



DULUTH AIRPORT AUTHORITY

Duluth Airport Authority Meeting Minutes July 16, 2024

MEETING LOCATION: Amatuzio Conference Room, Duluth International Airport

DIRECTORS PRESENT: Kevin O'Brien, President
Michael Henderson, Vice President
Jeff Anderson, Secretary
Elissa Hansen
Jason Crawford
Sandy Hoff

OTHERS PRESENT: Tom Werner, DAA Executive Director
Mark Papko, DAA Dir. of Operations
Jana Kayser, DAA Dir. of Business Development
Jenny Delnay, DAA Administrative Coordinator
Eli Strayer, DAA Summer Intern
Briana Johnson, American Heart Association
Dante Tomassoni, Cirrus
Eric Monson, Lake Superior Helicopters
Don Monaco, Monaco Air Duluth
Rob Missinne, Monaco Air Duluth
Matthew Stewart, SEH
Mike Bown, SEH

OTHERS PARTICIPATING VIA ELECTRONIC MEANS:
Kathy Leon, DAA Confidential Bookkeeper
Robb Enslin, Duluth City Attorney
James Gibson, Cirrus
Horeya Czaplewski, EXP
Phillip Scott, EXP
Andy Hoffmann, H+U Construction
Dexter Silvers, H+U Construction
Joe Uhlhorn, H+U Construction
Paul Huston, HNTB

CALL TO ORDER: Dir. O'Brien called the DAA board meeting to order at 8:00 a.m. He noted that all board members are in person, with Dir. Hanson arriving late at 8:14am.

Dir. O'Brien invited Mr. Tom Werner to provide the Executive Director's Review

I. *EXECUTIVE DIRECTOR'S REVIEW

- A. **Air Service:** Mr. Werner provided an update on the current air service with a presentation.
- Mr. Werner presented year-to-date numbers. He shared that numbers are trending in the right direction but will need to keep the planes full in order to ensure this level of capacity in the future. Mr. Werner shared a report compiled by Mr. Mike Bown looking at advanced bookings, comparing Duluth to the national scene. There was a large spike in



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the summer months, which correlated for Great Lakes Cruising. Mr. Werner shared that this has been a great boost for the local economy, and specifically for the airport by causing an increase in frequency and bringing in larger aircraft. Mr. Werner shared that the per capita income of Duluth is the lowest in the comparator group, which has been true for a long time and directly correlates to seats per capita. He empathized that economic growth in the region is needed to grow air service. Mr. Werner shared that both Delta and United would be back to 2019 levels for July and August for the first time since the pandemic and forecasting to be within 10% of 2019 levels for the fall.

- Dir. O'Brien asked if that is due to the easing of the pilot shortage.
 - Mr. Werner stated that is correct. There are more pilots flying now, but still some issues with aircraft shortages due to the Boeing problems. Overall, it is trending well.
 - Mr. Bown added that regional airlines feel confident about the pilot situation moving forward.
- Breeze Airways Presentation: Mr. Werner invited Mr. Bown to speak and introduce a business case for Breeze Airways.
 - Mr. Bown shared that he will share his slides and is happy to answer questions or take phone calls about this information, as it can be complex. This is designed to be a P&L estimate, which can be difficult to understand.
 - Mr. Bown covered the leadership of Breeze Airlines, including Mr. David Neeleman, Founder and CEO, who has started multiple successful airlines. Thanks to his well-known reputation, Breeze has access to significant capital. All the top leadership at Breeze have a background at Allegiant Airlines, who know this market well. He noted that Mr. Werner previously had a great relationship with Allegiant.
 - Mr. Bown shared Breeze's current route map, which is mostly focused on the East Coast. They are now looking to add more routes in the center of the country. He noted that their bases are listed in red on the map and would be good to focus on. Breeze flies primarily one aircraft type, the A220, which is a unique aircraft. While Breeze is considered a ULCC, they operate a much different product. They have 3 ticket types: main cabin, economy comfort and first class.
 - Mr. Werner noted that their customer service sets them apart, especially with the multiple products they can offer.
 - Mr. Bown shared that operationally, they would be comparable to American Airlines and have a better reputation than other ULCCs. They are focused on operating point-to-point instead of the hub and spoke concept. Their prices are very reasonable and in line with other ULCCs. They are looking to add 1 aircraft per month through 2028 and therefore are likely to add new routes. They are looking to fly internationally by year end. They are already profitable, which is impressive. They have 189 seats per aircraft, instead of the ULCC standard of 137.
 - Mr. Bown noted that he compared potential Breeze routes to historical Allegiant data due to their leadership's familiarity with Allegiant.
 - Historically, Allegiant's aircraft had 166 seats. They also tracked their customers and found that on a second purchase, they purchased 25% more due to upgraded services.
 - Mr. Bown shared historical passenger data for Las Vegas. He noted to not look at if the plane was full, but rather the price per seat, since they will fill the plane by dropping prices. Once the prices started dropping, that's when the route is pulled. He noted there are three likely factors for a price drop: 1.



