

**DEPARTMENT OF AVIATION
FISCAL YEAR 2025 BUDGET TESTIMONY
APRIL 2, 2024**

INTRODUCTION

Greetings, Council President Johnson and Members of City Council. I am Atif Saeed, Chief Executive Officer of Philadelphia International and Philadelphia Northeast Airports. Joining me today are Tracy Borda, Chief Financial Officer, and Delicsha Wilds, Chief Administrative Officer, as well as many other members of the Department of Aviation staff. I am pleased to provide testimony on the Department of Aviation’s fiscal year 2025 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission:

“Proudly Connecting Philadelphia with the World!” The Department of Aviation (“Aviation” or “Airport”) is comprised of the Philadelphia International Airport (“PHL”) and the Northeast Philadelphia Airport (“PNE”). A self-sustaining entity, the Airport operates without the use of local tax dollars while generating over \$16.8 billion (pre-pandemic) of economic activity for the region. Travelers through our gateway have opportunities to experience a wide variety of products and services that are distinctly Philadelphian.

Plans for Fiscal Year 2025:

Guest Experience: The Airport will develop and launch a training program based on PHL WORKS (Welcoming, Ownership, Respectful, Knowledgeable, Seeks to connect) customer service standards. These include a 60-minute course and full-day Train-the-Trainer sessions to empower stakeholders who will facilitate and incorporate PHL WORKS into ongoing training programs. All training is tailored to enhance employee engagement, motivation, and retention by instilling customer service excellence throughout the organization.

To exceed passenger expectations, the Guest Experience team will provide additional customer service support to guests and stakeholders who will communicate issues in real-time, be proactive in their assistance, and have a greater presence to better serve passengers.

Air Service: Aviation continues its mission to “Connect Philadelphia with the World” and to position PHL as an important hub in the Oneworld alliance network, while also ensuring PHL is a valuable spoke in other global networks. As of March 2024, PHL currently services 31 international destinations, with announced service by American Airlines to three additional destinations in Summer 2024. However, PHL still lacks nonstop service to Central and South America and continues to pursue a carrier to better serve this market. The Asia market from PHL is rebounding and carriers are expressing interest in serving the Philadelphia market. Re-engaging this market and evaluating the business case is a key part of the Airport’s FY2025 air service strategy. This also includes efforts to increase capacity to these regions, with a particular emphasis on serving passengers that use these routes to visit friends and relatives, also known as the “VFR” traveler, or to conduct business.

The Airport is continuing to serve distinct needs and communities within the Greater Philadelphia region by embracing the growth of Ultra Low-Cost Carrier (“ULCC”) and Low-Cost Carriers (“LCC”). There has been a significant increase in capacity represented by ULCCs and LCCs at PHL, which made up 24 percent of PHL’s total capacity in FY2023. Frontier and Spirit Airlines are now the second and third largest carriers at PHL, respectively, and have grown by 25 percent since FY2022.

The Airport is integrating cutting-edge technology and collaborating with key stakeholders to position PHL as the preferred choice for airlines, freight entities and major e-commerce players. The Airport is renovating its current cargo facilities to serve as the foundation for the development of the new 150,000 square foot cargo facility in the northwest area of PHL’s campus. The site also has a dedicated cargo aircraft parking area which was completed in early 2023. The facility will utilize a new system to streamline processes to promote efficiency, transparency, and sustainability.

Sustainability: Aviation plans to engage a solar energy provider in a Power Purchase Agreement to develop a 1.5 megawatt solar farm at PNE. Grid upgrades, including transformer installation in coordination with PECO, have been undertaken to prepare the site for solar energy generation.

Aviation plans to transition the employee and passenger shuttle buses at PHL from compressed natural gas to a low-emission fleet and is developing a strategy regarding fleet procurement and fueling or charging options.

