



DULUTH AIRPORT AUTHORITY

Duluth Airport Authority Board Retreat Meeting Minutes September 4, 2024

MEETING LOCATION: Sheraton Duluth Hotel, Split Rock Room

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

OTHERS PRESENT: Tom Werner, DAA Executive Director
Mark Papko, DAA Dir. of Operations
Jana Kayser, DAA Dir. of Business Development
Joelle Bodin, DAA Dir. of Finance and Administration
Natalie Baker, DAA Dir. of Marketing and Communications
Jenny Delnay, DAA Finance Technician
Aimee Bone, DAA Administrative Coordinator
Mike Bown, SEH
Shawn McMahon, SEH
Kaci Nowicki, SEH

OTHERS PARTICIPATING VIA ELECTRONIC MEANS:
Paul Huston, HNTB

CALL TO ORDER: Dir. O'Brien called the DAA board meeting to order at 12:30p.m. Dir. O'Brien encouraged directors to ask any questions they may have to encourage discussion on these topics.

Mr. Tom Werner provided an overview of the agenda and introduced Ms. Aimee Bone, DAA's new Administrative Coordinator. Ms. Bone introduced herself and expressed her excitement at having recently moved to the Duluth area and to be starting at the DAA.

Mr. Werner noted that he is excited for everyone to get to know Ms. Bone. She will be the primary board liaison moving forward. Mr. Werner stated that today will have a heavy focus on Air Service, which will be important as the board makes future decisions regarding the potential Denver service.

Mr. Werner invited Mr. Mike Bown to speak on **Air Service Industry Update/Trends:**

- Mr. Bown noted that his presentation will have references to the similar presentation he did last year and note the comparison between the two predictions. He noted that the Breeze and Denver service updates are the same as the recent presentations at the regular board meetings, but are a good reference for these conversations.
- Industry Update and Post-Pandemic Trends:



DULUTH AIRPORT AUTHORITY

- Mr. Bown shared that in general, Network Airlines were doing well in 2nd Quarter Earnings, but ULCC's were struggling this year, which is a major change from previous years. Premium passengers are in strong demand, which economic passengers are not.
- Mr. Bown reminded the board of the historic operational difficulties facing airlines this year, including the Boeing aircraft issues, which grounded about a quarter of Spirit's fleet at one point. This seems to be a short-term issue and is expected to improve soon. The pilot shortage also seems to be getting better, with airlines reporting that by next summer it should be fully resolved. Costs have risen from historic rates and while haven't increased over the last year, still remain comparatively high.
 - Mr. Werner added that these significant cost increases, especially with the large RJs and CRJs, will be important when discussing the Denver business case.
- Mr. Bown shared that the 50-seater planes are down in use significantly and being replaced by larger RJs. Segments under 700 miles in length are growing, but over 700 miles are down due to trip costs per seat. This is a critical number to consider when looking at new air service options for Duluth.
 - Dir. Henderson asked if there is a seat number where the economics break even.
 - Mr. Bown shared that it depends on the route and fares. It seems to be that 700 miles is the breaking point, rather than a number of seats.
- Mr. Bown shared that travel markets are continuing to see growth, especially the Southeast US and the Mountain region, while the northeast US and traditional business markets are still declining. Business travel is starting to return post-covid, but not to pre-pandemic levels yet. Both MSP and ORD are still seeing declines.
 - Mr. Werner noted that it is important to understand what is happening at MSP and ORD, as this explains why there has been an increase in connection times. It is a factor of both the number of flights out of DLH and the number of flights out of the hubs.
 - Dir. O'Brien asked if there is a reason why MSP and ORD are down.
 - Mr. Bown noted he will go into detail later, but it was a strategic decision by the airlines. Delta especially chose to rebuild the costal markets first post-covid and are only now starting to rebuild interior hubs over the next two years. United was hit the hardest by the pilot shortage, so they have been slower to rebound overall.
- State of Business & Leisure Travel
 - Business travel is rebounding, but not evenly across all markets.
 - ULCCs had been growing much faster than network airlines, but this year have been struggling. There is a significant difference this year between "premium passengers" and "lower price-point passengers".
 - Mr. Werner noted that with the median household income of the Duluth region, most do not fly at the premium levels out of DLH. He emphasized the need to target the correct customer. This is also why the DAA gets involved with larger community projects centered around economic development and population growth.
 - Dir. Hoff asked if planes will eventually get reconfigured if premium products continue to sell out.
 - Mr. Bown noted that several airlines are already making this change over the last decade, including expanding premium products offered.
 - Dir. Crawford asked what the resolution was for the pilot shortage.
 - Mr. Bown shared that the airlines started hiring aggressively and raised salaries. He noted that there seems to be a shift with younger pilots to an



