

SPECIAL COMMITTEE ON AIRPORT ACTIVITIES

June 21, 2006

5:00 PM

Chairman DeVries called the meeting to order.

The Clerk called the roll.

Present: Aldermen DeVries, Shea, Pinard, Long

Absent: Alderman Garrity

Messrs.: Tom Arnold, Kevin Dillon, Blake Harwell

Chairman DeVries addressed item 3 of the agenda:

3. Airport updates provided by Kevin Dillon, Airport Director, as follows:

I. Airport Activity

Mr. Kevin Dillon, Airport Director, stated just a couple of quick items regarding airport activity. I wanted to make sure that the Committee understood that the airport industry is really undergoing some significant changes at this point, a lot of economic issues and a lot of bankruptcies and certainly Manchester Airport is being impacted by that as well. Year-to-date through April, which we have, our final statistics in the airport is down about seven percent (7%) passenger activity. This is pretty usual for what's being experienced at most smaller/medium hub airports across the country...that's a direct reflection of what's happening in terms of the loss of seats at the airport. Airlines because of the cost of jet fuel because of bankruptcy situations are finding themselves to have to consolidate operations, consolidate routes, downsize aircraft and certainly we're being impacted at Manchester Airport as most small and medium hub airports are. I think the interesting statistic to take a look at is calendar year 2005...if you look at where we ended up in 2005 in terms of passenger growth the airport was up over 8% which is pretty significant growth and pretty unusual as you look at airports across the country. So, at 8% growth in 2005 really demonstrated that the market here in Manchester still a very strong and vibrant market and still has significant potential for growth. What's interesting though is if you look at the same time period we

ended calendar year 2005 down 20% in terms of available seats when you compare the number of seats that we had at the end of 2004. So, it's that 20% drop in seats that's now starting to manifest itself in drops in passenger traffic. I think the important thing to note is that this is still a very healthy, strong and growing market but simply because of the economic condition that the airlines find themselves in we're not being able to provide enough seats to satisfy the market demand that's obviously there that's evidenced by that 8% growth at the end of 2005. We are, though, the good news is that we are starting to see the return of some of those seats at the airport. I'm spending a majority of my time these days trying to convince the airlines to reinvest in Manchester Airport and take the limited assets that they have available across the country and put them into Manchester Airport and we are starting to realize some success with that but we're still down significantly from where we were at our high point in terms of seats. Certainly, the loss of seats at 20% directly corresponds to a drop in aircraft operation of 20%...there's a direct parallel that we've experienced at Manchester Airport as a result of that. So, we are working very hard to try to restore some of that activity. I do, though, anticipate that at Manchester Airport as with many areas across the country it's probably going to be an 18-24 month period before you start to see some of these changes in the aviation industry start to stabilize. Jet fuel is something that the airlines really need to get their arms around and control and in some cases jet fuel can be as much as 30% of an airline's operating budget so you can imagine what's happening to them with jet fuel or barrels of oil at \$70 a barrel...it's a huge issue. Manchester Airport, though, does get impacted a little bit more than your typical airport because we also have Southwest Airlines at the airport. Most Southwest Airline stations at airports are losing service from what are considered the legacy carrier...that would be the Continental, the American, the Northwest simply because those carriers are finding it very, very difficult to compete with Southwest Airlines. Southwest Airlines is the only airline that made a profit last year and simply they did so because they have fuel hedges in place and I think you all know what fuel hedges are which has given them quite an advantage over the legacy carriers in terms of fuel pricing. Southwest has chosen to not take the short-term gain that they could get by increasing fares and receiving a significant profit level because of rising fares and low operating costs they've chosen to take the long-term gain of that by hopefully seeing some consolidation in the industry by driving some of these other carries out-of-business. So, it's unique what's happening but as I said over the next 18-24 months things will stabilize. I think the key for the industry is that airfares unfortunately have to rise. This is the only industry I know that is offering a product at the same price it offered it back in the early 1980's. If you apply inflationary pressure airfares should be significantly higher than they are today to cover the costs of operation

and growth of expenses that airlines have experienced. Because of competitive reasons and some of the reasons that I just pointed to in terms of Southwest fuel hedges that's not occurring but as I said over the next 18-24 months we do project that you will start to see that stabilize.

Chairman DeVries stated Kevin that would be the passenger traffic at the airport, have you seen corresponding increases in freight activity at the airport?

Mr. Dillon replied we're certainly off the high level of freight that we once handled and that goes back to our need to close the main runway to complete the construction work. At that time, FedEx had to remove a number of the DC10 aircraft that was serving the airport and we have not seen that complete level of service restored. Although in the past few months we have seen significant increases in cargo now coming through the airport. So, we're not to the peak that we once were but we're almost back to that.

Chairman DeVries stated if I understood your numbers correctly with the 8% growth in 2005 being off 7% this year means that you're in effect staying with the 2005 level...the airport's not really growing but it's not like it's dramatic.

Mr. Dillon stated I would say you're equaling 2004 level, yes. I would say you're equaling 2004 level, yes, that's correct.

Alderman Long asked is it safe to say...in my mind I was looking to measure a year from now with the name change to see if there was any comparison in some way to gather as to where we could be or not but I'm understanding that we're looking at an 18-24 month period before we could see...is there some way do you think that we could still measure that within a year.

Mr. Dillon stated I think that's going to be a very difficult thing to measure certainly within a year's timeframe. I think you have to keep in mind when you look at just the New England marketing program that we had it took us a good seven years quite frankly to get us to the point where we were based on name recognition and other promotional issues. So, it's going to take quite some time for that name change to reach across the country. We have made a lot of good headway in terms of some of the internet sites in terms of getting that adjustment. We're hopefully going to hear within the next couple of days from Southwest Airlines how they will be changing their website to address that name change here will which be a significant benefit to the airport but I think it's going to be very difficult for us to judge that and I think this is something that I'm not too sure you could actually look at emperorical growth. While there will be growth I think you also have to factor in what is the slide you could have experienced if you didn't

change the name. There are a lot of factors that I think you would have to look at to make a judgment about that but I would...I think it's safe to say that it's going to be very, very difficult to judge that.

Alderman Long asked is there some sort of data that's kept with respect to Expedia or Travelocity or any of those hits booking flights is that somehow to compare or an airline like Southwest?

Mr. Dillon replied we do not have that information. I am sure the airlines have access to that information...probably would be very difficult for them to put together though in the aggregate. I think it's safe to say though that over 80% of all airline tickets issued today are being issued over the internet in an aggregate of all of the different sites including the airline websites so the internet is a very key tool for us to use in terms of promoting this awareness but I could check into that but I think that would be very, very difficult for them to aggregate for us.

Alderman Long asked what estimate would you give...do you believe that five years, four years, seven years that we can measure the name change or we'll really never know because it all depends on how the industry's going whether it's up or whether it's down.

Mr. Dillon stated I'd like to think that in 18 months you're going to see us resume the significant level of growth we've experienced over the past ten years...how much you're actually going to be able to ascribe to the name change becomes a difficult thing.