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ULCC capacity at MSP increased, mostly from Spirit. 2. A strong US Dollar reduced demand from Thunder Bay. 3. Vegas burnout from customers. This would likely be a year-round route, but Breeze would likely look at the latest (and worst) data.

- The Phoenix route is very seasonal and would likely remain that way. It is understood that people want to go south during the winter months.
- Orlando is similar to Phoenix and would likely be seasonal, but there is the possibility for a year-round market eventually.
- There may be an option for a Mexican Market, such as Cancun, as Breeze is working on approval for international flights.
- Mr. Bown presented a P&L for Breeze based on peak demand of the historic routes, assuming load factor and revenue would stay the same. In order to maintain this revenue, the fare would need to be around \$418. Historical Allegiant data showed fares at \$379. This increase would be doable based on the products offered. Assuming the fare increase is doable, even with trough demand, there would still be around 10% profit. Mr. Bown noted that these are mature forecasts, after the brand is known to the market. The first 6 months would likely be worse, while building up customers.
- Mr. Bown expressed that Breeze has stated some interest in Duluth. They are receiving several new routes proposed to them currently. A \$1.5 million minimum revenue guarantee (MRG) would get their attention and could start as soon as next year. With a \$500,000 MRG may have about a 3 year start time. With more communities and states providing economic support, the game is changing.
- Mr. Bown believes that Breeze is probably the best option for Duluth to grow its air service. He could see them expanding to Denver or Cancun in the future. It would be expected to spend any money laid out in an MRG, since it will take time for the service to grow.
- Dir. Henderson asked how they remain profitable as a start up?
 - Mr. Bown shared that community support helps. Breeze has been lucky with their aircraft, since the A220s are not having the same issues as Boeing. They already had work orders for additional A220s before the Boeing issues started.
- Dir. Henderson asked what the risk was in offering community support. How long until the airline could be profitable.
 - Mr. Bown stated it varied by market. Typically, 6-9 months is what is expected, but it could be profitable right away or could take a couple years. If it was taking years, the route would likely be pulled. However, there is a balance, since airlines that pull routes immediately can get a bad reputation. It is likely they would start with a few seasonal routes, then build from there.
 - Mr. Werner shared that there is risk mitigation for the airline and the package the community offers to get them here. This is an unknown package in the Duluth Market. There would need to be heavy marketing support to get the customers to fly these routes. Marketing support has not been discussed thus far. Mr. Werner expects that a \$250,000-\$500,000 MRG would likely be what is able to be offered based on constraints of fundraising here. It would also include incentives from the Incentive Program recently approved by the board to include fee waivers for selected routes.



