in terms of actually videotaping what is occurring in the cabin and sending that to remote locations on the ground. That technology already exists today to better handle the security of aircraft in flight. One of the things that I have been asking for though is some technology investment for screen baggage. While I feel very confident in the system today, I think the ultimate goal needs to be 100% screening of checked baggage. However, the technology really does not exist today to do that and process baggage in a timely fashion. If you were to check every screened bag you would probably bring the system to a grinding halt. Already the industry is looking forward to putting that technology on-line and accomplishing that at some point. The technology does exist today, however it is extremely costly. Each machine is in excess of \$1 million and when you think that just at Manchester Airport alone the fact of how airlines process their baggage we have 12 airlines there and that would be a \$12 million investment just for Manchester Airport. Again, while the technology exists it is too slow to handle the baggage need that is there today. Where we stand right now is in a pretty good position. As I said we did have that immediate drop in passenger traffic but we have seen our numbers rebound quite strongly. While we do not have hard and fast information because typically we get our reports 15 days after the end of the month so I won't know what is happening in October until November 15, we can tell a lot of things for example by looking at our parking revenues. Right now, if you look at the parking revenues for the airport for the first two weeks of October, we are ahead of where we were for the same period a year ago. Certainly anecdotally we can see that the traffic levels in the terminal building are large and what we hear from the airline station managers is some of them are experiencing some of the highest load factors that they have ever experienced at Manchester Airport. In fact, during the Columbus Day holiday weekend, which is typically a heavy weekend for us, there was one carrier at the airport that was reporting load factors in excess of 96%. A load factor simply is the average number of seats that are filled on an aircraft when you take all of their flights together. To have a 96% load factor on all of your flights, that is a huge number. What we believe is occurring to a certain extent and why Manchester Airport is recovering so fast

when other airports are still reporting a 25% or 30% drop in traffic is we do believe that there is a shift occurring in New England that people who live north of Logan who would have used Logan in the past are now shifting to Manchester and the same thing we find is going on down at TF Green. I think some of that is the psychological hurdle that some folks are going to have to get over regarding the perception of security at Logan and some of the infrastructure issues that exist at Logan with the loss of parking but there is no doubt that we are picking up some extra traffic as a result of people switching the airport that they would like to use in New England. We also can kind of verify as to what is happening at the Airport with flight activity. Many airports across the country lost 20% to 30% of their flight schedules when the airlines had to pull back. Manchester is kind of unique. We are so far the only airport that I know of that is actually picking up flight activity. United Airlines announced two additional flights to Chicago. Continental is upgrading the size of their fleet. They are going from regional jets, which are 50 passenger jets to 737's, which are approximately 124 passenger jets. If you total those numbers up, Continental will increase the number of seats they have out of Manchester by over 50%. We are also announcing today that US Air has elected to add Charlotte service, two additional flights that will start in December and I am expecting another airline announcement next week for additional service that I am not at liberty to announce at this point. They have asked us to hold off on the announcement until next week but there will be another airline increase as well. Again, this is good news for the airport. The only flight activity that we have lost is the Metro Jets. We have four flights a day down to Baltimore. Metro Jet is the low fare arm of US Airways. Quite frankly, though, we had anticipated that we were going to lose that service prior to September 11 because of the cost structure of Metro Jet. They were having a difficult time offering the low fares and competing with the high cost structure that they had. We believe that the September 11 tragedy just expedited the schedule. It is not only Manchester Airport that lost Metro Jet. Any station that had Metro Jet lost it. They are just discontinuing that service. What remains to be seen is whether or not US Air will continue to serve the Baltimore market with their main line service. Even if they elected not to, we feel very confident that we have great service on Southwest to Baltimore. We do believe that Southwest will step in and fill some of the void with those missing seats and I do believe that we will have a future announcement dealing with the Washington market any way that will really make that loss of service a mute point. We have, though, been very cautious at the airport in terms of expenses because we want to make sure that the trend that we see with this growth that is occurring right now continues. We have taken the approach that we have reviewed all of the capital construction programs. We have altered the schedule on some of the projects, most notably on the terminal expansion. We were in the middle of a design phase. We are going to slow that up a little bit. We still have plans to go forward with construction next summer but we are slowing up the design and will be able to push back that schedule if

