

City of Keene
New Hampshire

AIRPORT DEVELOPMENT AND MARKETING COMMITTEE
MEETING MINUTES

Tuesday, June 23, 2020

9:00 AM

Remote Meeting via Zoom

Members Present:

Richard (Rick) Blood
Brian Johnson
Curt Hansen, Chair
Joseph (Joe) Bendzinski
Elizabeth (Beth) Bendel, Vice Chair
William (Bill) Hutwelker
Nathan Jacobs

Staff Present:

Rebecca Landry, IT Director
David Hickling, Airport Director
Elizabeth Dragon, City Manager

Members Not Present:

Cory Watkins
Councilor Mitchell Greenwald

Mayor George Hansel

1) Call to Order

Chair Hansen called the meeting to order at 9:00 AM.

2) Adopt Meeting Minutes – June 2, 2020

Mayor Hansel made a motion to approve the meeting minutes of June 2, 2020. Mr. Jacobs seconded the motion, which passed by unanimous vote.

3) Presentation on Preliminary Air Service Catchment Area Study – Nicholas Haan, Crawford, Murphy, & Tilly Consultants

Mr. Hickling stated that Nicholas Haan from CMT Consultants is here to give an update on the catchment area study. He asked him to speak.

Mr. Haan introduced himself and briefly shared about his background. He stated that the company he works with, CMT, utilizes a unique and new catchment data source provided by Airline Data, Inc., which uses a combination of three data sources (Google location data, Department of Transportation airline travel data, and US Census data) to quantify the amount of

passenger demand to or from a location. What's great is that it includes all carriers and is focused on inbound travelers – other competitors only focus on outbound. The data shows the airports utilized, the residential zip codes of people who are flying, their final destination zip codes, origin and destination airports, which airline people used, what fare they paid, and the seasons of travel.

Mr. Haan continued that the first step is to identify the catchment area. That is, if the Dillant-Hopkins Airport had service, where would its passengers be most likely to come from? They look at service offerings of other airports in the surrounding area. He showed a map and stated that the Dillant-Hopkins' catchment area does not go too far east, because Manchester is right there, but it can go further northwest because there is not much competition. There are about 225,000 people in the area CMT thinks the Airport could draw from. Every year, 1.3 million passengers travel to or from the catchment area. There are 1,724 passengers per day, per way (PPDPW), on average. That is the equivalent of 35 flights on 50-seat regional jets per day, or 11 flights on a mainline jet. In reality they could not capture that many passengers per day, because they would be competing with others.

Mr. Haan stated that what was interesting/surprising was that almost 70% of total demand are inbound visitors to the area. The vast majority are headed to two zip codes: South Londonderry and Ludlow, VT, which are resort areas. That means all these people are driving right past the Dillant-Hopkins Airport to get to their destinations. There is opportunity to capture those folks. He showed a graph of when these visitors visit, and stated that the majority are in the peak summer; it is not mostly a ski market. Also interesting: average one-way fare is consistent throughout the year for visitors, which shows a consistent demand throughout the year, even with some seasonal change. Otherwise you would see a sharp reduction in fare in the first quarter. They are not seeing that, which shows that people are willing to pay a premium. Outbound demand is much more consistent in terms of seasonality. Fares have more deviation but the consistency of outbound demand means there is a consistent level of outbound passengers to potentially be captured. They would not be able to capture all 1,700 people per day, but they should have a good shot with residents of the area. 500 or more is still a substantial amount of people in play.

Mr. Haan continued that in terms of where the Keene area's passengers are going to and coming from, Washington, DC is the #1 market, with 102 passengers per day flying to or from DC. He showed a list of the other locations (e.g. Tampa, Dallas/Fort Worth, San Francisco Bay Area, Chicago) and stated that what is encouraging, as one looks through the list, is seeing that there is a high correlation between Keene's top markets and airline hubs. That is a very good sign because carriers are more likely to serve markets that have a decent local demand and your passengers get the connectivity of the hub and you are able to give them a lot of destinations they want to go to. The top markets for residents/outbound passengers are a little different than the top markets for inbound visitors. For example, the top markets for outbound passengers include Florida, with Orlando, Miami, Fort Meyers, and Tampa all in the top ten, whereas inbound visitors are focused more in major metro areas – Chicago and Atlanta move up the list.