DULUTH AIRPORT AUTHORITY

increased work-life balance, as opposed to maxing out overtime opportunities.

- Dir O'Brien inquired if the pilot shortage was resolved faster than expected.
 - Mr. Bown shared that it was a little faster than expected.
 - Mr. Werner added that while the pilot shortage has been fixed for the moment, there are still around 40-50% of pilots are within 10-15 years of mandatory retirement, so this discussion about a pilot shortage could return in the future.
- Dir. Henderson asked about the possibility of AI and drone flights for commercial service in the future.
 - Mr. Bown said that some airlines have started to have these discussions, but there would likely be heavy push back from both pilot unions and consumers. It could be a tough sell from a safety perspective.
 - Mr. Werner noted that any change like this would be seen in cargo first. FedEx has already started to test some unmanned flights.
- Air Service Trends in Regional Communities
 - Mr. Bown shared comparative growth of Midwest markets. The same general trends from last year seem to hold true again this year. Regional Airport growth appears to be driven by ULCCs.
 - Mr. Werner emphasized that the growth of local businesses and other initiatives like housing are vitally important to the growth of DLH's air service. He noted that many other Midwest communities are facing similar struggles as Duluth.
- State of EAS Overview
 - The EAS is the federally subsidized air service, which includes 5 markets in Minnesota. EAS is important to keep an eye on in Duluth because these customers may otherwise fly out of DLH.
 - Mr. Werner noted that smaller communities often take great pride in being able to have jet service into their airports, as opposed to prop aircraft.
 - Mr. Bown shared that based on the current plan recently approved, he estimates that subsidy levels for the EAS program will increase dramatically in the coming years.
- State of Air Service at DLH
 - Mr. Bown reminded the board that air service at Duluth was strong and growing in the years leading up to the pandemic. Since the pandemic, levels have begun to hit 2019 levels now, with load factors remaining strong. DLH has been heavily impacted by Delta's focus on the coastal markets, although they are just now starting to bring back their interior hubs, including MSP.
 - Mr. Werner noted that connectivity of the hubs greatly impacts whether people fly out of DLH and can greatly impact leakage. While historically, there were up to 6 flights per day, those were much smaller planes, so airlines can now get the same number of enplanements with fewer flights.
 - Dir. Hoff inquired about DLH's strategy to capture leakage to MSP.
 - Mr. Werner shared that there are discussions about renewing the Fly Local program, which hasn't been utilized since covid, and focusing on highlighting the benefits of flying out of DLH.
 - Dir. O'Brien mentioned that he has heard from the community that there is a risk of flights not taking off at Duluth due to the weather. He asked if that was accurate and how that should be addressed.
 - Mr. Werner noted that while there are periods of the year where weather heavily impacts flights, cancellations/delays are usually on par with all other airports. It



DULUTH AIRPORT AUTHORITY

can be difficult with fewer flights when having to rebook passengers on the next flight. However, he noted that he takes great pride in having DLH's airfield ready to go even with large snowstorms. He noted the last time the DAA closed the airfield due to weather was in 2007 for two hours in the middle of the night. Other times, it is up to the airlines and the pilots to cancel the flights. Some airlines will choose to keep their planes at larger hubs if the risk of weather is too great.

