COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: August 21, 2020

TO: Marcelia Nicholson, Chairman, Milwaukee County Board of Supervisors

FROM: Donna Brown-Martin, Director, Department of Transportation

SUBJECT: **Airport Coronavirus Impact Update**

POLICY

This report is information only.

BACKGROUND

The following is an update intended to provide awareness of the current condition of Milwaukee Mitchell International Airport related to the COVID-19 pandemic. The airport last status report to the board regarding the COVID-19 pandemic impact was in May of this year.

Passenger Levels

Enplaning passenger levels have increased since the last report but have since leveled off. Around the middle of May, passenger levels began to stay above the 1,000 enplaning passenger per day level and from Memorial Day to the end of June enplaning passenger levels ranged from 2,000 to 2,500 per day representing an 80% decrease from last year. From the beginning of July to the middle of July, enplaning passenger levels began to increase to roughly 3,000 per day representing a 70 to 75% decrease from last year. With the resurgence of the virus in many other destination states, numbers began to tapper off in middle of July back to the 2500 level. Since the beginning of August, enplaning passenger levels seem to be hovering around the 3,000 enplaning passenger level.

Based on what we have experienced so far, the airport expects passenger levels to remain relatively consistent without additional growth through the end of Summer. By fall, it is highly likely that passenger levels will decline. Summer travel has been supported by leisure travelers with minimal business travel. Business travel is unlikely to resume until sometime in 2021. While fall is one of the airports less busy time of the year, it is largely supported by business travel. Without business travel in this current climate, it is difficult to see how passenger levels will increase during the fall to winter timeframe.

At an early stage in the pandemic, the airport modeled a return to service that assumed a suppressed summer travel season remaining down 90% with a slow incremental return from July to October ultimately reaching service levels down 60%. Annualized, this would mean a service level reduction of roughly 45%. Given the current pattern and airline scheduled reductions in fall, it appears that passenger levels may be lower than what was originally thought.

Impact to Airlines and Service Providers

Airlines and business providers at the Airport have reacted to this change in condition. Each month from June to August, the Airport saw increased airline service schedules; however, some routes have been cut and may not likely return for some time. These service levels are demand driven and still far lower than what was served prior to the pandemic. The result of providing less service impacts the Airport's budget both in terms of less air carrier revenues and less passenger revenues to support non-aeronautical revenue sources.

The Airport builds its budget based on service level estimates provided by the airlines. These estimates drive other revenue estimates for non-aeronautical revenue sources such as parking, rental car, retail, and food and beverage activity. The airlines understand that the agreement between the Airport and the airlines require the airlines to ultimately make up any differences if a revenue deficit materializes.

Since the onset of the pandemic, the Airport's business partners dropped services to their lowest levels possible. The Airport has understood the need for these businesses to take these measures and had advised the Airport's business partners we would work with them through the pandemic. However, when growth in passengers resumed, and given airline policies to not provide food and beverage service on aircraft, the Airport began working with retail and food and beverage partners to reopen certain services to provide passenger support. Lead times for most of the food and beverage operators in 3 to 4 weeks to get people to return to work and to re-establish supply chains. This has led to a slow and limited reopening of services that are getting some return of revenue, but not near anywhere near expected levels.

At the time of this report, some concessionaires have not remitted any payment to the Airport. We have provided them with monthly updates of what they owe and have talked with them about payment remittance. These revenues are an important offset to airline costs and are there is an expectation by the airlines to seek payment for costs the airlines will otherwise have to provide.

What is unique about the current situation is demand for air service is down universally across the county and world creating a revenue shortfall for the airlines and the Airport's business partners. Traditionally, if one Airport, or one region is down due to a weather event or natural disaster for example, other areas of the country or world are not thereby allowing airlines and providers to use revenues from one area to cover costs in other areas. However, the current situation has put considerable pressure on all groups to come up with revenues without reliable or predictable revenue streams.

2020 Budget

What this ultimately means for the 2020 budget is that revenues that normally offset expenses are far off from what we would expect. Given the residual nature of the Airport's agreement with the airlines, the airlines would be required to make up any differences in budgeted aeronautical and non-aeronautical revenues. In essence, they need to make up for their reduction in air service and for the lack of revenue generated by the Airport's concession business partners.

The Airport has made budget reductions to help reduce expenditures by suspending any discretionary spending, not starting contract work that is not essential, furloughing employees under the workshare program, and only doing work necessary to keep the facility functional. While these reductions help, the Airport has a high degree of fixed costs to maintain the facility necessary to meet our regulatory requirements.

CARES Act funds of $29 million dollars have been provided to the Airport to support employee costs and debt service payments. Given our current fiscal outlook, the Airport will need to use all of these funds in 2020 and the airlines will need to pick up additional costs. Additional CARES Act funds, or similar programmatic funds from the federal government are important to provide additional support for the remainder of 2020 and into 2021. It appears there may be support for additional federal funding for Airports, however, as of the time of this report, talks in Washington have stalled and its unclear if or when a bill may be passed and how much funding will be provided to Airports. If additional funds become available prior to the end of the year, it is possible the Airport could break even for 2020 and would not require any additional airline financial support for Airport operations. It would also provide funding into 2021 which would significantly help stabilize airline rates and provided much needed funds for cash flow purposes.

2021 Budget and Beyond

As mentioned earlier, the Airport has a high degree of fixed costs, particularly given our northern operating climate and the need to handle unpredictable winter weather events. The Airport is committed to continuing to keep costs as low as possible extending cost savings measures taken place in 2020 into 2021. However, even with reductions in costs, lower airline service levels are expected to continue into 2021; therefore, the budget cost basis for airlines will undoubtedly increase.

The Airport will remain focused on managing costs and improving revenue generation. The Airport needs to remain as cost competitive as possible in the near and long term just to return air service back to 2019 levels. The uncertainty and instability of the air carrier industry now will mean cities will be competing for a limited return air service activity. When conditions improve, local use of Milwaukee's Airport will be impetrative to returning service levels back to pre-2020 levels.

Lower enplanement levels will also impact revenues from concessions and passenger facility charges. These revenue sources are primary funding sources for Airport capital projects and debt service payments. The Airport will continue to monitor these sources and make necessary adjustments to the capital program.

The Airport will continue and monitor the situation and adjust as necessary to keep pace with changes in policy and changes in passenger levels to provide a safe, and comfortable experience for those who choose to travel.

RECOMMENDATION

Informational report only.

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