Mr. Haan continued that regarding which airports passengers in the catchment area are using, it is no surprise that 700 per day use Boston. What surprised him was Hartford, CT is #2 and the New York area is so high up on the list. He had expected Manchester and Albany to be right after Boston, but a fair amount of people are driving a really long way to use New York airports. That is an opportunity. Many of those people drive right by the Dillant-Hopkins Airport. Inbound visitors are likely to drive much further to an airport than residents are. 790 out of 1,190 are driving more than 100 miles from an airport to get to their final destination. Inbound visitors are using New York at a significantly higher rate than residents. Residents, more familiar with the area and what is available, are more likely to use Manchester's airport. Inbound passengers not as familiar with the region use Boston and New York's airports. Those numbers are surprisingly large – it is a big hassle to fly to JFK in New York, rent a car, and drive to Vermont. Thus, there is an opportunity for the Dillant-Hopkins Airport to position itself to capture some of these passengers.

Mr. Haan continued that other positive news is that the area's inbound visitors pay a substantially higher price for air service than the residents do; there is a \$50 difference (one way). There is a higher end visitor clientele that is coming to the airport. Because so many inbound visitors are driving or using other transportation to get where they are going they are spending money on rail cars, tolls, fuel, potentially hotels, and so on and so forth, so there is an opportunity for the Airport to offer service into the region that is more convenient and potentially offers lower fares, which might be compelling to folks going through such an ordeal to get where they are going.

He continued that no carrier has a dominant share of the catchment, which is good news. When a carrier dominates, people are heavily invested in the frequent flyer program and their behavior is unlikely to change with a different service offering. You can talk to these carriers and show them they can have a bigger share of the pie if they use this airport. He gave examples of wording. He showed a chart showing carrier usage by airport – for example, JetBlue is the #1 carrier utilized when people fly to Boston, but American Airlines is #1 for the Hartford airport. He continued that the bar chart shows that the carrier largest utilized at airport is pretty well correlated to what is the biggest carrier at each airport. He was surprised by A) how much better Delta and American do at Hartford than JetBlue, and B) how far behind Delta was in Boston versus JetBlue, because those two have been aggressively competing for the Boston market share. He continued that regarding fares, what jumped out is the high fares people pay at JFK and Newark airports. People are going to Manchester and Hartford probably to get better fares.

Mr. Haan stated that the key question is: can they support scheduled airline service? His answer is yes. There is definitely enough demand. The challenging thing is now the timing. The pandemic has really impacted airline demand across the country. It has been as low as -95% year over year in terms of TSA checkpoint throughput. They are now back up to -75%. Things are slowly recovering. But it will be a few years before things get back to where they were in 2019.

The overview of how this typically works is: if the Airport decides to recruit scheduled air service, you have all these airports competing for a limited amount of airplanes and seats. The airlines look at this as an investment and they would be taking a risk by starting a service at an airport. Typically the communities have to give a financial incentive to encourage them to take a risk or completely eliminate their risk, depending on how the city wants to approach it. Phase I is the presentation they just went through, and Phase II is finding the right carriers and markets and estimating what the revenue will be on all those flights and what the costs might be, and what the gap is that will remain. That would help the City determine whether they could cover or mitigate that gap, which would make the City more competitive in air service efforts with the other communities. In a post-pandemic environment incentives/financial support like that would be even more important. Airlines are so risk adverse right now that it would take something like that to convince them to start a new market.

Mr. Haan stated that that is the end of the presentation, but he would be glad to take questions.