necessary but we still want to be in a position to go forward with it if we need it because of some of the growth. It is a little bit of a balancing act that we are going through. All of the other projects that we have at the airport are pretty much now being put back on the track that they were prior to September 11 and we really have not missed any time at all. In terms of operating expenses, I requested each division out at the airport to prepare a 10% cut if it was necessary to put it on line. Certainly, we have instituted our own hiring freeze at the airport. If any positions become vacant, we will review them position by position as to whether or not we need to go forward and fill those positions. Quite frankly at this point I do not believe it would be necessary to institute or keep in place the hiring freeze or institute any of that 10% cut that we had planned for. I don't know if anyone has any questions on any of that.

Alderman Vaillancourt stated I do want to thank the Chairman for asking MCTV to televise this. I think Kevin's words are very important to not only the five of us sitting here but to the community at large. Can you give us an idea of how much revenue was lost in that period immediately following September 11? Apparently, it was only a couple of weeks.

Mr. Dillon replied it is difficult to get a handle on that because quite frankly we are still waiting for some of our concession reports. Again, we looked at it on an annualized basis trying to project out trends. If you projected that out on an annual basis, we would have lost \$10 million worth of revenue and that is roughly 1/3 of the airport's revenue on an annual basis. I think if you do the math that probably works out to about \$200,000 a week that we potentially lost. Again, we will not know that though until I get all of those concession reports in.

Alderman Vaillancourt stated I had one question concerning security and it was regarding an entrance off the Goffs Falls Road area by the Post Office apparently through a gate there. Is there an opening there that people are going through and trucks are going through? Is there a security problem there? Somebody said there was.

Mr. Dillon replied what you are referring to is the construction site that is across from Goffs Falls Road. If you went into that area, there is a fence on the other side of the construction area as well. It is actually a penned off area. No, that does not represent any security concern for us.

Alderman Thibault stated if I heard you right you said something about the Federal government coming in with some money to pay for the National Guard. What about the extra security that you have from Rockingham? Do you have to absorb that out of the airport funds or do you feel that the Federal government will come in with some money for that also?

Mr. Dillon replied right now we have to absorb that out of our operating funds and that certainly is the lion's share of that \$1 million cost. \$1 million would be added to our budget if we stay in the same security posture that we are in right now. There is a bill, though, that hopefully is working its way through Congress for a \$3 billion program to reimburse airports for not only the security costs that they are incurring to date but certainly continuing costs over and above what they can demonstrate were their normal costs. It also includes some money for some of the technology investment that I talked about earlier. I am hopeful that we get reimbursed for this but quite frankly if we don't based on where I see our budget going we will be able to absorb this.

Alderman Thibault asked so the impact on your budget although it is bad, is not critical.

Mr. Dillon answered right. I think what you have to look at is the impact at Manchester Airport anyway was a very short-lived impact. We probably were only impacted for a two-week period. Where we are at, again, if the numbers that I am seeing from the parking garage can apply to other businesses on the airport like the concessions and rental cars, and usually the parking garage is a good barometer of what is happening in those other businesses as well, we are actually growing again. We have only really sustained a two week period and again if you just do a straight line projection as to how our revenues flow, that would probably be a \$400,000 drop in revenue or thereabouts. These are very rough numbers. It would be a \$400,000 to \$500,000 loss.

Alderman Shea stated you have other projects lined up and obviously you had to curtail or at least delay some. Do you anticipate continuing these in the near future? Could you give us an idea about the runway and so forth?