The Airport plans to expand its Airport Carbon Accreditation (“ACA”), a global carbon management certification program administered by Airports Council International. PHL is currently at Level 2 accreditation which includes both measuring and management towards reducing its carbon footprint, as well as plans to move to Level 3 Optimization through the engagement of airlines and other stakeholders to track and reduce emissions. Level 3 includes both the Airport’s reduction plan and engagement of third parties operating at the Airport to move toward reducing their carbon footprint. Northeast Philadelphia Airport is currently at Level 1 which includes measuring and tracking its carbon footprint and plans to step up to Level 2 Reduction in FY2025.

Capital Development: The Airport is working to reconstruct and rehabilitate apron, taxiway and runway pavement to improve safety, serviceability, and eliminate structural deficiencies. Airfield areas at PHL include Runway 9R-27L, Taxiway S, Taxiway J and Runway 8-26 Engineered Material Arresting System (“EMAS”), and at PNE this includes Taxiway C and Taxiway L.

Infrastructure improvements are a key component of PHL's Vision 2026, when Philadelphia will welcome visitors from all over the world for the FIFA World Cup tournament, the MLB All Star game, and the America 250th anniversary celebration. Critical improvements will be made to restrooms, passenger waiting areas, garages, roadways, signage and more.

The existing PNE administrative building, built in the 1970s, will be reconstructed to include improvements such as insulation, roofing, flooring as well as ADA accessible entrances. In addition, a geothermal HVAC system will be constructed for an energy-efficient and cost-effective heating and cooling system.

Diversity, Equity and Inclusion (“DEI”): The Airport plans to launch its “Change Your Altitude” branded workshop series designed to increase the capacity of small, minority-owned businesses through education, access and networking. The series will be structured to incorporate small, industry-focused workshops, an enhanced ACDBE Academy, and other vendor outreach events.

The Airport plans to establish new employee engagement programs and processes that cultivate inclusion and a sense of belonging. Elements of this program include a new employee engagement survey, “Coffee Conversations” with the Airport’s Chief Administrative Officer (“CAO”), and Airport Empowerment Groups. Additionally, we plan to fully implement the Title VI and Community Participation Plans and implement data-driven strategies to enhance accessibility at airports.

The Airport’s workforce development strategy will focus on programs and initiatives addressing the needs of employers while dismantling barriers that block Philadelphians from professional success. Through a variety of engagement opportunities, jobseekers will be connected to resources that support meaningful employment, including job fairs, workshops and Airport career exposures. The Airport is also working to establish an apprenticeship program to address staff shortages in the skilled trades.

PROPOSED BUDGET OVERVIEW

Department of Aviation Financial Summary by Class						
	FY23 Original Appropriations	FY23 Actual Obligations	FY24 Original Appropriations	FY24 Estimated Obligations	FY25 Proposed Appropriations	Difference: FY25-FY24
Class 100 - Employee Compensation	\$51,601,366	\$46,403,576	\$51,500,000	\$58,500,000	\$63,500,000	\$5,000,000
Class 200 - Purchase of Services	\$100,000,000	\$112,895,029	\$140,000,000	\$140,000,000	\$156,229,000	\$16,229,000
Class 300/400 - Materials, Supplies & Equipment	\$7,800,000	\$6,655,571	\$11,800,000	\$11,800,000	\$11,800,000	\$0
Class 500 - Contributions	\$6,300,000	\$5,938,496	\$6,300,000	\$8,300,000	\$6,300,000	(\$2,000,000)
Class 700 - Debt Service						\$0
Class 800 - Payment to Other Funds	\$20,000,000	\$17,583,074	\$33,000,000	\$33,000,000	\$38,000,000	\$5,000,000
Class 900 - Advances/Misc. Payments						\$0
Total	\$185,701,366	\$189,475,746	\$242,600,000	\$251,600,000	\$275,829,000	\$24,229,000

Aviation Fund Financial Summary by Class						
	FY23 Original Appropriations	FY23 Actual Obligations	FY24 Original Appropriations	FY24 Estimated Obligations	FY25 Proposed Appropriations	Difference: FY25-FY24
Class 100 - Employee Compensation	\$138,799,588	\$125,343,133	\$143,964,489	\$151,377,147	\$160,801,771	\$9,424,624
Class 200 - Purchase of Services	\$120,978,909	\$132,218,373	\$164,188,243	\$164,188,243	\$180,923,637	\$16,735,394
Class 300/400 - Materials, Supplies & Equipment	\$19,238,920	\$17,962,631	\$16,401,728	\$16,360,108	\$16,352,572	(\$7,536)
Class 500 - Contributions	\$8,812,000	\$5,722,969	\$8,812,000	\$10,812,000	\$8,812,000	(\$2,000,000)
Class 700 - Debt Service	\$119,361,583	\$116,337,517	\$168,997,540	\$168,997,540	\$151,145,020	(\$17,852,520)
Class 800 - Payment to Other Funds	\$20,019,000	\$5,977,574	\$33,019,000	\$33,019,000	\$38,019,000	\$5,000,000
Total	\$427,210,000	\$403,562,197	\$535,383,000	\$544,754,038	\$556,054,000	\$11,299,962

Proposed Funding Request:

The Aviation Fund is an enterprise fund of the City. The Aviation Fund is self-supporting, using aircraft landing fees, terminal building rentals, concession revenue and other facility charges to fund annual expenses. The proposed FY25 Department of Aviation budget totals \$275,829,000, an

increase of \$24,229,000 (9.6%) over FY24 estimated obligation levels. This increase is primarily due to increases in personnel costs, contractual services, and capital payments.

The proposed budget includes:

- \$63,500,000 in Class 100, a \$5,000,000 increase over FY24 current projected expenditures. This increase stems from our active hiring efforts, as well a full year of our new SIDA badge credential-based pay that was implemented in December 2023 to provide staff with a salary differential due to their expanded range of duties and responsibilities working within a heightened federal security clearance environment.
- \$156,229,000 in Class 200, a \$16,229,000 increase over FY24 current projected expenditures. This funding supports increased costs and additional services for facility maintenance and information technology services, and capital program initiatives.
- \$11,800,000 in Class 300/400, level with FY24 funding.
- \$6,300,000 in Class 500, a \$2,000,000 decrease over FY24 current projected expenditures due to one-time retroactive payments for 2021, 2022, 2023 made in FY24 for a Delaware Co. countywide property tax reassessment that affected various parcels owned by the Airport.
- \$38,000,000 in Class 800, a \$5,000,000 increase over FY24 current projected expenditures. This funding will allow Aviation to pay down a portion of outstanding commercial paper and permit transfers from operating to capital for pay as you go (PAYGO) capital expenditures.

Overall, the total FY25 Aviation Fund request, inclusive of Aviation Funds paid to other City departments, is \$556.0 million, an increase of \$11.3 million (2.0%) from the FY24 operating budget estimated obligations of \$544.8 million. The \$556.0 million request includes \$275.8 million in appropriations for the Department of Aviation noted above, as well as \$151.1 million for debt service, and \$129.0 million for appropriations directly related to the Police, Fire, Fleet Management, Technology, Public Property, Sustainability, Law, and Finance (including Risk Management).

- The \$11.3 million increase to the total Aviation Fund stems primarily from the increases mentioned in the bullets above related to the Department of Aviation, as well as additional costs related to negotiated wage increases for Police and Fire, offset by a \$17.8 million reduction in debt service.

STAFFING LEVELS

The department is requesting 900 budgeted positions for FY25, an increase of 60 positions over FY24. The increase is attributed mainly to filling our custodial and trades positions. The Airport has implemented a three-tiered approach to increase its staffing levels: an expanded recruitment plan, a more streamlined hiring process, and a restructuring of its human resources unit with a stronger focus on departmental staffing needs.

Employment Levels (as of December 2023)		
	FY25 Budgeted	Filled as of December 2023
Number of Full-Time Positions	900	642
Number of Exempt Positions	36	33
Number of Executive Positions (deputy level and above)	18	15
Average Salary of All Full-Time Positions	\$61,829	\$62,373
Median Salary of All Full-Time Positions	\$51,670	\$52,519

NEW HIRES

New Hires (from 7/1/2023 to December 2023)									
	Total Number of New Hires	Chinese	Mandarin	Vietnamese	French	Amharic	Spanish	Berber	Arabic
Black or African American	36				3	1			
Asian	3	1	1	1					
Hispanic or Latino	4						2		
White	16				1		1	1	1
Other	1								
Total	60	1	1	1	4	1	3	1	1

Detail for new hires since December 2023, if applicable: Since January 1, 2024 the Department of Aviation has hired 44 new employees. 13 black females, 4 white females, 22 black males and 5 white males.

PROGRAM BASED BUDGETING:

Program Name: Guest Experience

Program Number: 92-02

Program Description: At PHL, the goal is to elevate the airport experience, offering meaningful interactions that make each guest feel welcomed, valued, and appreciated. Guest Experience (“GX”) works with business partners and stakeholders to enhance the Airport’s customer service and collectively improve the airport experience for PHL guests and team members. The group oversees and facilitates PHL’s GX Stakeholder Council, which brings representatives from across the Airport together to develop a shared vision and initiatives.

FY25 Strategic Goals:

PHL WORKS Badging Standards Rollout. Develop and launch a brief video to introduce the Airport-wide customer service standards to all employees. This introductory video training will be mandatory for all Airport employees obtaining badges, ensuring a consistent understanding and application of customer service principles across the workforce.

Implementation of Airport-wide Customer Service Training. Launch a training program based on PHL WORKS customer service standards. These include a 60-minute course and full-day Train-The-Trainer sessions to empower stakeholders who will facilitate and incorporate PHL WORKS into ongoing training programs. All training is tailored to enhance employee engagement, motivation, and retention by instilling customer service excellence throughout the organization.

Scale GX team to Include Additional In-Terminal Customer Service Staff. To exceed passenger expectations, this in-terminal team will provide additional customer service support to guests and stakeholders who will communicate issues in real-time, be proactive in their assistance, and have a greater presence to better serve passengers.

FY25 Performance Measures:

Measure	FY23 Actual	FY4 Target	FY25 Target
Number of boarding passengers (million)	13.35	14.90	15.50
Operations (# arrivals and departures)	287,059	300,000	310,000
Freight and mail cargo (tons)	583,033	580,000	480,000 ¹
Non-airline revenue (\$ million)	\$265.11	\$165.50	\$175.00
Retail/beverage sales (\$ million)	\$194.29	\$190.10	\$200.00

¹ There is an ongoing global decline in cargo tonnage and recently the U.S. Postal Service announced a 90% reduction in airmail service contracts nationally.

Program Name: Air Service

Program Number: 92-02

FY25 Proposed General Fund: \$275,829,000

Program Description: The Air Service program drives growth by nurturing, identifying, and building relationships with the community, airlines, and other partners. Air Service Development and Cargo Services lead efforts based on gathered intelligence to strategize, build for and onboard short term, mid-term and long-term opportunities that support the diverse needs of communities and the Aviation Department’s mission: Proudly Connecting Philadelphia with the World.

FY25 Strategic Goals:

Expansion of New Nonstop Destinations to Mexico, Caribbean, Central America and Asia. PHL currently services 28 international destinations, with announced service to three additional destinations in Summer 2024. However, PHL still lacks nonstop service to Central and South America and continues to pursue a carrier to better serve this market. Mexico and the Caribbean were a strength throughout the pandemic as leisure demand rebounded more rapidly than others. The Asia market from PHL is rebounding and carriers are expressing interest in serving the Philadelphia market. Re-engaging this market and evaluating the business case is a key part of the Airport’s FY25 air service strategy. This also includes efforts to increase capacity to these regions, with a particular emphasis on serving passengers that use these routes to visit friends and relatives, also known as the “VFR” traveler.

Strategic Positioning in Low-Cost and Ultra Low-Cost Carrier Segment. The Airport is continuing to foster healthy competition within the Greater Philadelphia region by embracing the growth of Ultra Low-Cost Carrier and Low-Cost Carriers. There has been a significant increase in capacity represented by Ultra Low-Cost Carriers and Low-Cost Carriers at PHL, which made up 24 percent of PHL’s total capacity in FY23. Frontier and Spirit Airlines are now the second and third largest carriers at PHL, respectively, and have grown by 25 percent since FY22.

Transforming PHL into a thriving cargo hub by leveraging strategic advantages. The Airport is integrating cutting-edge technology and collaborating with key stakeholders to position PHL as the preferred choice for airlines, freight entities and major e-commerce players. The Airport is renovating its current cargo facilities to serve as the foundation for the development of the new 150,000 square foot cargo facility in the northwest area of PHL’s campus. The site also has a dedicated cargo aircraft parking area which was completed in early 2023. The facility will utilize a new system to streamline processes to promote efficiency, transparency, and sustainability.

FY25 Performance Measures: *No measures associated with this program. All measures for the Aviation Department are housed in the Guest Experience program.*

Program Name: Sustainability

Program Number: 92-02

Program Description: Aviation strives to operate as a world class global gateway that minimizes environmental impacts, operating costs, and maintenance needs through sustainable management of resources in the areas of water, waste, air, noise, and energy.

FY25 Strategic Goals:

Development of PNE Solar Farm. Aviation plans to engage a solar energy provider in a Power Purchase Agreement to develop a 1.5 megawatt solar farm at PNE. Grid upgrades, including transformer installation in coordination with PECO, have been undertaken to prepare the site for solar energy generation.

Zero Emission Shuttle Bus Strategy. Aviation plans to transition the employee and passenger shuttle buses at PHL from compressed natural gas to a zero-emission fleet and is developing a strategy regarding fleet procurement and fueling or charging options.

Airport Carbon Accreditation Expansion. The Airport Carbon Accreditation (“ACA”) is a global carbon management certification program administered by Airports Council International. PHL is currently at Level 2 accreditation which includes both measuring and management towards reducing its carbon footprint and plans to move to Level 3 Optimization through the engagement of airlines and other stakeholders to track and reduce emissions. Level 3 includes both the Airport’s reduction plan and engagement of third parties operating at the Airport to move toward reducing their carbon footprint. Northeast Philadelphia Airport is currently at Level 1 which includes measuring and tracking its carbon footprint and plans to step up to Level 2 Reduction in FY2025.

Program Name: Capital Development

Program Number: 92-02

Program Description: Aviation is in the midst of a multi-year, multi-billion dollar capital development program to make critical improvements and develop new infrastructure at both PHL and PNE. The program brings innovations and improvements to the landside, terminal, and airfield, improving the customer experience, laying the groundwork for future development, incorporating sustainability, and enhancing the Airport’s role as a regional economic engine.

FY25 Strategic Goals:

Advancing PHL and PNE Airfield Improvements. The Airport is working to reconstruct and rehabilitate apron, taxiway and runway pavement to improve safety, serviceability, and eliminate structural deficiencies. Airfield areas at PHL include Runway 9R-27L, Taxiway S, Taxiway J and Runway 8-26 Engineered Material Arresting System (“EMAS”), and at PNE this includes Taxiway C and Taxiway L.

Advancing PHL infrastructure improvements for 2026. Infrastructure improvements are a key component of PHL's Vision 2026, when Philadelphia will welcome visitors from all over the world for the FIFA World Cup tournament, the MLB All Star game, and the America 250 celebration. Critical improvements will be made to restrooms, passenger waiting areas, garages, roadways, signage and more.

Begin construction of PNE's administrative building, expected to be the Airport's first LEED facility. The existing facility, built in the 1970s, will be reconstructed to include improvements such as insulation, roofing, flooring as well as ADA accessible entrances. In addition, a geothermal HVAC system will be constructed for an energy-efficient and cost-effective heating and cooling system.

FY25 Performance Measures: *No measures associated with this program. All measures for the Aviation Department are housed in the Guest Experience program.*

Program Name: Diversity, Equity & Inclusion

Program Number: 92-02

Program Description: Aviation is committed to addressing disparities by building awareness, identifying solutions, and fostering a dynamic workplace that ensures equitable opportunities and outcomes for all employees.

FY25 Strategic Goals:

New workshop series: Change your Altitude. The Airport plans to launch its "Change Your Altitude" branded workshop series designed to increase the capacity of small, minority-owned businesses through education, access and networking. The series will be structured to incorporate small, industry-focused workshops, an enhanced ACDBE Academy, and other vendor outreach events.

New employee engagement programs. The Airport plans to establish new employee engagement programs and processes that cultivate inclusion and a sense of belonging. Elements of this program include a new employee engagement survey, "Coffee Conversations" with the Airport's Chief Administrative Officer ("CAO"), and Airport Empowerment Groups. Coffee Conversations are designed to provide a safe space for employees to engage in honest dialogue centered around inclusion and belonging. The goal is to gain understanding and insight from the workforce to inform decisions. Airport Empowerment Groups are intended to promote employee engagement, networking opportunities to make professional contacts, and information sharing, to identify gaps in Airport business strategies, support airport initiatives, and strengthen team building and social events. .

Workforce development external strategy. The Airport’s workforce development strategy focuses on programs and initiatives addressing the needs of employers while dismantling barriers that block Philadelphians from professional success. Through a variety of engagement opportunities, jobseekers will be connected to resources that support meaningful employment, including: job fairs, workshops and Airport career exposures. The Airport also is working to establish an apprenticeship program to address staff shortages in the skilled trades.

FY25 Performance Measures: *No measures associated with this program. All measures for the Aviation Department are housed in the Guest Experience program.*

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

Grant Funding for Capital Projects

Under the Bipartisan Infrastructure Law (“BIL”) - Airport Infrastructure Grants, PHL was awarded \$30.5 million in Federal Fiscal Year (“FFY”) 2023 and \$28.8 million in FFY24, while PNE was awarded \$844,000 in FFY23 and \$851,000 in FY24. Under competitive BIL Airport Terminal Program (“ATP”) grants PHL was awarded \$39.0 million towards restroom revitalization efforts which involves adding smart restroom technology, private nursing suites, service animal relief areas and adult changing rooms. Under the same ATP program, PHL was also awarded \$35.4 million towards the terminal energy optimization program, which aims to improve energy efficiency, replace aging infrastructure, reduce carbon emissions and improve local air quality.

Under the Airport Improvement Program (“AIP”) for FFY24, Aviation anticipates receiving approximately \$30.0 million from Federal Aviation Administration – for airfield related capital improvements.

Transportation Security Administration (“TSA”) Operating Grants

The TSA annually awards two Other Transaction Agreements to PHL to help offset the Airport’s cost of providing explosive detection through canine teams, and law enforcement officer support at security checkpoints. The current TSA explosive detection canine agreement allocates \$555,500 per year to PHL for a total of 4.5 years ending on 12/31/2024. The TSA Law Enforcement Officer (“LEO”) program partially reimburses expenses incurred by airport police officers for providing check point coverage around the clock at all the TSA checkpoints. The current LEO agreement expires on 3/31/2024. The Department of Aviation is expecting the LEO program to be renewed the same yearly funding level of \$1.2 million.