Mr. Hickling asked if there is a way to take into consideration markets they might have that are not currently flying – for example, people who are driving to Boston. Is there a way to find that out? Mr. Haan replied that there is a way, but the company is not as experienced with that because the data is substantially more expensive but they can purchase cell phone tracking data and measure how many people are going to Boston. What they could do in lieu of that (because that data is about a \$30,000 investment) is study other potential short haul markets that CMT thinks are good sponsors/proxies for what that would do and size the local market that way and do a connecting analysis. The thing about Boston service would be all of the destinations beyond Boston that they would get. CMT could forecast what Keene could capture with the flight service to Boston. The local market would be harder and they would have to use a proxy, but yes, they could do that.

Mr. Hickling asked if there is a way to identify the percentage of business travelers versus leisure travelers. Mr. Haan replied that that is the Holy Grail and he has spent his entire career trying, but there is not a great way to do it. He continued that indicators are the timing of when people buy their tickets and what day of the week they travel, but they only have quarterly level data, which is really challenging. If you do surveys, people do not all define “business” and “leisure” the same way so you get different answers. It is really hard to discern.

Mr. Hickling stated that the market that will support service at a smaller airport is more likely the business traveler. So to define the passenger demand in general is good, but they have to try and identify the amount of business travelers they have to support service. Mr. Haan replied that CMT could interview businesses in the Keene area and see what their perceptions and needs are. He continued that going back to the list of the top destinations, Washington, DC is probably a mixture of business and leisure travelers, but he would guess that Chicago is mostly business. Orlando has a lot of conventions, as well as vacationers, so that is tough. You can make some assumptions and predictions but that is challenging.

Mr. Bendzinski stated that this study/presentation thoroughly covered passenger service. He asked if anyone has looked into freight, such as Amazon Prime, Fed-Ex, UPS. Mr. Haan replied that was outside of the scope of this study. Mr. Hickling stated that he is not sure if that has been looked at in the past; it is another project all together. It is something they can take a look at.

The City Manager asked: Given the COVID-19 pandemic and the likelihood that it will take several years for the industry to recover, does doing Phase II make sense for the City? How much will that shift? Do they need to let some time to go by before they jump to the next step?

Mr. Haan replied that he cannot answer that for them. He continued that those are fair questions. But he knows the airport has some work to do to get ready for scheduled service. He has a different client close to getting scheduled service and they thought the [closures due to the] pandemic were a good thing for them because it gives them more time to get ready and be well positioned for when the time is right. This is a conversation for the City to have, and probably not with him present. They have to weigh the pros and cons. CMT would be willing to do the work now, or later. One potential option, if they are wondering “Is it worth all the efforts?”, is that CMT could do an economic impact study which would indicate what kind of return the City would get on its investment, if they decided to move forward. CMT is willing to help in any way they can but he is not going to weigh in on these questions. He sees pros and cons to waiting and pros and cons to proceeding.

The City Manager stated that if they were to do the economic impact study, that would give them the information for when they are ready to move to Phase II, about covering the gap, so would CMT do that for the next step? Mr. Haan replied that the economic impact study would tell them how many jobs the scheduled service would create, what the tax revenue would be; it would give the return on investment information. There are two ways to do it – if they did Phase II, CMT could measure what the economic impact would be of the best opportunity they can find, of if the City did not want to do Phase II and just wanted the economic impact study to see if it is worth it, CMT could do an agreed upon generic route and estimate what that would be. He continued that for example, CMT has another client that was looking to put together a \$1 million incentive for a specific carrier, and they were nervous because that is a lot of money. But CMT did the economic impact study and saw they would get a 13 time return on their investment. So that made conversations with politicians and citizens much easier, and that is where the power is. If you ask your average citizen if they want their tax money used to subsidize an airline, you would get a mixed reaction, but when you show what that can provide in return, it is a different conversation.

The City Manager stated that regarding the use of cell phone data, there is another service the City has been looking at for economic development purposes that uses cell phone data. She asked if it would be possible to use that data with CMT, so CMT could plug it into the model. Mr. Haan replied yes. The City Manager replied they do not have the data yet but they are considering it.

The Mayor asked what infrastructure needs are typical. He asked, would it mean just reconfiguring the terminal again to allow for that scheduled service, or does it require the City to hire people to run this? What would be typical for an airport this size?