- Mr. Papko did note that visibility requirements are different at DLH versus other airports like MSP/ORD due to the level of equipment installed.
- Mr. Bown noted that only having two flights per day to ORD is not ideal for connectivity. Mr. Werner reminded the board that additional service to Chicago was included in the incentive program recently passed, which could be awarded to either United for increased service or another airline.
- Breeze Airways Project Status
 - Mr. Bown shared that to grow air service in Duluth, there needs to be more competition, which is why the Denver service made sense, both for direct flights and for connectivity. He advised that Breeze Airways would be a good strategic partner, especially since they are growing as an airline with one new plane every month through 2028. He noted that personal relationships can potentially impact business decisions, especially when deciding between two locations, and Mr. Werner's relationship remains strong with key Breeze leaders.
 - Ms. Kayser asked if Breeze flights can be booked via Google Flights.
 - Mr. Bown thought they were only sold on their website.
 - Mr. Bown shared that Breeze has the right aircraft type for DLH and offers relatively low air fares with multiple product types. Their current expansion strategy is adding more locations to the middle of the country, which is a positive for Duluth. Mr. Bown suggested the possibility of considering routes like Las Vegas, Pheonix or Orlando for Breeze to consider. Mr. Bown shared that there is interest from Breeze in Duluth. He stated that a \$1.5 million MRG would likely move DLH to the top of Breeze's list, but he was unsure if Duluth could or would offer such an MRG. He noted that Mr. Werner has been working with the Duluth Chamber foundation regarding MRG numbers.
 - Mr. Werner shared that they presented the business case to the Chamber Foundation Board a few months ago the same day the Board heard that information and they are still considering what levels they could offer. He noted the need to be realistic regarding the fundraising capacity of this region. The DAA would also support such an initiative with the incentive program to help offset marketing costs, which would be vital to a new airline in the region. Mr. Werner is hoping to hear back from the Chamber Foundation in the coming weeks.
 - Mr. Bown reminded the board that several states have also recently started incentive programs, which would increase competition for these types of MRGs, including Indiana, Ohio and soon Michigan.
 - Dir. Henderson asked if an MRG was presented, is that stating that those funds would automatically go to the airline?
 - Mr. Werner noted that it would have to follow the FAA guidelines, including a 2-year or 3-season maximum timeline. The MRG would be used to essentially buy unused seats to ensure the airline is profitable. He noted that there are some tools that can be built into the agreement to stretch the dollars over a long period of time within the allowed window. He shared that when incentives to Chicago started, there was language that required the airline to report the actual costs of the flight for additional transparency.



DULUTH AIRPORT AUTHORITY

- Mr. Werner will be meeting with Breeze in the coming weeks once he hears back from the Chamber Foundation.

Dir. O'Brien suggested a break at 2:09 pm. Meeting was resumed at 2:22 pm.

- United / DEN Project Status
 - Mr. Bown reminded the board that the DAA received the SCASD grant to start offering service to Denver based on the amount of interest in the region for that route and the connection possibilities. Since then, the biggest challenge has been the costs as they have skyrocketed since the initial proposal, with annual operating costs of this route now projected \$4 million above what they were when the route was initially proposed. This route would be around 810 miles, which is above the 700-mile breakeven point discussed earlier. In order to start a route like this, Mr. Bown suggested there would need to be a \$1.5 million MRG for SkyWest to consider this route at this time.
 - Mr. Werner noted that this was important for the board to discuss. Based on the post-pandemic analysis presented previously by Mr. Bown, the 76-seat aircraft would have to sell 100 seats to remain profitable. It is unclear if there would be enough demand to make a larger aircraft viable for this route. He noted there needs to be a strategic conversation this fall about what to do with the SCASD grant funds and if this is still a viable option for DLH.
 - Mr. Bown shared that cost estimates are what is driving his P&L discussions where are based on two recent deals with United at other airports. While an airline could pick up this route, it doesn't appear to be a long term financially viable route at this time.
 - Mr. Werner discussed some of the items affecting the viability change from pre- to post-pandemic considerations including the change in customer traffic, possibility of other airlines accepting this route, connectivity of Denver as a hub, and the possibility of altering the objectives laid out in the original SCASD grant.
 - Dir. O'Brien asked if there was an expiration on the SCASD grant.
 - Mr. Werner believed it was 2027 but would have to verify. Mr. Bown noted that the DOT can offer an extension, especially given that funds were awarded pre-covid.
 - Dir. Johnson left at 2:38pm.
 - Several Directors asked other questions regarding the use of MRG funds, the change in customers post-pandemic, and the viability of other routes.
- Other New Air Service Goals/Routes Based on Market/Industry Analysis
 - Mr. Bown shared that Delta is nearing their 2019 levels. United has started to grow, but still not at pre-pandemic levels. He noted Avelo has been growing recently, although not currently interested in expanding to DLH. Frontier has a hub presence at Denver, although not to the same level as United. Mr. Bown shared he believed the best growth option for DLH at this time could be Breeze.