Alderman Shea stated Kevin you gave us an analysis of the revenues, how about your expenditures in terms of how one compliments the other.

Mr. Dillon stated again when I say there's a 7% drop in passengers that does not necessarily correspond to a 7% drop in finances. Keep in mind that a good portion of the airport is considered a residual airport so that means whatever costs we incur to operate that section of the airport we are guaranteed to cover that cost by airline payment. So, we're not experiencing a drop in revenue. Having said that though there are certainly some businesses at the airport that are directly impacted by passenger traffic, for example, parking. If you're passenger traffic is down by 7% your parking is going to be down by 7%. Again, though, we build in on an annual basis considerable reserves. How we budget on an annual basis is we typically have a capital improvement line that's in the area of \$3 to \$4 million each year that we cannot expend until we get to the end of the fiscal year and make a judgment whether or not we should keep that as retained earnings or whether or not we should go forth with capital purchases such as snow plows or

police vehicles or any number of capital improvement projects. So, following that financial philosophy that we've employed since I've been here at the airport we have amassed retained earnings on the order of about \$19 million that is unrestricted cash available to the airport...that's in addition to all of our restricted funds, our coverage accounts. Therefore, we also in addition to that maintain the ability to pay one year's debt service and that's restricted money that we hold. Now, today that's on the order of about \$20 million. So, financially the airport is in a very good position...a 7% drop in passenger traffic while certainly I don't like to see any drop in passenger traffic is not to the point of being overly concerned. I think if we saw that year-after-year there was an erosion of traffic that would be problematic. But, again, you can't draw a direct parallel to 7% drop in passenger because again the residual component.

Chairman DeVries asked how does the drop off of passenger traffic affect the build out of new routes I know that you had hoped to expand destination markets, has that been effective?

Mr. Dillon replied we're still moving forward with the international charter development. Believe it or not that is not as impacted as you would be impacted in terms of trying to get scheduled for service to particular domestic destinations. We still feel there's a great opportunity for international charter traffic...to Mexico, the Caribbean, UK service...we are continuing to move forward with that effort. As you may know about a month ago we ran two charters at the airport and for the first time passengers were cleared at Manchester Airport. While we've had international flights in the past they've all come from pre-cleared destinations. We were able to convince Customs to allow us to test this to see how well the Ammon Center would work to handle that level of activity and I think they've agreed with us that it did work. So, we now can legitimately walk at the airport for some of these international charters. So, we're continuing to move forward with that. Where the impact of a drop in passenger travel begins to hurt you in terms of air service development is, for example, if you try to establish a route to LA. Airlines need to know that there is a good number of people outbound to LA, a good number of people are inbound to LA and usually how you start to convince the airlines of that is to show continual growth within the market. So, if you're now showing some negative numbers certainly not as appealing to the airlines to get into that route structure.

Chairman DeVries asked how would this impact the existing Master Plan for the airport, capital projects...I assume that is why you were leading into the scenario?

Mr. Dillon replied what you'll be hearing when we get to the Capital Program section is that for all intents and purposes with the exception of two projects we put everything on hold. I think in the past we have talked about building a second parking garage, we do have the ability under the Master Plan to building nine additional gates. All of that is on hold because those projects are demand driven projects. While we have them planned there's been a certain amount of design done on both projects...the terminal expansion and parking garage...essentially those designs will be put on the shelf until the demand generates the need to pull them off the shelf. I think we're in a good position to react quickly. When demand starts to return to go forward with these projects but for right now I anticipate that those projects will not advance certainly over this 18-24 month period and probably significantly longer than that.

Chairman DeVries asked have you given any thought to when you might need to be reissuing a Master Plan study for the airport with this delay?

Mr. Dillon replied we just recently concluded discussions with the FAA...right now, we're targeting to conduct that Master Plan in the FAA fiscal year 2008 so roughly that is about a year-and-a-half away from now.

Chairman DeVries stated that is when it would initiate...would there be preplanning before the initiation?

Mr. Dillon replied no we will probably start all of the work in that fiscal year simply because the FAA is going to pay for it, so that is when the federal funding would be available. I would anticipate that that effort will probably take a 12-month period. It could conceivably be much longer than that depending on where we go with a 150 Study. If we start to look at noise issues in detail it may take a much longer period of time to do that. Just one other thing I wanted to report to you under the airport activity...I did want to report that transfer of the law enforcement contract from Rockingham to Londonderry is very much underway... things are going very smoothly...Londonderry will be taking over the law enforcement duties on July 1st and they're right on target.

Chairman DeVries stated maybe at the end of the presentation or unless you think it's appropriate now I'm curious on security programs at the airport and how some of the articles that we've read in the paper have affected you. But, I'm more than happy to bring that up at the end again.

II. Capital Program - -

a) Runway 6/24

Mr. Dillon stated as I said before right now the Capital Program is essentially down to two projects that we're moving forward with. Our first project is the Runway 6/24 Safety Overrun Project...that's where the airport is required to comply with an FAA requirement that says if you rehabilitate or build a new runway you need to have a thousand feet at the end of each runway for either aborted takeoffs or short landings. We've worked with the FAA over the past couple of years now to figure out a way as to how we can comply with that requirement. If you've been out to the airport recently you see there's a lot of construction work on the end of Runway 6...that is the advancement of the safety overrun on that end of the runway. Runway 6 that end of the runway is along the airport entrance road. What we're doing out there today is we're actually building a retaining wall along airport road...we'll be filling in behind that retaining wall, actually extending the surface of the runway by about 160 feet and then pushing the threshold of the runway in the opposite direction to give us about 600 feet of safety overrun...not a full thousand feet but we have gotten a waiver from the FAA because of where we're located with airport entrance roadways to go with the 600 feet. This is a little bit difficult because you have to visualize what I'm talking about. On an arrival to that runway picture an aircraft coming in and landing on Runway 6 they will have 600 feet of land short safety overrun. An aircraft going out on Runway 24 that would be leaving that runway surface in the opposite direction will have the full thousand feet of safety overrun because of where we're going to place that threshold, how we're going to mark it. We only needed the waiver in one direction and that is the least critical configuration on the safety overrun as far as the FAA is concerned. Part of that project also includes the reconstruction of the entire runway surface from the intersection of Runway 17/35 and Runway 6/24 to the south we're ripping up all of the pavement, we're taking the drainage from underneath the runway because these are very old runways...they go back to the military days where drainage was underneath the runway we're moving out to the side of the runway and rehabilitating the entire surface...that project should be completed sometime this fall. Once it's completed we should be able to open the runway...the runway has been closed down now for the past few months while we're accommodating the work so we're expecting that Runway 6/24 will be returned to service this fall. What we're continuing to work on with the FAA is the 24 side of the runway...that's the side of the runway that's along Willow Street...that's a lot more complex construction and we've gone back-and-forth with the FAA as to what is the best way to comply with safety overrun. Originally we were advancing a project that would call for the runway surface to be extended and Willow Street to be put in a tunnel underneath the runway. But, there's a rule that the FAA has when you look at safety overruns

