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ADMINISTRATION & FINANCE  
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## MASSPORT'S FINANCIAL RECOVERY PLAN

### DECEMBER 16, 2002

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This is one of a series of letters designed to serve as a progress report on the Authority's experience in responding to the financial situation brought about by the current economic slow-down and the events of September 11<sup>th</sup>.

**Financial Reporting:** The Authority is pleased to announce that the Comprehensive Annual Financial Report (CAFR) for fiscal year 2002 has been posted to the Investor Relations Section of Massport's website. This section can be accessed from [www.massport.com](http://www.massport.com) by clicking on "About Massport" and then on "Who We Are". The financial statements included in the CAFR have been prepared in accordance with GASB 34 and contain Management's Discussion and Analysis of the annual financial statements prepared in accordance with GAAP, extensive statistical tables for FY1993 – FY2002, and tables that correlate the GAAP reports of revenue, expenses and net income with the comparable reports of Revenues, Operating Expenses and Net Revenues under the provisions of the 1978 Trust Agreement.

The Annual Statement of Financial Information and Statistical Data for FY2002 (prepared in accordance with Massport's Continuing Disclosure Agreements in order to satisfy the requirements of SEC Rule 15c-12) is also posted on the Investor Relations Section of the Authority's web site.

**FY02 Financial Results:** In October 2001, Massport's Board revised the Authority's revenue and operating budgets as part of the Financial Recovery Plan. That plan was based upon the assumption that, on average, FY2002's passengers at Logan would be 70% of the originally expected FY2002 levels, and that parking revenue would be 65% of the prior year. The resulting FY2002 revenue projection was \$305.6 million (down from \$364 million). The revised operating fund budget for FY2002 was \$203.3 million (down from \$226.6 million).

Massport's actual FY2002 revenues (calculated per the 1978 Trust Agreement) were \$327.5 million, approximately \$21.9 million more than was projected in the fall of 2001. In addition to generating additional revenues, Massport also succeeded in holding down operating costs to \$201.4 million, nearly \$1.9 million less than forecast in the Financial Recovery Plan. Together, these factors yielded an annual debt coverage of 1.81 times debt service and a contribution to the Improvement and Extension (I&E) Fund of \$27 million. These resources have been directed toward important capital projects, especially

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those that enhance security. For a more complete discussion of the Authority's financial results for fiscal year 2002, please refer to the CAFR.

**FY2003 Financial Health (unaudited):** For July – October of 2002, the first third of fiscal year 2003, Massport's operating revenues of \$119.6 million were on budget and 13.5% ahead of the same period of FY2002. The \$69.6 million in operating expenses were 3.3% below budget. Net revenues for July – October 2002 were \$53.2 million, or 3.9% above budget. For the first four months of FY03, cash collections of \$114.6 million were 2% ahead of the first four months of FY02. As of October 31<sup>st</sup>, the balance in the I&E fund was \$135.8 million and the balance of the PFC Capital Fund was \$22.2 million.

**Key Statistics (unaudited):** During this period, 8.3 million passengers flew through Logan, a figure that is 1% above the FY2002 passenger count and 17% below FY2001 for the same periods. Landed weights were 2% ahead of budget, although they were 5% below the same period in FY2002 and 15% below the first third of FY2001. Parking garage revenue of \$21.6 million was 5% below budget but 38% ahead of the first four months of FY2002 and 2% ahead of the same period of FY2001. (Parking rates were increased on November 19, 2001.) Commissions (which include concessions revenues and rental car fees) during this period of \$16.4 million were 2% ahead of budget and 7% ahead of the same period of FY2002.

**Security Initiatives:** In September 2002, Massport hired Dennis Treece as the Director of Corporate Security. Colonel Treece has extensive experience in security and counter-terrorism in both the U.S. Army and in the private sector. Prior to the statutory deadline of November 19, 2002 the Transportation Security Administration (TSA) completed the transition at Logan Airport to federal control of all passenger screening. In July, construction began at Logan Airport on the up to \$146 million of terminal retrofits required to integrate explosive detection systems with various in-line baggage systems and house the TSA's new baggage screening equipment and personnel. As of November 30<sup>th</sup>, 33 of the eventual 38 L-3 explosive detection machines had been installed. Massport is determined to do its part to enable the TSA to achieve the monumental goal of meeting the statutory December 31, 2002 deadline for screening all checked baggage.

**Impact of US Airways and United bankruptcy filings:** In FY2002, US Airways carried 14.8% of Logan's passengers while United carried 10.1%. Both of these carriers have filed for reorganization under Chapter 11 of the U.S. bankruptcy code, and they continue to operate at Logan Airport. Prior to each carrier's bankruptcy filing, the Authority closely monitored and aggressively collected accounts receivable in order to minimize potential unsecured claims in the event of such a filing. The Authority has filed a Proof of Claim against US Airways for approximately \$930,000 in pre-petition charges; however, to date, US Airways has remained current with its landing fee payments and terminal rentals. It is expected that United will owe Massport just under \$1 million in pre-petition landing fees, terminal rents and other charges. Because United continues to operate at Logan Airport, the Authority expects that United also will remain current with its post-petition obligations to the Authority. Through retention of security deposits and set-off of other amounts, Massport may be able to reduce or eliminate any financial exposure to the pre-petition accounts payable by US Airways and United. As both US Airways and United work to reorganize, the Authority will continue to monitor closely the financial and operational status of each carrier at Logan Airport in order to minimize any loss to the Authority and to maximize use and control of the Authority's facilities.

**Investor Relations:** Questions or requests for additional information should be directed to Leslie A. Kirwan, Director of Administration & Finance at 617-568-1035 or [lkirwan@massport.com](mailto:lkirwan@massport.com) or to Betsy Taylor, Director of Finance at 617-568-1047 or [btaylor@massport.com](mailto:btaylor@massport.com).