Mr. Hickling replied that it would depend on the service they get. He continued that as Mr. Haan was talking about, there is a leisure market that could probably support something like a 50-seat regional jet. The numbers are there but that is a tough market to capture. Another market would be the business traveler, where they could look at something like Cape Air with a smaller aircraft; it would be easy to meet their needs. What the City would have to do to support one is different from what they would have to do to support the other. Something like Cape Air for the business traveler would be fairly easy. They would have to find a way to integrate TSA to do security screening. They would probably look at contracting the ground overwing and underwing ground handling, and that would be something that Monadnock Aviation could even bid on. The City would not have to hire anyone. It would be done by the airline or contracted out. He does not think it take many modifications for business travel, but if it was something like 50-seat regional jets, it would take more to accommodate that.

Mr. Jacobs asked if CMT works with schedule 135 operators. How could that be incorporated here instead of getting, say, JetBlue or United? Mr. Haan replied that that is the kind of question Phase II would look at, to identify the right carriers. Phase I was just identifying the pie, whereas Phase II would be identifying which slices of the pie could be taken, and who are the right operators and equipment and what is the best fit.

Mr. Jacobs asked, regarding the situation Mr. Haan was talking about where the community could get a 13 time return on their \$1 million investment – how long of a term were they able to negotiate to get the airline to stay for? How long could an airport of this size expect an airline to stay for? Mr. Haan replied that it depends on negotiations but CMT advises clients to get at least a 3-year window. That is the natural ramp-up time – mature revenue at year 3 is at 100%. Or CMT tries to work in payback clauses so the community gets a portion of the funds back if the airline pulls out early.

Ms. Landry asked, what are some creative things communities have done to make that possible? Mr. Haan replied that what is used most heavily is a minimum revenue guarantee (MRG). He continued that Phase II would include identifying what revenue they think the carrier could achieve, and then the City would guarantee that MRG and the community would support that. For example, if the MRG is X, and ticket sales are 80% of X, the community would be on the hook to pay the last 20% directly to the carrier. Another option is a marketing campaign. If a carrier really believes it will work but wants a lot of efforts done in creating awareness, the City can market its airport or region to let people know it has service. That is a more popular option with some of the lower cost carriers.

Ms. Bendel asked if Mr. Haan can talk about the state of essential air (EAS) and the likelihood of it here. Mr. Haan replied that he is not sure if it is a good fit for the Dillant-Hopkins Airport,

given that it is so close to larger airports that have the service. He continued that it is unlikely that this airport would be selected for it. But second of all, the EES is in question, given the pandemic and all the other dollars the government has put toward the other airlines, and that is a question that has not been resolved yet.

Mr. Hickling asked if he is suggesting the EAS could go away. Mr. Haan replied no, but it will be different. He continued that the other unknown is that the government has done a great job propping up the industry through September 30, but then what? EAS could be bigger or stay the same. He does not know. This pandemic environment is completely unprecedented. No one knows what will happen. Airlines are getting ready to lay people off in October, which means smaller airlines. He is not sure if the government will expand the program or do another stimulus at that point. Once the CARES Act restrictions expire it will tell us a lot about the future of the industry.

Ms. Bendel stated that if EAS was limited it would impact Rutland, VT and Lebanon, NH airports. How would that impact the Dillant-Hopkins Airport? Mr. Haan replied that those airports are further away from the hub airports, which gives them a better case for the EAS money. He continued that Rutland and Lebanon did not show up in the slides. It seems like they are pulling from different areas than this airport would be. In a pandemic environment like this, the problem of having a market like Boston is people are likely to think, "Why would I put myself on a second flight at a second airport when I can just drive to Boston?" Airlines cancel the short flights a lot anyway because it is easy to put people on a bus to their final destination, and then people do not think the service is reliable and do not use it, so it is a spiral down effect. He does not have the right answer now and would have to look at it in Phase II, but to him it does not seem like the Keene airport interacts with those markets much at all.

Mr. Hickling asked if there are any other questions. Hearing none, he thanked Mr. Haan for his presentation and all of the interesting data.