that if you can install what's called an EMAS ten percent less than the cost of complying with a full one thousand foot safety overrun you need to go with the EMAS. As we started to progress into this project and looked at the costs of the tunnel, the on-going maintenance of the tunnel and there are significant issues with the soils out in this area. We considered the amount of soil stabilization costs we would have incurred, the EMAS option was less than the 10%. We're now proceeding with EMAS. EMAS is "Engineered Material Arresting System" in layman's terms a "foam arrester bed". There will be a bed...you can see that depicted in the picture here...placed on an extended area of runway surface in the event of an overrun the aircraft would ride up into this bed, it's made of...it's actually air infused concrete...as an aircraft rides up onto the bed the weight starts to increase on the nose wheel of the aircraft, presses down into the bed and then the bed slows the aircraft down. This is approximately a 300-foot bed, a total expansion area that we now have to do is only 600 feet. So, you can visualize where that big wall is along Willow Street...go out 600 feet...the last 300 feet of that 600 feet will contain this foam arrester bed. This is designed...we're still discussing this with the FAA because right now it's designed for 737 class aircraft and that's the predominant class aircraft that operates at Manchester Airport but everything else that we have designed at the airport to the point is for 757 class aircraft so we're trying to convince the FAA that we really should design this for 757 aircraft and again essentially what they look to do is size that bed that it can stop the aircraft within that distance at 70 knots. So, there's formulas that get applied as to why this is actually the size that it is. But, what we found when we only had to bring this out 600 feet instead of the full thousand we were able to maintain the site lines from Willow Street if we merely just bent it around the end of the runway. So, that's what we're looking to progress right now. As part of this project and one of the things that I wanted to make sure you understood we are going to have to start talking to some of the landowners off of the end of Runway 24 about acquisition of property there. Here you have the Donovan property, Brodski property, Portland Welding and Maylou property. On these pieces of property we will probably have to buy these two parcels in total...this piece of property Portland Welding we are working with them to see if we can reconfigure the site and pick up a piece of the parcel and on this parcel we'll probably have to buy the complete 5.98 acres...the majority of it is wetland and only about 1 acre of developable site so we'll probably end up having to buy the entire site. We are working through these issues right now with the property owners and starting some of those conversations now and we hope to be coming back to the Board say by the end of the year with proposals to purchase that property. All of this work if we can stay on the schedule that we've worked out right now should start next construction season...that would be the summer of

2007 and we anticipate that this work would go over two construction seasons to be completed then at the end of construction season 2008. It is fairly complex work, the FAA has agreed to fund this fully...I should say the full allotment that they can go up to which is 75% so the airport will fund the other 25%. We are looking and now just to go back to the property acquisitions for a minute...we are looking to work and arrangement to just take what we need although we know we're probably going to have to buy the entire parcel and there's been a lot of precedents established here in New Hampshire that even if you touch a piece of the parcel the offer is typically made to buy the entire parcel...we are working with the FAA to say okay if we buy the entire parcel can we sell back remaining pieces and try to get a return as part of the project. There is a wetland impact...it was certainly more severe when we were talking about a tunnel because it went further out into that wet area but there's still a wetland impact even going in this configuration...we are working with the resource agencies right now on mitigation packages, they have not determined yet what they are going to ask us to do although there appears to be a focus on the resource agencies to do some mitigation in the area of Hackett Hill...that seems to be a pretty high priority with both the DES and...I don't know if there are any questions on 6/24?

Alderman Pinard asked where is Sheffield Road on that road?

Mr. Dillon replied it doesn't show. One of the things I should also point out...this is not necessarily being done to gain usable runway surface. Say if the runways can't be used...the calculation of aircraft wait in balance so a concern that's been expressed in the past has been well will this allow larger size aircraft to operate off of that runway? Safety overruns do not give you usable runway length, however, I should point out that in certain configurations because of how we mark the runway we actually do end up with a little bit more usable runway length...that's typically on the Runway 6 arrivals and the Runway 6 departures because of where the thresholds get placed but the additional length that we get is not meaningful enough to really change fleet configuration at the airport today...usable runway length is 6,850 feet. I believe on Runway 6 arrivals that goes to 7,208 and on Runway 6 departures it goes to 7,650 feet. All configurations at the 24 still stay at the 6,850.

Chairman DeVries stated if I could ask you to maybe give that to us in plain English...when you talk configurations could you explain what you are referencing as well as when you're talking about the threshold...you're talking the edge of the tarmac where they might be landing I would assume.

Mr. Dillon stated basically what I'm saying is the fact that in one configuration, in one directional use of that runway that you pick up a couple of hundred feet is not going to mean that 747's are going to start landing there. Keep in mind that the airport...what really drives the size of aircraft using the airport is the size of the gates. We built the gates for 757 aircraft so it's not going to drive them all of a sudden 747's are going to come in here. Certainly, the market wouldn't support 747 service but certainly adding a couple of hundred feet on the runway does give you that capability to do that but wouldn't drive that I should say. You're absolutely right when you talk about threshold location...threshold is the point that an aircraft has to cross over to land on the runway. So, where you place that threshold what's behind it becomes unusable space in certain configurations. So, that's how we're actually picking up the distance that we need that has to be maintained as unusable space to meet that safety overrun.

Chairman DeVries stated with that explanation if you could tell us the actual logistical changes that the reconfiguration of thresholds will have as far as where aircraft are placing themselves through run up I think is the term to get ready to takeoff. Will there be any shifts of where noise impacts originate over today's utilization of that runway?

Mr. Dillon replied run ups aren't done on the runway...and there may be two things you may be referring to...a run up is when an engine is tested for maintenance purposes that they take it to a location on the airport across from the community...we now have a restriction on time...Alderman DeVries got us to put that restriction in...so that's not done on the runway at all so it's not impacting at all. What you may be referring to is "spooling up" of the engine and as an aircraft places itself over the threshold and it's about to start it's takeoff run you need to start getting the engines up to getting speed. In reality, on this 24 end and I'm not going to be able to give you the exact distance but this threshold does slide back from where it is today...it slides a little bit further east...it's a matter of hundreds of feet. The threshold location on the Runway 6 end actually slides so the starting point...again if the question is generated more for noise this would not find any change in the impact it's just not significant enough.

Chairman DeVries stated absolutely from my perspective it's the impacts to the surrounding neighborhoods that I hear so it would be either noise or change of elevation, dramatic change of elevation for the aircraft as they are coming in for approach or takeoff...those were the questions I found.

Mr. Dillon stated again it really wouldn't be a material change...you couldn't even measure the change quite frankly.

Alderman Shea stated a real life scenario...right now, if I'm driving on South Willow Street to get to Kotter which is located...will my life be impacted and how if that runway is placed there? Will South Willow Street still be the same as it is now so that people driving on South Willow Street will not be impacted at all by this?

Mr. Dillon replied simply what is going to happen is instead of having a straight run in this section the roadway is just going to curve. The capacity of the roadway will be maintained.