B. Operations/Construction/Planning: Mr. Papko provided the following updates:

- Planning:
 - New Air Traffic Control Tower (ATCT) Update: Mr. Papko shared that this project is moving along. There is a second round of ATP funding which has applications due at the end of the month (this is where the initial \$10 million came from). This is on an expedited timeline, since applications last year were due in October with the announcements in February. This year, announcements are expected to come out before November. Mr. Papko feels that DLH is positioned well and will be asking for the remaining dollar amount for the entire project, although doesn't expect to receive the full amount.
 - Mr. Papko shared the latest renderings of the ATCT following the 50% review. He is excited about how the project is shaping up. There was \$66 million as the initial estimate, however those numbers and specifics are becoming more defined as the design work continues. The FAA hasn't updated their \$22 million for FAA reimbursable equipment, possible due to a backlog of projects. There are still contingencies built into these numbers, to supplies and inflation. Mr. Papko stated that the cost estimates today he is hoping would be the highest number presented to the board.
 - Mr. Werner noted that as the total cost estimate rises, the reality of this project sets in. It would be incredibly difficult to fully fund a \$75 million project with federal and state funding. There may be a need to start planning for a funding gap to be bonded locally. The amount of this gap is yet to be determined and won't be known for a while, as the federal and state funding opportunities are worked through. Staff will start drafting possible scenarios for the board to review.
 - Dir. O'Brien asked if the escalation contingency is the same as an inflation contingency.
 - Mr. Papko confirmed that is correct. The number grew due to the delay in the groundbreaking. While there has been a leveling off of inflation prices to a more "normal" amount of inflation, there are still additional contingencies built in.
 - Dir. Hoff asked if funding from the bonding bill at the state level would help.
 - Mr. Papko confirmed that if there is no bonding bill passed by the state next year, it would seriously hamper successful completion of this project.
 - 2024 Air Spectacular: This is happening on Wednesday, July 31st over Lake Superior with the Canadian Snowbirds. They will stage out of the airport, but the airport is not really involved in this airshow. There will be a temporary flight restriction over Sky Harbor and parts of Lake Superior. This will affect the approaches for DLH, but the airport will remain open, unlike the normal airshow at the airport.
- Construction:
 - Taxiway A – Phase 3 Construction: Construction is going and has been doing nightly closures after the last commercial flight arrives and reopening before 5am. While not the most efficient construction method, it allows for the runway to remain open. Tenants have been appreciative and cooperative thus far.
 - Customs and Border Protection Federal Inspection Services Construction Presentation: The international area of the terminal is rarely seen and isn't used often. It was never a certified CPB station when it was built. As requirements get



updated, our area would need to be updated as well. This is currently estimated to be about \$800,000 of local money to complete the current updates. There will need to be board conversations in August or September about if this is something DLH should pursue. While there is a potential business case for international flights, if there is not a compliant FIS, then could not start international flights. There are no grants or state funding available to support this project. While it can be used for diversions for emergency situations without this investment, it cannot be used for regularly scheduled service. This will go out for bids to get a firm number for updates, then will have a conversation about if this is the correct item to focus on.

- Mr. Werner added that Mr. Bown had talked earlier about the possibility of adding Cancun flights, but these would likely be twice a week flights. There is no amount of fees that could be added to these international flights or level of demand that would recoup this investment. This would need to be covered by other revenue streams, such as non-aeronautical revenue. This type of 6 figure investment would likely continue to happen every few years to continue to keep up with the requirement changes.
- Operations and Maintenance:
 - Part 139 Inspection Recap: The FAA 139 inspection has been completed. DLH is regulated by Part 139, which states the condition the airport must be in and includes an FAA inspection every two years, lasting two days. There were no discrepancies found this year, which has also been true the last couple of years. Mr. Papko passed his compliments to the airside team who manages this program to ensure the airfield is compliant. He noted that it is not uncommon for airports to have 4-5 discrepancies during these inspections. He stated that the team did a fabulous job and set a standard of excellence.
 - Mr. Werner added that it is under Mr. Papko's leadership this standard of excellence exists.
 - TSA Annual Inspection: There are not results of the TSA Inspection yet, as this inspection is longer and lasts 2 weeks. Mr. Papko had hoped to have a recap for the board meeting, but it is not complete yet. He will update on this next month.
- Sky Harbor: Mr. Papko noted that both the Terminal and SRE building are substantially complete. Both buildings are currently being used.