Mr. Hickling stated that it is interesting that Mr. Haan said EAS might change. He continued that if it went away he thinks it would benefit the Dillant-Hopkins Airport. He does not think they are eligible for EAS due to their proximity to other airports. In [the DOT's] eyes, this area has service available within a reasonable driving distance. But a lot of small, regional airlines have a lot of their resources tied up serving these communities for EAS. They are basically subsidized by the federal government to provide air service to these small communities and they have guaranteed revenue. If that was to go away and all those resources were to become available, all those aircraft and crew, they would be looking for places to put those. That would be a benefit to this airport. They will have to see how that plays out.

Mr. Hickling stated that regarding timing, he was surprised to hear Mr. Haan say this is the end of Phase I. He continued that there is more work to be done. They have to find out what their business market is. The leisure market is good but harder to capture, because it is price-sensitive. Whatever service they get in Keene will be a higher cost than if you are driving to

Manchester and getting on a low-cost carrier. He thinks Keene's market is a business market and they have enough market to support that. He will push CMT to do a little more work to find out what Keene's business market is. Regarding the timing, he does not think they need to wait until the pandemic is over; he thinks they need to keep working on this, and put together a plan with the expectation that they will identify the business market. Like the Mayor said, there will be some infrastructure stuff but he does not think it will be that significant. They need to work on what their presentation/offering will be. Probably the City would have to do the MRG that Mr. Haan was talking about. Even if you can prove there is enough service to support that market, airlines are not going to invest the resources and take the aircraft, because there are no aircrafts or air crews sitting around doing nothing. If Keene gets service they will be pulling it from somewhere else. Keene would have to prove there is a better market and better profits here. What airlines want is the MRG.

Mr. Hickling continued that how that works is: After waiting for the study to get done, the City would apply for a Small Community Air Service Development grant through the DOT. He thinks they would have a good chance of getting that. Chances go up based on what the local investment is. They would probably ask for about a million dollars from the grant and the City would want to be able to tell the DOT they are matching it with a million dollars, and then they could go to an airline with a two million dollar MRG. They would not necessarily spend a million dollars, or any of it. It is all based on how successful that service is. If the airline agreement says there is a guarantee of a 10% profit, the City needs to make sure they make that. So if the service is doing well (they are selling tickets at a good fare, and making that), then nothing comes out of the grant and nothing comes out of the City's match to it. Agreements are typically two years but could be three years if the airline goes for it. At the end of the term of the agreement you are no longer obligated to take any money out of that – whatever money is in there stays there, and the same is true of the DOT grant money. After that, the airline is on its own to make a profit, or to depart, if they choose. With some markets that are not successful it means going through that MRG in six months because no one is getting on the plane, but typically an airline will not come in unless they are pretty confident they will make money.

Mr. Hickling continued that to make a better proposal to an airline, a community could offer more. It is typical to not charge airlines any fees for the first two years, but that does not include ground handling. For marketing, it is good for a community to throw a good amount in, like \$50,000. That is a typical offer a municipality would make to an airline. That is something the City/the AMDC/the Airport could start working on as soon as Phase II is done.

The City Manager stated that she thinks they have to make the economic impact case. She continued that the decision is whether to move to Phase II or do the economic impact analysis. They would get more support from the community and the City Council for Phase II if they could prove the business case for it. The COVID-19 pandemic gives the City the chance to get ready, yes, but she would be concerned about possibly going too far into Phase II and then having things shift so dramatically that the report ends up not being helpful or as timely as it

needs to be. That is why she thinks the economic impact analysis might be the next step. Mr. Hickling replied that they would have to work on how to move forward with that.

Mr. Jacobs asked if it is typical for surrounding towns to participate in whatever the City of Keene would want to give to the airline. He continued that it is not just Keene that would benefit; it would benefit surrounding towns, too. So could they ask other towns to help? Mr. Hickling replied it would be a reasonable ask but he has not been successful with that in the past. He continued that Mr. Jacobs is right that this would benefit the whole region. Ms. Landry stated that she would love to talk with the Monadnock Travel Council and see what their interest level is. She continued that there are even grants available that might help with marketing.

Mr. Jacobs asked who they would be marketing to - businesses already here? Businesses they are trying to attract? Tourists? Mr. Hickling replied that that depends on which route they go with, leisure or business travelers. He continued that if they went the leisure route, it would be marketing toward the people traveling to Orlando and other places, and convincing them to fly out of here. Or they would market toward the business travelers if they chose that route. It would be easier to market to business travelers because they understand the value of getting on an airplane in Keene instead of driving to Manchester or Boston, and also, you can work through the businesses. Basically who they market to depends on which service they go after.

4) Alps Property Sale

Mr. Hickling reported that regarding Alps 1, bids came in above the minimum bid so they will look at awarding that in the coming weeks. He continued that regarding Alps 2, negotiations with Mr. Bell are ongoing. He thinks they have come to an agreement and will be looking to close that transaction hopefully shortly.

5) Taxiway A Reconstruction

Mr. Hickling reported that Phase I is the extension. He continued that everything has been submitted and they are just waiting for the grant money to come in, and they anticipate that in August, and for the project to start in late August. They are not sure if it will be completed that season; they might have to do a winter shut down and finish in the spring.

He continued that that for Phase II reconstruction the bids came back very competitive. At the last meeting he talked about how the FAA said that if the bids came back competitive, they were going to try and find money to award the base bid and the add alternates this year. The bids came back competitive, but the FAA says they will not be able to do that anymore. They are going to award the whole project, and they will complete it in two grants. One will be that grant they were told they were getting – 1.6 million dollars will start the work for the reconstruction part this year and the FAA will give the Airport another grant next spring to complete the other part. The base bid and the add alternates together came in at about \$1.9 million. The engineer's estimate was about \$2.3 million. S.U.R. is the company that got it.

Ms. Bendel asked what impact, if any, there will be to the main runway. Mr. Hickling replied that not for the main runway, but there will be impact to the taxiway. He continued that they will do a preconstruction meeting before S.U.R. starts and invite Ms. Bendel and other tenants to that, to talk about how to phase this work. If they propose something that will not work for Monadnock Aviation they will figure that out. Ms. Bendel asked if he is not anticipating there will be any runway closure due to construction on the taxiway. Mr. Hickling replied no, he does not anticipate that.

6) Monadnock Choppers

Mr. Hickling stated that Monadnock Choppers' request passed the City Council last week and the Finance, Organization, and Personnel Committee before that. He continued that the meeting was active with discussion for a long time. It passed the FOP Committee unanimously. All City Council members are very supportive of airport development but there was outreach from community members who were concerned about noise and other issues and the City Council, the Airport, and the ADMC needs to address that. He went to the meeting to try and get across to the community that the Airport is considering their concerns and they want to alleviate those concerns as much as possible. He gets that from the operator of Monadnock Choppers, too - he sincerely wants to work with the neighbors and have the least amount of impact as possible. He (Mr. Hickling) will work with City Manager. They still have to finalize the wording on the letter of understanding, regarding best practices to avoid the noise-sensitive areas. They are also working to draft language that will go into FAA publications and affect all helicopters operating at the airport. The community might not see the differences, but the Airport has a lot of other helicopters that come here that are not from Monadnock Choppers. They will come up with best practices for noise abatement procedures and it will be published in the supplements that the FAA puts out for all pilots using the airport. This will improve things beyond what they were before Monadnock Choppers. Getting the procedures published in FAA supplements will be less complicated than he had anticipated, probably by the fall. He and the City Manager are working to set up a meeting with the neighbors and he hopes the neighbors see their sincerity. Monadnock Choppers has a process to go through with the Town of Swanzey and they have that paperwork submitted. Things are moving forward.

Mr. Hickling and Chair Hansen asked if anyone had further questions or comments. There being no further business, Chair Hansen adjourned the meeting at 10:01 AM.

Respectfully submitted by,
Britta Reida, Minute Taker