Alderman Shea stated but they will use that same area in which to travel.

Mr. Dillon stated yes.

Alderman Shea stated that will not be impacted at all by this particular configuration as far as the ramp.

Mr. Dillon stated no it won't.

Chairman DeVries asked is there going to be any kind of berming at either end of the "airplane catcher". Is there any berming at all at either end?

Mr. Dillon replied this structure that gets built is elevated. Again, in terms of berming no there can't be any obstruction to the pad itself. Off the end of the pad there's really not the opportunity to do that. Again, there's also problems from construction profile and things in terms of things above the height of runway elevations so I guess the quick answer to that is no.

Chairman DeVries stated in the Hazelton/Brown Avenue section...is that the same, that will not have any kind of berming or anything at that end

Mr. Dillon replied no.

Chairman DeVries stated when you're designing this you are taking into account the bike/pedestrian pathway.

Mr. Dillon stated we haven't specifically factored that into be constructed as part of this project but certainly it leaves the capability to do that.

Chairman DeVries stated I think it will be important knowing that with the I-93 project they are bringing a bike/pedestrian pathway up the rail corridor not too far south of the airport so it's a known that at some point they're not crossing the runway they'll be going around the end of the runway.

Mr. Dillon stated we've committed to cooperate to the extent that we can at the airport to facilitate that. Our big concern always becomes the security issues associated with pedestrian traffic or bike traffic around the perimeter of the airport but we do believe that that can certainly be worked through with the Transportation Security Administration.

Chairman DeVries stated it might be included actually in the design of this piece.

Mr. Dillon stated I'm not too sure the FAA would allow us to do that in terms of utilization of airport funds that would not necessarily though stop the City from participating with us in the design or any organization that would move forward we would certainly welcome their ability to sit with us to try to work that through the design but the airport could not pay for that design work nor could it pay for the construction of a bike pathway.

Chairman DeVries stated I would think it would be worth costing out if the City does enter into something to construct this at the same time. Certainly it's cheaper than doing it as a separate entity later on so I would be interested in seeing that costed out so that maybe we can move that forward as a project.

Alderman Long stated with respect to the walkway FAA money couldn't be used for that...could airport money be used for that?

Mr. Dillon replied no. Airport money whether it's grant money or money that we raise from operations at the airport has to be used for airport purposes. So, the FAA would not determine bikeway or pedestrian walkways.

Alderman Long stated even though this is to accommodate the airport they wouldn't factor that in.

Mr. Dillon stated it doesn't exist today. I think if there was an existing pathway today we were shifting certainly we would have the obligation then to replace it but the fact that it doesn't exist today we can't create it...this is not an airport purpose. Sometimes things like that are incorporated into different mitigation packages but the mitigation for this project is out of the hands of the airport... pretty much told what it is that we have to do for mitigation.

Alderman Shea in reference to EMAS...that fascinated me in terms of...could you just kind of go into that just a little bit more because it kind of caught my fancy here about the cement and all of this.

Mr. Dillon stated what it is is essentially a 500 foot-wide area that constitutes the safety overrun and this bed sits on it. You picture the bed ramping up to a big square block...the best way I can describe it is air infused concrete that is strong enough to support people walking on it...have to buy special snow removal equipment to actually drive on it to plow snow off of. But, it's brittle enough that as an aircraft drives up onto it it will slowly sink into it and slow that aircraft down without damaging. When I first saw this tested...now, there's been a lot of generations of the material used. When I first saw it it was almost if I recall of a styrofoam consistency...it breaks apart to slowing the aircraft down. Over the years this material has been modified quite a bit and in fact there are former arrester beds that exist at John F. Kennedy Airport that I believe are ready that prevented two overrun accidents at Kennedy Airport.

Chairman DeVries stated one final comment before we move on...the construction time for the activity taking place this summer and I think you mentioned next summer when it may stop and end.

Mr. Dillon stated this construction activity...we have been held up a little bit, we were a little bit delayed on the Runway 6 end because of some subsurface issues relating to the retaining wall, we had to go back and look at some of the design work there but we're still anticipating that the work out there will be completed in the October timeframe, so this fall all of the work on Runway 6 end should be completed and that's the complete resurfacing, the drainage, painting wall and safety overrun. On the 24 end the actual point at which we pull the trigger on the project really ties in directly to when we get the federal funding. Right now, we are trying to convince the FAA to make that funding available to us at the start of the construction season in calendar year 2007. They have indicated to us that they believe that they can issue the grant as early as January or February but we won't know, quite frankly, until we get to the end of this year, early part of 2007 as to when the original start of this project is. We believe we could have looked at this and completed all of the construction work in one construction season but that would have been pushing it a little bit and gambling that the funding from the federal government would come right on schedule so we've elected to be a little conservative and plan this out in two construction seasons. So, the reason why I say that is depending on how we ultimately stage the work it may only be a construction season and a half. But, we are very confident that we'll complete this

work over two construction seasons. Naturally, we would want to stage the work that we can put this runway back into service over the winter period between the two construction seasons because it is key for us to have two runways during the winter.

II. Capital Program - -

b) Glycol Collection System

Mr. Dillon stated as we discussed in the past this is the only other project that we are moving forward with at the airport and that's simply because we made a community commitment to try to deal with the impacts of the deicing at the airport. The impacts that we experience today are essentially two. From time-to-time the Glycol that makes it way into the brook creates a foaming condition, which is not desirable according to our DES permit and creates an odor condition. Glycol breaks down rather rapidly and during that breakdown process it emits an odor...some people describe it as a rotten egg, some people describe it as a onion odor...but, it is a significant issue for the surrounding community and one that we want to be responsive to. Last year, we put out an RFP on system that we wanted somebody to come in and design and build but we gave them basic parameters of how we thought it would work and what we were asking for was a system that would collect all of the Glycol...today what happens I don't have the picture of the airport but all of our deicing is done on the areas adjacent to the terminal, it's collected in drains and is sent to a detention pond. In fact, this detention pond over here which is located over in the area of FedEx and UPS comes into that detention pond and then it's held in there until the detention pond reaches a level where it's released on the other side, goes into the brook and ultimately makes its way down to the river. That form of handling is essentially natural treatment that occurs in this detention pond but as you can imagine if you get a lot of precipitation it's going to spill out quicker than if you don't get a lot of precipitation so there's not really even treatment is how I would describe it so that's what we're trying to address. So, what we originally wanted to move forward with was we'd still operate on the ramp as we do today...those drains would collect it but instead of sending it to the detention pond would send it to holding tanks where we would hold this collection until we could get it to a dilution rate that was acceptable to DES to put into the pond and we haven't yet to reach what that dilution rate is. Potentially it may be one percent solution of Glycol because keep in mind when you collect this Glycol on the ramp you're collecting everything from the ramp area so if it's snowing and it's raining you're also collecting a lot of storm water as well. As I'm sure you can imagine though there's a pretty big difficulty in terms of sizing the collection tanks that you

actually need because there's are a lot of variables. If you have multiple deicing events one after another you're probably never going to get that dilution rate to where you want it to be and you're going to exceed your capacity. So, one of the other things that we're factoring in or tried to factor into the project was treatment. If we couldn't release it into the brook because we didn't get it down to the dilution rate and we're starting to exceed our capacity we would need to send it to a water treatment plant. We put that out to bid, we budgeted \$2 million, the bids came in almost double that which we were prepared to still move forward with, however, at the same time the EPA announced that they are moving forward with new deicing collection guidelines. So, we were very concerned about spending more than double or double what we anticipated and not knowing exactly where the EPA was going to come out. So, we've worked an arrangement with the DES because I think the DES knows a little bit about the dilemma that we're in here to say we need to do something with the situation to make it better in the interim or we can work towards what will be the ultimate solution although I do believe our enclosed collection system will be the ultimate solution and will comply with EPA guidelines but we don't know that definitively yet. So, we've reached an understanding with the DES that we'll start to move forward with a pipeline from the detention pond directly to the river. It's money well spent because even in a containerized or enclosed collection system you would still need this pipeline to ultimately send the reduced or diluted level of Glycol somewhere. Whether or not that's to the river or whether that's to a water treatment plant. But, even though this is an interim solution we do believe that this pipeline will be utilized in the ultimate design of what we come up with. But, essentially what we're doing in the interim is we will take the Glycol from the detention pond and instead of putting it into the brook we will send it directly to the river via this pipeline. Why that's better is you avoid the foaming issues because of the turbidity in the brook and naturally when you compare water volume in the brook versus water volume in the river the dilution is far greater. So, what we're anticipating is that this pipeline will come out of the detention pond area, go around South Perimeter Road, essentially comes across all airport property until it gets into the area of The Highlander...we're working an arrangement with The Highlander to take a piece of their parking lot or go along the edge of their parking lot I should say...why we don't do it in Parking Lot F is simply because this area is much higher than this area so it makes a lot more sense to put that on The Highlander's side of that area and then the only other piece of privately-held property is there is one resident there...we've already commenced conversations with them about gaining an easement to bring this pipeline through and then the rest of the pipeline goes through property already owned by the airport. Some of this property does ultimately get transferred to the state as part of the Airport Access Road Project but we will transfer it with this pipeline easement and then brought down to the

river and we're anticipate right now although we haven't completed final design we'll probably extend into the river off the bank by about ten feet. So, again, we'll take care of certainly the turbidity issue and most of the odor issue we hope until we can go with the final design of that enclosed tank system.

Chairman DeVries stated I have one clarification I'd like to make before I open it up for questions and that would be to clarify that the Department of Environmental Services has requested this to be done in order for you to continue complying with the permit for the Glycol Collection System.

Mr. Dillon stated that's correct. The DES is fully on board with the direction that we're going in. We certainly discussed this with EPA as well, we do ultimately have to have it permitted through those agencies because of the involvement with the river but yes this is...it's certainly not the final option that they want but they do believe this is a good interim step to begin addressing some of the concerns.

Chairman DeVries stated an interim step but it would also be the ability to control the odoriferous problems in the neighborhood.

Mr. Dillon stated in the sections of the brook and the odor that emanates from the brook you still keep in mind until we go with the final project have Glycol collection in the detention pond but there will still be a certain amount of breakdown of Glycol in this area. What we're going to look at as part of this project is can we get it out of the detention pond faster. In the past, you wanted to do the opposite of that, you wanted to hold it in the detention pond longer but now that we're going directly into the river it may be to our benefit to actually get it out of the detention pond faster for odor issues. But, I don't want to mislead anybody there still will be some odor that emanates from this location on airport...the wind direction...they could still experience that.

Alderman Shea stated the city has spent millions of dollars to clean up the Merrimack and the Combined Sewer Overflow...my question is...with the disposal of the product that you mentioned into the river does that impact, in any way, the quality of the water in the river so that it has an adverse effect upon our situation here?

Mr. Dillon replied no and I would also go as far as to say that I believe that it doesn't have an adverse impact on the water quality in the brook. The issues that we're dealing with are two issues: turbidity, the foaming and odor. If you look at Glycol...Glycol is a product that in many food products. If you go home and you look at your mouthwash tonight you're going to see Glycol. So, again, it's not causing water quality issues, it's causing some of these related issues...foaming,

etc. I should say that the EPA on a national level is trying to come up with regulations regarding discharge of this product into bodies of water. But, again, I am not aware of any information that says Glycol in and of itself has a harmful effect.

Alderman Shea stated my point is that I'm just drawing the two comparisons between putting it into the filtering system and then into the river or directly having it go from the retaining area into the river and they don't have any qualifications at all in terms of the amount of time you're given or the fact that the piping that you're installing as it were would be if not a permanent at least a somewhat temporary kind of situation that would carry through for a few years at least.

Mr. Dillon stated there are no guidelines that exist regarding those quantities rather there are milestones that airport's reach where they're now required to start monitoring what's happening and testing versus saying you've reached 500,000 gallons you can't discharge anymore.

Chairman DeVries stated Kevin if I could ask because it's the dilution level of the product that causes concern if I understand some of the past reports in that the quantity that was hitting the smaller brook was creating issues because it was overpowering the amount of water creating a higher dilution...if I understood what DES might be saying when it hits the river with a much larger mass of water there the dilution will be acceptable and not causing the biological issues in the brook that were causing concerns.

Mr. Dillon stated I disagree to a certain extent. I do not believe dilution is an issue to begin with in terms of water quality. Again, there are two issues that we're trying to deal with...odor and foaming. Again, you're correct though that certainly by putting it into the river if there was someone of a different opinion than me you're getting a far greater dilution going into the river than you are into the brook but I truly believe any biological issues in the brook are not caused by Glycol. There is an issue in a lot of the water bodies in this area for naturally occurring iron and I do believe any biological issue is potentially related to the natural iron in the water in some of these stream beds which is Glycol but that's an issue that I guess could be debated. But, certainly, you're absolutely right putting it directly into the river you get a much higher dilution than you would in a stream.

Alderman Pinard asked what's the timetable on this seeing that this has been dragging for a few years now and here comes another ice season...when will this start, when will it be completed?

Mr. Dillon relied we're completing the design, we will probably move forward within the next couple of weeks to try to get the project permitted. While we do the permitting at the airport on projects on the Londonderry side we still do give Londonderry the right to comment on the project so we will have to go to Londonderry as well because a significant portion of this pipeline is on the Londonderry side of the airport but I am anticipating that we will have this completed for this deicing season coming up...that is what we're shooting for. But, naturally it's all going to depend on when we get the final okay to move forward with the project from a permitting standpoint. But, certainly, if it wasn't done this season it definitely will be done next season. I feel pretty confident we can get this in place.

Alderman Long asked am I understanding right that the breakdown of the Glycol is what causes the odor?

Mr. Dillon replied that is correct.

Alderman Long stated the majority of the breakdown is in the retention pond.

Mr. Dillon stated yeah...again, a lot of it depends on how quickly some of this stuff is spilling out but today a majority of that breakdown doesn't interfere.

Alderman Long stated with respect to the Brown Avenue area is the odor that they're getting on Brown Avenue is that coming from the retention pond?

Mr. Dillon replied I think it's a combination of both...I think it's the brook as well as the pond.

Alderman Long stated so we should see some decrease in odor departing the brook and going directly to the river.

Mr. Dillon stated yes...how much...I'm going to say right now it will not be completely eliminated until you get this Glycol into enclosed tanks. But, there certainly should be a decrease.

Alderman Long stated the plan you had prior to hearing that there may be some guidelines to these it was all going to be enclosed so there would be no odor.

Mr. Dillon stated that's correct. We were going to size tanks based upon our history with deicing to be able to hold it to get it to a certain percentage dilution rate so that would have eliminated both problems...the foaming certainly because you would have ultimately put that even if it went from a tank into this pipeline or it would take care of the odor issue because it would all be enclosed.

Alderman Long stated very good...so, just a recap. We could expect this winter that the odor will be down some, not completely probably not even significantly but be down some and also you're still looking for the enclosure but you're just waiting to see what guidelines they may set and when would you anticipate them deciding that?

Mr. Dillon replied I would hope that we get this on-line for this deicing season and that we're moving forward with the permanent solution for the following deicing season. While EPA has said, I believe, it's not until the end of 2007 I could be a little bit off I do believe if they stick to their timeframe by mid 2006 we should have a good idea, have a level of comfort in terms of moving forward.

Alderman Long stated the completion date with the enclosure if it all works in that scenario that you just ran by us would be when?

Mr. Dillon replied I believe that would probably take one construction period. So, if this is on line for deicing season 2006 into 2007 we're hopefully talking about having something on line for 2007-2008 deicing season.

Alderman Long stated all of this work is consistent with when you go to do the enclosed collection.

Mr. Dillon stated that's correct.

Chairman DeVries stated I would like to ask a question about the actual path of the pipe that you're putting in...the impacts that it may have through private property through there...I'll leave Highlander Inn out of there because I'm assuming they're a large enough entity that they have negotiated on their behalf with you but more down in the Olmstead, the areas where the brook is going... what disturbance can we anticipate there?

Mr. Dillon replied certainly there is going to be a temporary construction disturbance because this pipeline will be put underground so during the period certainly there will be construction work throughout this area (Old Brown

Avenue) but in terms of private property there is only one residence the pipeline would go through and will have to negotiate an easement for the area that we're going to go through. The rest of the area we own essentially the right-of-way.

Chairman DeVries stated when I talk about impacts the visual disturbance or the long-term disturbance of the land is it going to be very torn up and left or is it going to be reclaimed and put back, is it disturbing the natural brook...those are the kinds of questions that I don't think we've answered for the people who are listening at home.

Mr. Dillon stated we haven't finally completed all of the engineering but certainly we'll return this to at least the condition that exists today if not better.

Chairman DeVries stated it's not going to mar the existing brook.

Mr. Dillon stated no.

Chairman DeVries stated at the outfall what will be anticipated there is that at grade, below grade.

Mr. Dillon stated again we haven't done the final engineering but what I'm anticipating is that we'll be below grade, it will come out underneath the water line in low water and as I said right now we're envisioning that this would probably extend out to about 10 feet from the shoreline.

Chairman DeVries stated I was trying to give as complete a picture as we can for the people that are trying to listen that maybe can't hear or went on your plan.

III. Airport Zoning

Chairman DeVries stated all the questions that I have on that subject I would ask that item 3 that we receive and file that item for tonight. I know that Alderman Garrity wanted to participate so rather than take it up when he is not able to be here he's attending a family graduation this evening and we'll bring it back.

On motion of Alderman Shea, duly seconded by Alderman Pinard, it was voted to receive and file discussion relating to item III Airport Zoning.

OTHER BUSINESS

Chairman DeVries stated I know we have a couple of other items we'd like to bring up...courtesy for the person waiting patiently. For new business we did hear from an organization called United Here and I would ask that he come and speak to us this evening and make a presentation about some revenue projections for the airport.

Alderman Long moved for discussion, Alderman Pinard duly seconded the motion.

Chairman DeVries asked if Mr. Blake Harwell would explain the material he forwarded and then we could ask the Airport Director.

Mr. Blake Harwell of Unite Here stated thank you Alderman DeVries and Committee. I appreciate the opportunity to spend some time with you in the north country. As I may have driven up today from New York I actually hail from Minnesota so I spend plenty of time in the boundary waters canoe area and really appreciate the opportunity. It wasn't a hard choice to consider driving up here for spending a night with you. The reason I'm here which is probably on your minds is to why a union guy from New York would come in here. It's really simple. It's about revenues from the airport concessions program in particular for Hudson News who provides the news and gifts and specialty retail services at Manchester-Boston Regional Airport. So, by now I hope everybody's had a chance to review information that was sent a couple of days ago. Really this is about improving sales and raising the rent on an outdated contract with Hudson News that we have here at Manchester. A little bit about me...I've worked since 1998 on airports for the union. We provide or I provide support in research companies that workers are attempting to organize, I also research airports throughout the country to just follow the trends in airport concessions, amusing gifts and food and beverage... basically just to continue to have relevance and knowledge that our members then can use as they work in this industry and also attempt to organize new unions in this industry. Since 1993, when the existing news and gifts contract was last put out for competitive bid there has been a lot of changes in airports. I've worked on RFP's in cities like Seattle and Minneapolis and we're currently working on RFP's in Los Angeles, San Jose and Oakland and in every case airports are looking to maximize revenues and they're not just maximizing airline revenues anymore they're actually maximizing non-airline revenues and the reason they're doing that is because they see it as a captive audience and they want to capture all of the money that can be captured for those folks going through an airport and it helps to mitigate the cost for airlines and airlines are in support of the whole development of concessions organizing. What we used to see was 30-year leases for one or two

operators of food and beverage and retail operations in airports...they were very dominant players/operators in the industry and what has happened in the late 90's is that those went away and airport's starting seeking competitive bids so the contract terms were reduced between 5 and 10 years and now we have a vibrant marketplace where many operators compete vigorously in all of these entities I've mentioned and there's no doubt that they would be willing to compete vigorously for an opportunity in Manchester. Basically, I heard the presentation of Director Dillon and I appreciate 7% loss in passenger loads that's not too uncommon, it's been a really volatile five years or six years in the decade we're in in the moment. But, this is all the more reason to maximize the revenues you're getting out of your concessions program and non-airline revenues. As I understand that Manchester actually relies on something over 50% on operating costs are covered by the non-airline revenues. Well, that means that things like retail and food and beverage and parking and rental cars are all supporting the operating expenses that is really keeping the airport running and airlines are concerned about that because the lower the cost to land at an airport the more routes they're willing to run to an airport and the lower the fares they can charge. It's a very simple economic equation and can really benefit the residents of Manchester as far as I can tell. If revenues could be driven up and there could be more capture that were coming through news and gifts at Manchester we could see airlines like Southwest Airlines coming in and being able to negotiate a different rate and the airport might be more willing to negotiate a different rate with airlines which would then reduce the cost to them and they would bring in more lower fare routes to the area. The Hudson News...and I just want to point out a couple of things that are in the report that I sent to you...the line that I start with is "the sales per enplaned passenger"...this is the amount of hours that are getting captured per passenger and if you looked at I think this is page 2 of the report you see a table that identifies Hudson News in 2004 was at \$1.80 per passenger and when I did a survey of comparable airports with between 1.5 million and I think it went up to 3 million passengers...similar sized airports...and also having comparable data from the *Airport Revenue News* which is an industry standard that we all go by when we measure these kinds of performance indicators. We see that the actual median for these types of smaller hub regional airports is \$1.92...now ten cents or twelve cents doesn't seem like it would be all that much but if you consider measured against the two million passengers that come through Manchester it comes up to be a little bit more money and more interesting. When you add that to the issue of the rent and you see that Manchester comes in at 10% rent and 10% of gross revenues at Manchester go to rent to the airport...so, this is really the capture that goes to the airport for operating expenses. And, what we see more recently and this is really an outgrowth of the competitive process that has occurred in airports since the late 90's and frankly since Hudson News took over its contract here at Manchester we see the rents have all risen between 15 and 20 percent. So, rents

are now being charged and Hudson actually pays in some airports as you see in the report 15 to 20 percent of gross revenues. So, again, we're seeing in Manchester there's room for improvement, that there's extra rent to be gained and captured and then that two million passengers with an extra ten cents if we just get up to the median on sales now again we're starting to look at some big money. And, we add in another issue that's very specific to magazines...magazine distributors and magazine publishers actually will pay a premium to have magazines placed prominently on the racks at a retail location. At Manchester and actually in the 90's it would have been very common to not capture this revenue in your rent so in the definition of gross receipts at Manchester it does not capture it actually excludes this type of revenue from its calculation of rent and that would have been very common in the 90's but in 2006 I can find only two airports that Hudson operates in where it's excluded and I've looked at 34 airports where Hudson operates and I've looked at 51 or 52, I can't remember now, contracts...there are multiple contracts at a lot of the bigger airports. And, again, only two airports are excluding it and Manchester's being one of them. If you go to Shreveport they actually calculate their rent based on the revenue Hudson receives from publishers to place the magazines. So, again, it's another source of revenue and this one is a lot more nebulous, it's a lot more nuanced, it is money there and the industry is very tight lipped, of course, of what amount of money that is for obvious reasons but anyway it's more revenues again which should be captured and so it's really about capturing that revenue and charging more rent so that it actually flows to their port for operating expenses and keeping the operating costs and the landing fees for airlines in a controlled manner. So, again, I thank you for your time and I'd be happy to answer questions if anybody has any.

Alderman Shea stated thank you for your presentation. My calculations is that if there is a ten cent differentiation it would amount to about \$30,000/year. Is that what your calculation would be?

Mr. Harwell replied Alderman Shea if I understand you correctly. If we took two million passengers at ten cents per that would be about \$20,000 but I guess the 2005 passenger numbers I don't have so I guess that could be higher.

Chairman DeVries stated I would ask if maybe we could hear a response from the Airport Director and then it might initiate some additional questions that we would have. It might help focus our discussion. If I could ask a question because I think there may have been a little bit of a misunderstanding with the Procurement Code for the City and I think first off a clarification on the airport status within the Procurement Code...doesn't meant that we're not interested in looking at revenues

with you because we know even if that's \$20,000 a year that's half of soundproofing on a home and as we start to look at the airport to me every \$20,000, \$40,000 will be one additional home that can be soundproofed in an impacted neighborhood. Thank you.

Mr. Dillon stated again I certainly appreciate Mr. Harwell's concerns for the Manchester Airport and I really thank him for taking the trip all the way up here from New York. Let me start with the Procurement Code...revenue arrangements are not subject to the Procurement Code. The Procurement Code is designed for when the City goes out and procures services or expense fund to procure services and products. So, all of the development at the airport are not subject to the Procurement Code beyond just the basic legalities on how the Procurement Code is worded and what it was really intended to do I think you have to step back and think a minute about revenue deal and capital investment that you could never be able to amortize the capital investments that are required at the airport for a variety of development deals within timeframes that are played out in the Procurement Code. But, very specifically the Procurement Code is not designed for revenue generating businesses. It is designed for the procurement or expenditure of city funds to procure products and services.

Chairman DeVries stated could I just ask for a clarification since we do have the City Solicitor with us, his interpretation since the airport is an Enterprise...they are not part of the RFP requirement under our Procurement Code.

Deputy City Solicitor Arnold stated I don't think that's what Kevin said. The airport certainly is subject to the Procurement Code, however, the agreement with Hudson News since we're not expending city or public dollars it is not subject to the Procurement Code merely because we're receiving funds, we're not spending them.

Chairman DeVries stated thank you for the clarification.

Mr. Dillon stated if I could continue on with a couple of points that I would like to address that Mr. Harwell brought up...he's absolutely right in terms of airport trying to reduce the amount of non-airline revenue for a variety of reasons...for that and in that it's desired by the FAA to see that because of the grant process but certainly want to make it lucrative for the airlines to operate here because that's what's going to generate traffic. I'm very pleased to say or unfortunately to say that his statistics about Manchester Airport are wrong that 25% of our revenues at the airport are generated by the airlines...75% of the revenue at the airport is generated by non-airline businesses...that puts us in the top tier of airports across the country in terms of that percentage. We've been very effective in terms of

setting up a financial pro forma. In fact one of the measurements when you look at something like that it's called cost for enplaned passengers and typically in this business the cost per enplaned passenger will range anywhere from \$6.00 on the low side to \$8.00 or \$9.00 on the high side...there are some airports that are actually up in the teens if they have large capital construction projects. At Manchester Airport we're below \$5.00 in terms of cost per enplaned passenger... that's a direct result of what we've been able to do with non-airline revenues in terms of generating airport...I think the stat of \$1.80 from newsstand operations isn't a fairly accurate stat that he's relayed. I think if you look at average across the country for medium hub airports we're right on target in terms of that average. I think probably the number that he's referencing or selected the airports that he picked that reveal a higher number than \$1.80 but we utilize Lee Fisher who's a national Financial Consultant that has access to data to many airports across the country to benchmark ourselves against. Lee Fisher data shows that at \$1.80 we are right on target for where a medium hub airport should be in terms of news and gift and quite frankly that's a remarkable number when you consider the facilities that are available at the airport for news and gifts. One of the things that Mr. Harwell that did not point out is that traffic generation or sales at news and gifts are a direct reflection of the product offering that you can have at those locations. Product offering becomes a function of the sizing of the facility. Unfortunately, because of the layout of the terminal building at Manchester Airport we require Hudson News to operate five locations which is highly unusual to an airport this size but we do that for customer service reasons but unfortunately the location because of the availability of space that serves over 50% of the passengers at the airport and the majority of these purchases are made on the secure side of the airport because people want to get through security and that's when they have the time to spend and go into shops is handled by Hudson Newsstand that is essentially the size of a closet. So, unfortunately, the only offering that they can have is some limited offerings. Again, if we had the space and we had the allocation to space in that location where Southwest Airlines is located you would drive this number considerably higher, however, to be at \$1.80 which is the average for medium hub airports is remarkable considering the facilities that we have been able to provide to Hudson News. I just want to go back a little bit and talk about some of the issue that he raised about the oldness of this agreement is I could I know that time is becoming an issue but I will try to make this quick. Hudson News is at the airport as a result of a default, a bankruptcy of our original newsstand operator...Auburn News...they went bankrupt about 1998, the financing company that financed Auburn News actually tried to take over the newsstand and operate it. Quite frankly, it was Hudson News that actually came in and saved the airport and was presented to us by that financing company that financed Auburn News...that was very important for us because keep in mind back in 1998 is when Southwest Airlines was starting at the airport and we