Mr. Dillon replied because of the stage of where our capital program is, it really did not make a lot of sense to curtail projects. There were really only two projects that I took a hard look at – the terminal expansion, which is on hold right now and Phase II of the Brown Avenue work because that will not occur until next year. Quite frankly, though, we needed to do some preliminary work for Phase II of Brown Avenue this year. We have just reinstated that this past week based on the financial performance that we see. So everything that we were planning is still moving ahead. The things that you might also be referring to though is under the CIIP we had gotten approvals for some other projects that are much further out into the future like a second parking garage, a second terminal addition and some roadway improvements. Those we always had planned to hold until the demand represented itself so we are really not changing from that posture. The real decision came down to the terminal expansion for the four gates that we were

looking to start working on next summer and again as I said right now we can still move forward on that same schedule. The decision will have to be made in the spring. As I said, by the spring I will certainly have a lot more information to make a much more informed decision regarding that. One of the things that we were in the middle of was the bonding at the airport and there were three pieces of the bond issues that we were going forward with. We had the original State bonds that backed the original terminal building. We were going to refund those bonds. We were going to borrow the \$30 million for the terminal expansion and we were going to borrow \$21 million for cash flow need related to the Runway 1735 expansion. While the Federal government is paying for 90% of that project, they are going to pay for it over an eight-year period so I need cash flow assistance to keep up with the actual construction payments. We were going to borrow \$21 million for that. I have deferred the bonding on the terminal and the runway work and we are only going forward with the borrowing to refund the State bonds. I did that simply because what I am starting to see in the FAA is that they are ending up with additional money being available and, in fact, they have advanced our payments under that LOI, the letter of intent funding, for the runway by one year already. What is happening is other airports have made drastic cuts in their capital program and as a result the FAA is not expending money as quickly as they thought so it is available and we have put ourselves in a position to take as much as we can right now because we have an active project. So, we have deferred the \$21 million cash flow need because I do believe by next spring I will be able to reduce that borrowing need even lower because the FAA will be giving me more money up front. Certainly we have deferred the terminal project because we are not too sure when we are going to move forward with that. In either case though, we did not need the money for the runway or the terminal until next summer. If we make a decision in the spring that we are going to move forward we can go back into the bond market at that point.

Alderman Pinard asked how do we stand with the DOT for the access road and what is the story with the eagles. Is this delaying us?

Mr. Dillon answered I don't think the eagles have been seen in quite some time. Right now, in fact I just met with some of the folks from the DOT this morning, the project is still very much moving ahead. We anticipate that it will not be in line, however, until 2005 and that is related to some environmental permitting that they still need to go through. The discovery of the eagles, quite frankly, has only set the project back 90 to 120 days from the original schedule. They just simply have to complete some of the environmental permitting that they are going through on that project. It is very much alive and still very much an important project to the airport.

Alderman Vaillancourt stated in anticipation of the meeting tonight I did speak myself with Bob Barry on Monday and he tells me that not until December 28 of this year will the biological assessment be completed by the Fish & Wildlife Department and while he says that he is always optimistic and I do quote directly, he said it will be 18 months after that before a permit could be issued and the earliest they could start would be the spring of 2004 and three construction seasons brings us into 2006. He did mention that that could be speeded up but only if we break tradition and go out of State for contracts. He said that NH contractors are limited to \$15 million that they could contract and they would have to get some change in order to speed that up and go with out-of-state contractors. Are you familiar with this possibility?

Mr. Dillon replied I don't have all of the specifics of some of the hurdles they need to get over but I have certainly had a number of conversations with Commissioner Murray from the DOT. She certainly understands the importance of this project and what it means not only to the airport but to the local community in terms of traffic flow in that area and I feel confident that she will undertake whatever action is necessary to get this moving ahead. She wants this done probably just as much as I do.

Alderman Vaillancourt stated it does sound like with your parking situation back up to normal or even above normal that we are going to continue to see an exacerbation of the problem so I can see why we need to, even despite this September 11 tragedy, continue to move forward at an accelerated pace if possible. There are hurdles, aren't there?