C. Business/Property Development: Ms. Kayser provided an update on the following:

- Airport Economic Development Summit: Ms. Kayser shared that the Summit is happening today and expressed her thanks to those who signed up and are planning to attend. The event is split between DAA and MNDOT with lunch provided by SEH. There are about 40 people registered in person plus an additional 20 online. There is good diversity in the audience.
 - Mr. Werner expressed his thanks to Ms. Kayser for handling all the logistics for this Summit. She did a great job bringing this to fruition.
- Life Link Hangar Construction Progress: Ms. Kayser has received a high-level cost estimate for this project from SEH which has been sent to Life Link. She is currently working on that design with them and will bring forward design changes to the board soon.
- FBO Acquisition Due Diligence: Mr. Werner shared that the DAA put together a great offer, but in the end, it was not accepted by Monaco. He felt good about exploring this opportunity and thought that the DAA put its best foot forward. He stated that Mr.



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Monaco continues with his process and looks forward to the new ownership structure and how the DAA can support it.

D. Financial Update: Ms. Bodin provided an update on the following:

- Administrative Positions Update: Ms. Delnay has accepted the Finance Technician position and has been training in that role. She also passed an AAAE ACE Finance Course. Ms. Bodin is working to backfill the Administrative Coordinator position and is currently reviewing applicants. In the meantime, board communication will continue to go through Ms. Delnay at the daa@duluthairport.com email at this time.
- MNDOT will be at DLH tomorrow to complete an audit of state grants.
- Ms. Bodin has completed the System for Award Management renewal to be able to receive federal awards for the next 12 months.
- Ms. Bodin noted that there was a transposed number in the finance reports regarding the cash balance goal in the board packet. The cash balance goal is 2.9, and as of July 9th, the DAA had 2.6, but that excluded the grants receivable that are about 3.8. Ms. Bodin noted that the DAA is still in an ok spot with cash but is looking forward to having more grants come through.

E. Marketing/Communications: Mr. Werner provided an update on the following:

- Sky Harbor Art Show Recap: Mr. Werner shared that this partnership with a local artist highlighted the new building. The Art Show was July 15-30 with an opening event, which had great local turnout. He stated that events like this bring the general public closer to aviation, even indirectly.
- Ranch Hangar Ribbon Cutting Recap: Mr. Werner noted that there was great coverage of this event and expressed his thanks to everyone who attended. The furniture was the last major element to come into place for the new terminal, which has now been delivered. He noted that the tenants seem very happy with the new building.

F. Legislative Update: Mr. Werner provided an update on the following:

- NSR

G. Presentations/Tours/Travel Recap: Mr. Werner provided an update on the following:

- NSR

H. Other: Mr. Werner provided an update on the following:

- Mr. Werner noted that he will be out the remainder of the week for a family obligation and Mr. Papko will be the Acting Executive Director.

- Dir. O'Brien thanked everyone for their reviews and moved to item II of the agenda.

II. *APPROVAL OF PREVIOUS MEETING MINUTES & OTHER CONSENT AGENDA ITEMS AS INDICATED BY *:

A. Approval of June 18, 2024 Meeting Minutes

- Dir. O'Brien entertained questions or a motion.
 - Motion: Dir. Hansen
 - Second: Dir. Henderson
 - Abstain: None
 - Result: This resolution was adopted unanimously.



III. *DAA CASH DISBURSEMENTS

- A. Operating Check Register Sheets #16-18; Operating ACH Payment Register #17-19; Construction ACH Register #8-9.

IV. *CORRESPONDENCE

- A. DLH Construction Notice
- i. June 14, 2024
 - ii. June 21, 2024
 - iii. June 28, 2024
 - iv. July 8, 2024
- B. June 26, 2024: Two Weeks Away! Ribbon Cutting Ceremony.
- C. June 15, 2024: Local artist exhibits work at Sky Harbor Airport Saturday. Northern News Now.
- D. June 16, 2024: Sky Harbor Airport Unveils New Terminal By Hosting Art Gallery. Fox21.
- E. July 8, 2024: Letter from FBO Advisors, LLC, Re: DAA Offer for Monaco Air Duluth and Duluth Flying Club.

V. OPPORTUNITY FOR PERSONS TO BE HEARD

- A. Mr. Don Monaco signed up to be heard regarding FBO Sale.
- Mr. Monaco echoed what Mr. Werner stated earlier, stating that the DAA put forth a good proposal, which stood out, but there were better proposals submitted. Yesterday, Mr. Monaco accepted an offer from Aero Centers, a small FBO chain with 7 locations. He stated they have a very good leadership team and he sees this as a great opportunity for the community. They will likely be coming to the board in August or September to introduce themselves. Mr. Monaco is hoping to close in September and have the DAA approve the transfer of ownership in September. The current local leadership will remain in place and they will not be appointing a new general manager to replace Mr. Monaco. Aero Centers' COO lives in Minneapolis, so will be able to come up to Duluth as needed.
 - Multiple Directors expressed their thanks and congratulations to Mr. Monaco for his years of service.
- B. Mr. Dante Tomassoni signed up to be heard regarding Cirrus/IPO.
- Mr. Tomassoni shared that last Friday, there was an official announcement publicly regarding Cirrus's IPO. He noted that the IPO does not change any domestic operations, number of local employees, or their commitment to parts and supply chain based in America.
 - Dir. Hoff asked which exchange and which percentage of ownership was affected.
 - Mr. Tomassoni noted it was the Hong Kong exchange. There previously was Chinese ownership, but now vested approximately 15% to the public market.
 - Mr. Werner stated while he understood they were not expecting changes in operation, but with this increase in capital, he asked if there were expected growth opportunities.
 - Mr. Tomassoni shared they raised about \$200 million and are hoping to increase growth and productivity locally, but still working on the exact plan.

VI. OLD BUSINESS

- A. None.



VII. NEW BUSINESS

A. Resolution to Award Construction Contract in the Amount of \$11,335,704.00 to Ulland Brothers, Inc. for the Construction of Taxiway A – Phase 5 and associated Alternate Schedules.

- Mr. Papko shared that construction is underway for Phase 3, with Phase 4 being done last year. Phase 5 is expected to happen next year. There were great bids received back for this phase. This project was initially estimated to cost \$13-14 million, but this bid came in for \$11.3 million. This also includes Midfield Ramp Phase 2. Previously, Mr. Papko had informed the board of the rejection of all Midfield Ramp Phase 2 bids due to high costs. When it was re-bid concurrently with Phase 5, it dramatically reduced costs. Mr. Papko recommended approval.
- Dir. O'Brien entertained questions or a motion.
 - Dir. O'Brien appreciated Mr. Papko looking after DAA funds as if they were his own.
 - Motion: Dir. Crawford
 - Second: Dir. Hoff
 - Abstain: None
 - Result: This resolution was adopted unanimously.

B. Resolution to Approve Work Order 2024-6 between the Duluth Airport Authority and Short Elliot Hendrickson, Inc. for the Construction Administration of Taxiway A – Phase 5.

- Mr. Papko shared that the construction project awarded in Resolution A needs construction administration oversight and closeouts, which would fall under the SEH Master Plan. This did go out for Independent Fee Estimate (IFE), where it goes to a competitor who was not planning to bid on the project and needs their proposed bid to come within 10% of SEH's proposal. Mr. Papko noted that SEH's proposal was below the IFE.
 - Dir. O'Brien asked what the cost of doing an IFE was.
 - Mr. Papko noted it ranges from \$2,000-4,000 depending on the size of the project.
- Dir. O'Brien entertained questions or a motion.
 - Motion: Dir. Hoff
 - Second: Dir. Hansen
 - Abstain: Dir. Anderson
 - Result: This resolution was adopted unanimously by all voting members.

C. Resolution to Approve Work Order 2024-7 between the Duluth Airport Authority and Short Elliot Hendrickson, Inc. for the Construction Administration of Midfield Ramp – Phase 2.

- Mr. Papko noted that the same services for Phase 5 in Resolution B are also needed for Midfield Ramp Phase 2. This also went through the IFE process and came in lower. Mr. Papko noted that there was a benefit in continuity of companies for these projects.
- Dir. O'Brien entertained questions or a motion.
 - Motion: Dir. Henderson
 - Second: Dir. Crawford
 - Abstain: Dir. Anderson
 - Result: This resolution was adopted unanimously by all voting members.



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- D. Resolution to Approve Work Order 2024-9 between the Duluth Airport Authority and Short Elliot Hendrickson, Inc. for the Design of Taxiway A – Phase 6.
- Mr. Papko noted that with the favorable bids received for Phase 5, there are funds to continue working on the design for Phase 6. Continuing with what has happened with previous phases, Phase 6 design will happen now, then will come back with construction bids to start construction of Phase 6 in Summer 2026. This resolution would allow for design to be covered by grants now and not have to cash flow the project.
 - Dir. O'Brien entertained questions or a motion.
 - Motion: Dir. Hansen
 - Second: Dir. Hoff
 - Abstain: Dir. Anderson
 - Result: This resolution was adopted unanimously by all voting members.
- E. Resolution to Approve Amendment 1 to Work Order 2023 – 5 between the Duluth Airport Authority and Short Elliot Hendrickson, Inc. for the Design of North Business Development Hangar Construction Project at Duluth International Airport (DLH).
- Ms. Kayser mentioned this is the resolution for Life Link hangar that was received in March 2023, but then had to go out for RFP. There has been inflation since then, so this is an amendment to the original work order in the amount of \$4,700.
 - Dir. O'Brien entertained questions or a motion.
 - Motion: Dir. Hoff
 - Second: Dir. Crawford
 - Abstain: Dir. Anderson
 - Result: This resolution was adopted unanimously by all voting members.
- F. Resolution to Approve License Agreement between the Duluth Airport Authority and the Duluth Aviation Institute.
- Ms. Kayser shared that Ms. Baker had brought the request from the Duluth Aviation Institute forward for naming rights of Sky Harbor Terminal previously and this is the agreement for that naming space. Ms. Kayser showed pictures of where the name would be added, including exterior signage on the lakeside of the terminal, above the door in the vestibule, and a plaque inside the terminal. The plaque will include information about Robert Gilruth. There is no term on the agreement, but all maintenance and other costs are the responsibility of the Duluth Aviation Institute for as long as they are in existence at the terminal. If they are not maintained, then the DAA could make the decision to remove the signs.
 - Dir. O'Brien entertained questions or a motion.
 - Motion: Dir. Henderson
 - Second: Dir. Anderson
 - Abstain: None
 - Result: This resolution was adopted unanimously.
- G. *May 2024 Financial Reports
- H. *July 2024 Accounts Receivable
- I. *June 2024 Airline Statistics, Landline Statistics



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VIII. DIRECTOR'S REPORTS

- A. Mr. Werner noted that Ms. Briana Johnson is in attendance today and will be joining the board next month. She went through the interview process last night with the city council and is waiting official appointment. He is looking forward to having her join the board next month.
- B. Dir. O'Brien expressed his congratulations to Ms. Delnay on her new position.

ADJOURN: The motion to adjourn was made by Dir. Henderson and seconded by Dir. Hansen. The meeting was adjourned at 9:23 a.m.

Respectfully submitted,

Jenny Delnay
Administrative Coordinator

Approved: _____
DAA Executive Director