certainly needed to have proper concession facilities. At that time, the airport reached...again, I was not here at the airport at the time but the airport reached an agreement with Hudson News that was certainly a very satisfactory agreement. It's an agreement that I reviewed once I arrived here at the airport in 1999, the year after that deal was cut which back then 10% of gross revenue...very standard number...today 10% continues to be a very standard number and I'll tell you why...but, what Mr. Harwell did not also point out is that there is another component to development or newsstand operations or any concession at the airport and that's the capital investment that they need to make. At that time when Hudson News came in not only did they agree to give a 10% return to the airport but they also agreed to make a \$400,000 capital investment in the airport. If you look at history that agreement that was reached and negotiated in 1998 so it reflected standards of 1998, not 1993 as Mr. Harwell said. It was put in place to run until December of 2006. As you know, the airport certainly began planning for a new terminal expansion in 2002. At that time we certainly came to realize that we were going to need additional concession facilities in the expanded area of the airport. Prior to that Hudson News was operating three locations at the airport. So, we reached an agreement with Hudson News back in 2002 that in 2003 they would build new facilities in the new terminal area and as a result of reaching that agreement we elected to extend their agreement out to 2011. Part of our reason or rationale for doing that was considering that the terminal area we were building was going to be underutilized for a number of years until we could build services. It would be very difficult for us to get another operator into the building and operate a newsstand when they are going to be exposed to less than 17% of the traffic at the airport in that location. In fact we're actually realizing a little bit less than 17% at this point. It's also common practice in this business that until you get a core of business that you don't bring in multiple operators in single business line. The simple reason for doing that is you don't want to bring in two operators, dilute the business and end up with two sick operations. So, knowing that we needed those facilities in 2003 when that terminal expansion was done an agreement has been reached to extend that agreement with Hudson News up to 2011 and that was actually done in 2002 contrary to what Mr. Harwell reported. I think overall the one thing that he misses in terms of his presentation is certainly the capital investment portion. While Hudson News has been required, by agreement, to invest \$750,000 they have actually invested in the facility close to \$1.5 million. So, when you start to look at this agreement that was cut back in 2002 was 10% appropriate to maintain a 10% revenue yes it absolutely was considering the extent of the capital investment we were asking them to make, the number of locations that we were asking them to operate and the traffic exposure patterns that they still today experience at the airport. I think the other thing that Mr. Harwell does not point out is that when you talk about a concession program you have to talk about the program in total and when people come to the airport

there" such a thing as discretionary buying and impulse buying. Most people come to the airport whether consciously or subconsciously and limit the dollar amount that they are going to spend at the airport. You also have to take a look at the overall construction program because there will be some people that will elect to use their discretionary spending on meals versus buying gum or potato chips or whatever you would sell at a newsstand and that's where he doesn't point out the statistic to you about Manchester Airport that if you look at the industry average again according to Lee Fisher at medium hub airports it's about \$4.15 total expenditure in concessions by passengers. At Manchester Airport we're over \$5.00. Again, that's a reflection of where Hudson News is located versus food concessions being located and the access that they have to passengers at the airport. So, I think when you consider all of the issues particularly the capital investment issue and there is a rule of thumb with capital investment as well that essentially says for very square foot someone should be making an investment of \$225 into the infrastructure of the airport. Certainly, Hudson News has exceeded that. In return for that \$225 per square foot investment typically a concessionaire would be entitled to a 10-year period in both cases because you have to look at this as almost two separate agreements...we've given them less than 10 years to amortize that investment. The thing that you should keep in mind when he talks about percentages he says the average is 15-20%...that is incorrect. On newsprint items typically it ranges 11% and on food type items it ranges about 14% for a blended rate of about 13% when you look at the makeup of sales typically at news and gifts. So, theoretically a new deal today you could get a 13% return but you need to factor in the capital investment that's going to be required. Now that the capital investment has been made at Manchester Airport Hudson News spent the money to put in the electrical component, the heating and ventilation that was necessary to create these spaces...when this agreement expires and once they fully amortize the investment that they have made yes we can then go out and try to obtain a 13% or a 14% return. The fact that he cited three airports with a higher than 15% return I could tell you is not an industry standard.

Chairman DeVries stated if I could interrupt you because unfortunately we're about to go off camera here because we're beyond the time that we were allocated for tonight and I think there's some graduations waiting to be televised. I heard a key piece that the contract is not up for renewal in December of 2006 but instead it goes out to 2011. So, it's almost a null and void discussion if I'm understanding for tonight. If I could ask maybe Mr. Harwell to correspond back with us or continue a conversation with us so that we can understand this and if we can continue the conversation I'd be grateful because our cameraman needs to pull the plug on it if I can. I think we can put everything else off that was necessary and

maybe ask Kevin if you could update at the next meeting our Soundproofing Program for us and maybe also add to that the security piece on just how that is interfacing with the FAA and the other programs. Is that okay with Alderman Long I know that you...

Alderman Long stated actually if we could...Blake, is there anything you need to say knowing now that the contract is extending to 2011 since 2002 that was executed.

Mr. Dillon stated that agreement was executed in 2004.

Alderman Long asked is that public information?

Mr. Dillon replied it is certainly public information. If you look at the agreement that exists with Hudson News the basic agreement is the document in place, this is merely an amendment to it, it's been documented via a letter between Hudson News and the airport. There isn't a formal amendment...at some point we may formally amend the document but, quite frankly, they've met the terms and conditions of what was agreed to in the letter but we can certainly make the letter available to Mr. Harwell if he needs to see it.

Alderman Lon stated so you have a verbal agreement to extend to 2011.

Mr. Dillon stated we have a verbal agreement confirmed by a letter that's correct.

There being no further business to come before the Committee, on motion of Alderman Shea, duly seconded by Alderman Pinard, it was voted to adjourn.

A True Record. Attest.

s/Leo R. Bernier
Clerk of Committee