Dir. O'Brien suggested a break at 2:58 pm. Meeting was resumed at 3:03 pm.

Mr. Werner presented an update on **Strategic Plan Progress Update 2020-2025**:

- Mr. Werner reminded the board that every year he gives an update on the 5-year strategic plan of the DAA. The board sets the overall objectives, then the staff works to fill in the specifics on a departmental level. This is the second 5-year plan that Mr. Werner has completed with the DAA and it helps give focus to keep the DAA moving forward.



DULUTH AIRPORT AUTHORITY

- Mr. Werner shared the mission and vision of the organization.
- Mr. Werner discussed the categories of the plan and what the staff has completed since the plan was created.
- Infrastructure Renewal:
 - Reconstruct Alpha Taxiway: This project is fully funded and has been completed in phases based on the amount of funding from the FAA each year. While the FAA has committed to funding the whole project, they only release a portion of funds each year. Phases 1-4 will be completed by the end of the year, with Phase 5 currently in design.
 - New ATCT: The master plan and siting study were completed and \$10 million from the ATP grant was received last year. Another request is currently in progress for the ATP grants for \$48 million. There is the State capital investment request of an additional \$14 million. The 70% design review was recently completed.
 - Rehabilitation of Runway 3/21: Originally there was an extension planned for 3/21, however this was determined to be not feasible. This shifted from an extension to rehabilitation. Edge lighting has been completed and no additional progress is planned until 2027.
 - Possible General Aviation Ramp Expansion: This was completed in the area where the airshow is hosted each year. There were initially several demolition projects planned, the focus has shifted towards Life Link and the Cirrus Hush House, especially given the final placement of the new ATCT.
 - Terminal Ramp Expansion: This was completed in 2021.
- Support Economic Development
 - Position Blighted/Underperforming property for redevelopment: Hangar 101 was completed. Hermantown Hydraulics was demolished. The vacant hangar pads on midfield were also removed allowing for additional parking near Cirrus. The Hydrosolutions building demolition is now dependent on the future plans for that site. Hangar 2 will need to come down for the new ATCT sightline. The Life Link and Cirrus Hush House are the current priority projects.
 - Position select Green Space for New Development: Mr. Werner emphasized the need for both aeronautical and non-aeronautical sources of revenue, which can balance each other when one is performing poorly. The team is working to secure FAA land releases for site 1-2 for Minnesota Power. Adjustment for the zoning initiatives has changed to a case-by-case basis with city staff. There are discussions about using an airport zone code for all properties. This focus has shifted from Site 4 to the north side for the Minnesota Power project.
- Strengthen DAA Cash Position:
 - Strength Underperforming Revenue Streams: There has been an average 8% operating revenue growth annually from 2020-2023. There were hopes that Oakwells would invest into new upgrades, but they have struggled to finance that. With the change in ownership, it is unclear what opportunities exist now. Mr. Werner shared that Ms. Bodin has been working on a contract audit program by auditing one tenant group each year. This year was intended to be the FBO, but that changed focus from an audit to cleaning up their agreement with the FBO sale. The Cash Balance of the organization has consistently been above the level set by Operating Policy #28. 99% of the space in the terminal is currently leased.
 - Pursue New Revenue: The new ranch hangers opened last spring and were all leased at open, even with the increased price. The Peer-to-peer car rental policy was recently adopted as a new source of income.