Mr. Dillon replied there is no doubt about it. It is difficult getting a project of that scope moving ahead. That is why some of the improvements on Brown Avenue are so important to us and why we made the decision to, even though we had some flexibility in that project, press ahead with it and we are hopeful that working in conjunction with City forces from the Highway Department that we will be able to do that widening project next spring. That is pretty much the Band-Aid approach that will get us through until the State access road comes on line but people should not be fooled by the fact that we are widening Brown Avenue...that will take care of the immediate Brown Avenue issue but the big choke point is the 293 interchange with Brown Avenue and unless there is a significant improvement there, it is not going to matter too much what we do on Brown Avenue.

Chairman Pariseau stated as the outgoing Alderman for Ward 9 I do want to thank you for your support over the years and for the constituent service that you have assisted me with. I wish you much success in the future and I supposed I will see you at the airport on occasion. Thank you.

Alderman Vaillancourt stated I know, Kevin, that you are going ahead with demolishing the buildings that you have taken on Brown Avenue by the airport entrance and I know that we have had meetings with several people in the area of Brown Avenue river bank and I am sure they would like an update as to how we are doing with that landscaping and berm that we are going to be getting to this fall or next spring maybe.

Mr. Dillon responded unfortunately we were a little bit delayed with that project. I wanted to be into those demolitions over the summer, but because of a variety of construction-related issues we weren't able to get out there as quickly as we would have liked. Certainly people can see that all of that activity is going on right now. We are right in the middle of those demolitions. I hope that we will complete them within the next two weeks. I think folks will start to see the placement of the earth berm that we committed to the community next week. Quite frankly though one of the concerns I have now that we are actually out there and have some of the houses out of the way we have a much clearer picture as to what will be entailed in placing the earth berm it would require a number of the trees to be removed in order to place the berm in a linear fashion. I am very concerned about that I think the neighbors would be very concerned if we removed too many of the trees. What we would like to do is on a lot by lot basis make a decision as to whether or not it makes sense to put the earth berm in or potentially put a fence through the area. We did commit to the earth berm and in the areas where we can we are going to put that up. What we would like to do, though, is go back to the community and get their input on these other areas. Would you rather see us remove the trees and put the earth berm in or in that section put up a fence? We just recently installed a fence along what will be a detour road for the Brown Avenue widening next year down I believe along Puddle Street and in that area. I think it is a very attractive fence and that would be the same type of thing we would do on Brown Avenue. I urge anyone in the community to maybe take a ride down there and take a look at it and if that becomes the acceptable alternative, we will gladly do that. There is no doubt, though, that the airport did commit and we are going to move forward with a visual barrier of some type with landscaping on and around it and we still have every intention of doing that. You folks are going to start to see that next week, but I would ask if you do feel that you have the time Alderman or if there is a community representative that would like to work with us we actually have a team that will be looking lot by lot as to what is necessary and we would love to have somebody from the community join that group.

Alderman Vaillancourt stated we do have a group that meets on a regular basis and that is coming up in a couple of weeks and I am sure we will work there. There is a very big concern for keeping the trees so I think you are going in the right

direction and I am sure you will get a response from two or three members that want to work with you on that.

Mr. Dillon stated since you are the outgoing Alderman, Alderman Pariseau, and this is probably the last meeting that we will have before you leave office we wanted to give you a little token of our appreciation from the airport. You have certainly been very helpful to the airport and allowed us to advance the development of the airport while at the same time being a great champion for the community and keeping us in check. We would like to give you a small token of our appreciation. It is a plaque and I would like to read it to you. It says:

Presented to the Honorable Robert J. Pariseau, Alderman of Ward 9, City of Manchester, NH in appreciation and recognition of your outstanding leadership, dedication and vision you will forever be an important part of the City of Manchester and the Manchester Airport. Presented on the 24th of October 2001.

Hopefully you will find a great place to hang it and when you take a look at it you will think of us at the airport.

There being no further business, on motion of Alderman Thibault, duly seconded by Alderman Pinard, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee