



# STATE OF CONNECTICUT

## DEPARTMENT OF TRANSPORTATION

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Office of the  
Commissioner

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### **February 18, 2009 – Public Hearing Transportation Committee**

#### **Testimony Submitted by Commissioner Joseph F. Marie Department of Transportation**

**S.B. 154 – An Act Concerning the Governance and Administration of Bradley International Airport.**

**S.B. 692 – An Act concerning Studying the Feasibility and Impact of the Sale of Bradley International Airport.**

**H.B. 5898 – An Act Concerning the Privatization of Connecticut's Airports.**

The Department of Transportation (DOT) welcomes to opportunity to address the Transportation Committee on the future of Bradley International Airport (Bradley). The issue of governance of Bradley has been the subject of considerable discussion and debate around the state for many years. There have been bills passed and several proposed bills that will be considered by the General Assembly this session. Before addressing the specifics as it relates to the proposed legislation, I would like to share with you my basic philosophy regarding the structure of the DOT as well as a brief overview of Bradley's current situation and recent history. I am hopeful that this will provide some context for your decision making and an understanding of the basis for our conclusions as it relates to the proposed legislation.

While discussing Bradley and its future potential, it is important to keep in focus the geographic location, demographics and the economics of the region that the airport serves. In aviation lingo, every airport has a primary catchment area that in most cases is based on population concentrations and access to highways and transportation systems that assist populations to get to an airport. Bradley's primary catchment is the region within 90 miles of the airport which encompasses most of Connecticut, Western Massachusetts, parts of Eastern New York State and all the way into parts of Vermont. This geographic area covers a population of 4.7 million with over 1.8 million households with a median household income of \$68,035. These numbers take into consideration that parts of Southern Connecticut do have the option of using the metro New York Airports or Providence and that Eastern Massachusetts has the propensity to utilize Boston Logan and are therefore not included in Bradley's primary catchment area.

Given the size of the Bradley Airport catchment area (approximately 5 million customers within that 90 mile radius), Bradley has a large amount of nonstop service for the size of its population. For the year ended October 2008, Bradley has 107 daily departures in comparison to Providence, with 86 daily departures or even Manchester, with 64 daily departures. For the same period, Bradley serves 38 daily

Bradley Benchmarks. The following provides further information on these areas that have contributed to Bradley's success.

### **1. Existing Management of Bradley**

The Department of Transportation is responsible for the operation, management and development of Bradley International Airport including airport administration, operations and security, marketing, business development and leasing, aircraft rescue and fire fighting, building and grounds maintenance, finance and administration and project management. Bradley is a financially self-sufficient operation funded independent of the State's biennial budget development process.

Bradley's structure of governance is by no means unique in that it is owned and operated by a government entity. In a review of governance structure at 560 certificated airports in the United States, it was found that 67% of all certificated airports in the US are owned and operated by local (59%), state (7%) or federal government (1%) agencies. There are more certificated airports owned and operated by government entities than by airport authorities, port authorities, boards or commissions combined. The breakdown is as follows:

Local Government	324
State Government	41
Federal Government	8
Airport Authority	118
Port Authority	35
Board or Commission	30
Indian Tribe	4
Total Certificated	560

Source - Federal Aviation Administration

The Department, with support and guidance from the Bradley Board of Directors, ensures the smooth, safe and consistent operation of the facility itself, works with all appropriate federal and local authorities as it pertains to the airport and directs the day to day operations at Bradley.

The Bradley Board of Directors was established by the General Assembly in 2001 with authority to:

- Develop an organization and management structure;
- Approve the airport master plan;
- Approve annual operating and capital budgets;
- Establish and assess progress on the Airport mission and strategic goals;
- Establish marketing policies and plans;
- Establish customer service standards and assess performance; and
- Review significant contracts (no approval authority and excludes labor contracts).

The Department has built a solid working relationship with the Board of Directors which has improved the overall strength of governance of the Airport. The Department reports regularly to the Board on all matters of finance, marketing, operations and development and this has served well to hold the Airport to task in pursuit of the our mission and strategic plans. The Board has directly participated in the hiring of key staff in the areas of marketing and administration and has approved the Airport Master Plan and Noise Compatibility Plan.

- Terminal Development Program underway (2002 – 2005).
- Parking lot 4 rehabilitated (2004).
- Taxiways E & T reconstructed (2006).
- Runway 1 Threshold Relocated (2006)
- Travelers Corporate Hangar expanded (2007). A privately funded facility
- Taxiways L, T and M reconstructed (2007).
- 75-space taxi queue lot completed (2007).
- Sanitary sewer system partial replacement (2007).
- New Taxiway W constructed (2008).
- Embraer Aircraft Maintenance Facility (2008). A 45,000 square foot privately funded aircraft maintenance facility.
- 6" water main across airfield replaced with 16" main (2008).

#### **4. Business and Marketing Practices - Overhaul**

The challenges of the last eight years necessitated a complete overhaul of the Airport's business and marketing practices and the Department has been successful in this regard.

*Airport Business Practices.* One of the lesser known aspects of the Department's operation of Bradley is that it is operated as an enterprise fund of the State. This means that all Airport operating, maintenance and development expenses are funded solely through the revenues generated by the Airport and the capital financing mechanisms available to the Airport. There is no funding provided through the State general fund or otherwise for the Airport. The Department is responsible for negotiating, managing and administering countless agreements with third party tenants and service providers that generate approximately \$75 million in annual revenue used to fund the Airport. This includes airlines, food, beverage and retail concessions, rental cars, vehicle parking operations, fixed base operators, mail and cargo facilities, corporate hangars, ground handlers, taxi and limo companies, hotels and others. During the course of the past eight years, virtually all of these agreements had to be renegotiated by DOT to provide funding sufficient to pay increased debt service associated with financing the Airport's terminal improvement program. In FY 2000, total operating and non operating revenues generated by the Airport were \$57.2 million. By FY 2008, total revenues had increased to \$74.0 million.

BIA's terminal and parking improvement program was financed primarily through the issuance of general airport revenue bonds and special facility parking revenue bonds totaling approximately \$250 million. As steward of the Airport enterprise, DOT played a central role with all of the key stakeholders in the financing transactions including the Treasurers Office, Bond Counsel, Rating Agencies, Financial Advisors, Underwriters, FAA and the airlines. In addition to securing the required funding, the process resulted in a new capital structure and financial model for the Airport, codified in a new trust indenture and incorporating Passenger Facility Charge (PFC) – backed debt. This new structure has allowed the enterprise fund to not only provide the proper levels of debt service coverage, but to also flourish in terms of the cash reserves available for future projects.

In 2004, the Department served in a similar capacity to refund all remaining series 1992 bonds, producing significant debt service savings and allowing the Department to pass these savings on to our airline partners. Most recently in 2006, the Department partnered with the Airport stakeholders in the development and execution of two forward starting interest rate swaps. These transactions essentially

*Marketing and Air Service Development Practices.* The Department understands that airlines are free to come and go from airports as they please, and that it is the strength of a particular region's market that is the primary driver in airline route decisions including the city pairs they serve, the type of aircraft used and the frequency of the flight. That is why DOT believes that Bradley must take a proactive role in two key areas i) demonstrating the strength of the Airport's market area to the airlines, and ii) supporting and encouraging the use of the air services available at the Airport. The Department has a robust marketing and route development program in place for Bradley and is doing everything that it reasonably can to ensure the greatest number of travel choices are available for our customers.

This is the responsibility of the Department's Office of Marketing and Route Development. DOT has undertaken a number of steps over the last several years, in conjunction with the Board of Directors, to bolster the efforts of this office including the hiring of a new marketing director. The Office of Marketing and Route Development was relocated to new offices within the airport terminal's administration area and was expanded to include the position of Director of Communications. The office has an operating budget in excess of \$700,000 annually for consultant expertise in the production and placement of advertisements supporting existing air services, for analysis and documentation of market demographics supporting the establishment of service by new airlines, and for expansion of service by existing airlines. An air service incentive program has also been established in conjunction with the Board of Directors, which provides additional funding for the waiver of fees and cooperative advertising campaigns specifically supporting establishment of new service.

Bradley's marketing efforts can readily be seen daily on television, radio, and billboards throughout the Airport's market area.

##### **5. DOT's Terminal Customer Enhancement Program**

In FY 2008, a total of 6.5 million passengers departed and arrived at Bradley and the Department has worked hard to improve the experience these customers have when using the Airport's passenger terminal. DOT's efforts have focused on revitalizing the food, beverage and retail concession venues available within the terminal, while complementing these efforts with quality finishes, arts and entertainment programs in the public areas of the terminal.

*Food, Beverage and Retail Concessions – Revitalization.* The Department's efforts to revitalize the terminal concession venues were initiated as part of the terminal redevelopment program and continue today. As part of the terminal redevelopment program, the Department re-bid the master food and beverage concession agreement. Within the new terminal, an initial private investment of approximately \$6 million was made in new food and beverage venues with significant improvement to facilities, menu variety and service. Further, DOT amended and extended the master retail concession to provide for significant private investment in new retail facilities for the new terminal. This provided for such venues as the CNBC Newsstand, New England Travel Mart, Brooks Brothers and Borders Books.

In 2006, the Department decided that its goal to continue improvements to the terminal concession program would best be served by additional competition among its concessionaires. The Department made available and bid a prime location for specialty food, beverage and retail concessions and selected a third master concessionaire. The process resulted initially in the establishment of Einstein's

*Airport Master Plan.* This is the Airport's long term development plan prepared in conjunction with, and approved by the Board of Directors and the Federal Aviation Administration (FAA) several years ago. Major elements of the plan include demolition of the Murphy Terminal, phased development of new terminal facilities, realignment and construction of the terminal roadway in front of the Murphy Terminal, expansion of the parking garage, construction of a consolidated rental car facility directly across from the terminal, development of new cargo facilities, and various airfield pavement rehabilitation and construction projects. The Department is actively advancing Airport development consistent with the Master Plan. For example:

- An RFP will be issued shortly which will kick off the process of implementing the consolidated rental car facility;
- The Murphy Terminal is being vacated and other steps being taken in preparation of demolishing the facility; and
- Design work for future terminal expansion is presently being scoped and included in the FY 2010 Capital Budget.

*Airport Noise Compatibility Program.* The Department has a fully approved FAA Airport Noise Compatibility Program in place for Bradley. This is the long term development plan that specifically addresses noise mitigation for the local community. The program examined specific areas around the Airport most impacted by noise based on flight tracks and identified techniques that may be used to mitigate noise for these areas. The centerpiece of this program, presently underway, involves installation of new, sound insulating, doors and windows, central air conditioning, and insulation in the homes most affected, at no cost to the home owner. The Airport will be providing this service to 75 to 100 homes per year over the next five years to complete the program. Contracts have already been awarded.

*FAA 5- Year Capital Improvement Plan.* FAA is a major funding partner in the Airport Capital Improvement Program. Funding eligibility of major projects starts with the project being included in the approved master plan and noise compatibility program. As projects appear on the horizon, they are placed on the FAA's Five Year Capital Improvement Plan (CIP). The CIP is an annual process undertaken by the Department in conjunction with FAA that ensures FAA includes its share of eligible projects in its own funding programs.

*Annual Strategic Plan.* The Airport Strategic Plan is prepared and reviewed annually by the Board of Directors. The plan, available on [bradleyairport.com](http://bradleyairport.com), examines the economic and competitive position of the Airport and the factors affecting that position, establishes strategic and tactical goals in the areas of customer service, facilities and access, economic development, competitive positioning, community relations, and governance and organization. The plan then takes these goals and relates them to the activities of the Board of Directors and organizational divisions of the Airport including finance, project management, leasing, marketing, maintenance, operations and security. Development and review of the plan and performance consistent with it has proven an effective tool to focus the direction of the Airport.

*Airport Annual Operating and Capital Budget.* All of the foregoing ultimately results in a project, program or activity being included in the Airport's annual operating and capital budget. The budgeting

## **7. Bradley Benchmarks**

The Department has taken a number of steps to understand and react to how Bradley measures up to its peers in the industry. The Department works with such organizations as the American Association of Airport Executives and the Airports Council International, with consultants having expertise in the area of air service analysis, and conducts its own research in a continuous effort to assess, and respond to, a set of metrics relative to the Airport's mission and strategic goals. What does the Department know about Bradley as a result of these efforts?

- Airport costs per enplaned passenger are competitive. This is a measure of an airline's cost to provide service to the Airport. In other words, this is what the airlines pay the Airport for the right to land, use Airport facilities and services, and take off. For the fiscal year ending June 30, 2008, this cost was \$7.80 per enplaned passenger. This, combined with the Airport's marketing and air service development program, tells the Department that the Bradley is positioned well to secure expanded air services in the future as the economy and airline industry rebounds.
- Airfares at Bradley are high in relation to its peer airports. Depending on your perspective, this could be good or bad news. From the airline's perspective, this demonstrates the opportunity for a more profitable route. From the Airport's perspective, this bolsters the service choices available to the community and helps to insulate Bradley from drastic service cuts during times of economic upheaval. There is a balance to be achieved and the Department works with the airlines to achieve that balance.
- Bradley continues to offer the greatest level of air service in all of New England excluding only Boston Logan.
- Bradley's enplaned passengers have declined over the past several years due to airline service reductions (reduced flights and smaller aircraft) – but the reductions we have experienced are not as substantial as the cuts experienced by most of our peers in the region.
- The Airport's outstanding debt per enplaned passenger is relatively low. This is a measure of the Airport future bonding capacity. As of June 30, 2008, outstanding debt per enplaned passenger was \$61.59. This measure, combined with the Airport's bond rating, cash position, swap contracts and scheduled debt retirement tells the Department that the Airport is positioned well to secure first class status for the long term through its planned development efforts.
- Bradley's terminal concession revenues per enplaned passenger remain low in comparison to our peers. This is a direct measure of the quality and sufficiency of food, beverage and retail concession services available in the Terminal. In other words, this is what our customers spend in the terminal while waiting to board a flight, or while exiting the terminal after departing a flight. For the period ending June 30, 2008, terminal concession sales per enplaned passenger were \$6.55. This represents significant improvement from the past but the sales achieved by our peers suggest we can do better and the Department is responding accordingly.