DULUTH AIRPORT AUTHORITY

- Adopt Priority Based Budgeting: This was completed immediately in 2020 and improves the financial process and efficiencies to ensure that everything aligns with the strategic goals of DAA. This continues to be emphasized every year when setting new budgets.
- Stregtehn / Grow Air Service: The specific goals in this category have changed, since they were set pre-pandemic.
 - Add Daily Flight to Western Hub on Major Network Carrier: This is the Denver Flight. The SCASD grant was received and initially targeted for a launch date in 2024. Airline industry capacity constraints and pandemic levels have slowed this progress.
 - Add Low Cost or Ultra Low Cost Carrier to fly select leisure Routes: This is still being pursued. Sun Country routes to Pheonix were discontinued after one season. For Myers returned last year but was hindered by the hurricane. Additional services are being targeted with Breeze.
 - Strengthen Exiting Carriers and Routes: The pandemic reset many of these goals. Currently maintaining over 85% load factors. Daily flights to Chicago have increased this summer. Mr. Werner noted that the original goal of 330,000 passengers by 2025 was no longer realistic post-covid.
 - Stregtehn Customer Experience/Perception and Increase Air Service Marketing: Mr. Werner noted that DAA relies heavily on the Air Service Marketing Grant as the backbone of investment into marketing, although recently added additional money to increase the amount of flexibility in marketing options. The customer satisfaction survey remains a priority but has not been completed yet.
- Strategic Planning for 2026-2031: Mr. Werner shared that the staff directors will be working on a State of the DAA by Department to look back over the last 5 years and discuss successes and challenges. This will be completed by June 2025.
 - From May to August 2025, there will be several stakeholder presentations to include items like air service, general aviation and airport infrastructure at the regularly scheduled board meetings to get board members familiar with these items.
 - A facilitated strategic planning board retreat will occur around August or September, likely over 1.5-2 days. After which, a new strategic plan will be drafted by Mr. Werner and approved by the board around October to December to coincide with the budgeting process.
 - Mr. Werner noted that while this plan takes a year to develop, he takes it very seriously. It has been successful in completing the initiatives set out.
- Dir Hoff congratulated Mr. Werner on the success accomplished over the last four years.
- Dir. Crawford asked if there has been any additional information from Aero Centers and if their goal for the FBO aligned with the DAA's strategic plans.
 - Mr. Werner noted that he is excited to hear more from them in the coming months and how they will continue to support DAA's strategic plans. Their executive team seems to be aligned with that.
- Dir. Hoff left at 3:45 pm.
- Dir. Anderson asked how the DAA funded the new Ranch Hangars.
 - Mr. Papko shared they were funded by the ATP grant, so there was no debt service for those. There was a small local share that was paid in cash. Ms. Kayser added that this was a new grant, which disappears in 2028, so was likely a one-time thing.
- Dir. O'Brien asked about the updated cost projections for the ATCT.
 - Mr. Papko shared that he hopes to have more confirmation on numbers by the end of the year.
 - Mr. Werner noted that there is a possibility the DAA would have to fund a gap in the funding but unclear how much that would be. It is important to keep this funding request



DULUTH AIRPORT AUTHORITY

- in front of all levels of legislatures and gain as much support from as broad of a base as possible. Mr. Werner noted that he can bring back some funding scenarios for the tower project to the board like he has in the past once more in known about this cycle of ATP and state funding.
- Dir. Anderson emphasized the importance of all board members discussing this with legislatures to ensure it remains a priority for them.
 - Dir. Hansen asked the last time an economic impact study was completed for the airport.
 - Mr. Werner shared 2019 was the last one, but one is currently being completed with Giant Voices and UMD.
 - Dir. Henderson expressed his appreciation to the DAA staff for being able to take advantage of multiple funding opportunities.

ADJOURN: The meeting was adjourned at 4:02 p.m.

Respectfully submitted,

Jenny Delnay
Finance Technician

Approved: _____
DAA Executive Director