February 7, 2015

Memorandum to: Councilwoman Kathee Burke-Gonzalez

From: Airport Planning Committee, Noise Sub-committee

Re: Seventh Preliminary Findings and Recommendations – Economic Impact of Airport Regulation

There are four ways in which the airport might enhance the economy of East Hampton, and several ways in which it can detract. The four types of positive contribution are:

1. The addition to "domestic," meaning local output, or income, due to services provided by and at the airport;

2. The local spending of travelers who would not come to East Hampton *but for* the airport;

3. The additional spending in the local economy due to the re-spending of the additional income from both 1. and 2. above;

4. The facilitation of commerce by bringing goods and services to East Hampton not otherwise available and enabling East Hampton workers and business to send their goods and services elsewhere.

The last three of the four are inconsequential to the economy of East Hampton and the East End.

East Hampton is part of the greater New York City metropolitan area, not only because of its proximity, but because the basis of its modern economy is as a tourist and second-homeowner destination, principally the latter, for NYC and vicinity. We cherish the farming and fishing heritage of our community, but they are no longer the mainstays of our economy. As it says of us in wikipedia,

> Demographics in East Hampton are skewed by the fact that more than half the houses are owned as second homes (among the owners are some of the wealthiest people in the country). The East Hampton economy is based on retail and services to support the residential community.

As such, East Hampton has ready access to goods and services, and the ability to send its goods and services out, not least through many airports the length of Long Island, including JFK, LaGuardia, MacArthur, and Gabreski. We are also served by a railroad, an interstate highway, limousine and jitney, and ferry service to New England. The airport has no freight capacity; the overwhelming majority of service providers, in both directions, travel by road (as easily noted by the eastbound traffic in the morning and the westbound traffic in the afternoon). To whatever extent East Hampton either imports or exports, including people and their services, virtually none of it is via East Hampton Airport. Annual individual arrivals in East Hampton via the airport are on the order of 15,000 (with a like number headed to other, neighboring towns via our airport), far less than the arrivals on a single summer weekend.[*] The arrivals by air are on the order of a mere 1% of the annual total.

[*] We estimate 60,000 to 80,000 arrivals to East Hampton on a summer week-end, not including tradespeople. A like number would arrive to the portion of Southampton

The economic phenomenon of re-spending of income to generate a larger total economic product is generally captured by what is referred to in economics as an output or income multiplier. The size of the multiplier depends on how much of the goods and services consumed in any geographical area -- area being anywhere from a small community to the entire United States – is produced within that area. The federal Bureau of Economic Analysis (BEA), in its manual on regional multipliers, explains it thusly:

> For example, the final-demand output multipliers for the motor vehicles and equipment industry for the county, and thus the impacts, are relatively small, because most of the economic effects occur in the other counties. The multipliers, and the impacts, are larger for the metropolitan area and the economic area, because the larger regions contain a larger number of the businesses from which the factory purchases its inputs, a larger proportion of the factory's labor force, and a larger proportion of the businesses that serve the labor force.

The final demand multiplier for the Town of East Hampton would be much smaller even than that of Suffolk County, because East Hampton produces little of what it consumes.

Periodically, the FAA and NYS DOT prepare a report purporting to detail the economic benefits of aviation. The most recent such report, entitled *New York Statewide Airports Economic Impacts Study*, dates to 2011. In that study (purportedly based on the regional multiplier methodology of the BEA), the DOT assumes and employs an employment multiplier of 1.3 for small airports generally

---

equally proximate to the East Hampton Airport. This yields 750,000 to 1,000,000 East Hampton arrivals during the peak of the season. Including tradespeople, a plausible figure for annual arrivals in East Hampton is of 1.2 million to 1.5 million. Airport arrivals are estimated upon the assumption that approximately 6,000 jet and helicopter flights carry an average of five passengers, for a total of 30,000, half of whom would be destined to East Hampton. The airport therefore accounts for on the order of 1% of annual arrivals.

and 1.32 for East Hampton and an output multiplier for East Hampton of 1.46. This latter is on the order of magnitude of multiplier estimates for the entire US economy. There is no justification offered for the choice of these multipliers, no input-output study, particularly for small general aviation airports across the state where the local products, and thus the extent of re-spending, vary significantly.

However, by its terms, this is not a multiplier for the effect of income generated at the airport on East Hampton's economy, but for the impact of the East Hampton Airport *on the entire State of New York*. The wages of a helicopter pilot based in NYC and living in Westchester would be included, as would a portion of the aircraft maintenance required for an aircraft traveling to and from East Hampton, even though the maintenance is conducted at a hangar far from East Hampton. The state is a large economy in which many of the inputs for a given economic activity are produced within the economy. Even if this multiplier made sense for the impact of East Hampton Airport on the State of New York, it has no application to East Hampton itself.

The economic income of East Hampton residents is spent principally on imports, not on locally produced goods and services, because the major source of income to East Hampton, and therefore the major product, are the services provided to those who are not year-round residents. Given that East Hampton imports most of what is consumed here (groceries and gas, although purchased locally affording some local margin or net income must be imported, along with building materials, clothing, and just about everything else other than some local services), a multiplier of 1.1 for the impact of East Hampton Airport on the

economy of its immediate surroundings (half of which are in Southampton) would be generous.

According to the NYS DOT report,

> Output, or economic activity, is defined as the total value of goods and services produced by an airport. Direct output is measured by the total expenditures at an airport or as the result of the airport's existence (such as air visitor spending off the airport). These-visitor related expenditures are typically in the hotel/motel, restaurant, transportation and retail sectors.

The report attributed $8.6 million of direct output to the airport. It also attributed 65 direct jobs to the airport to generate that output.

In reality, based on discussions with the airport manager, only approximately 25 people are employed at the airport as a whole, some of them seasonally. The figure of 65 is either invented, based on *pro forma* assumptions about the level of services provided at East Hampton given the number of annual aircraft operations, and/or makes unwarranted assumptions about "visitor spending off the airport" based on *pro forma* assumptions about tourism generally that do not apply in East Hampton, a second-home economy, not principally a tourist economy.

East Hampton is not a typical tourist destination served by short-stay visitors who arrive by air. Air travel to East Hampton is typically by privately owned or privately chartered jet or helicopter. There is no scheduled service. In East Hampton, airport users are overwhelmingly people with second homes and their guests. Short-stay visitors to motels, hotels, and guesthouses travel by car, rail, bus, or ferry. Thus, the *pro forma* inclusion in direct airport output of any material level of assumed expenditure by short-stay guests who would not arrive

by other means is a category error. The typical pattern of tourist travel and expenditure does not apply in East Hampton.

While claims have been made that, without the airport, owners of expensive homes would not come to East Hampton, this is not merely implausible but risible. If the airport vanished into thin air, homes on the beach would not turn into a ghost town with their shutters flapping in the wind. If there were no airport, virtually everyone who comes to East Hampton by air would arrive by other means. People have been coming to the Hamptons from New York and environs since a time when they had to travel for a day, not merely two to three hours. If there are indeed any residents who would not come to or live in East Hampton without direct air access (bearing in mind that there is air access at Gabreski Airport 26 miles distant or Southampton Heliport 15 miles distant), they would sell their homes and be replaced by others, with absolutely no net impact on the economy of East Hampton.

The economic principle involved is "additionality," the number of *additional* visits to the locality that would not occur but for the existence of the airport. In East Hampton, there is no reason to believe that figure is anything more than negligible. An analysis commissioned by aviation interests and performed by the Rudin Center at NYU actually goes so far as to attribute what it estimates to be $48 million of aggregate spending by people who use East Hampton Airport entirely to the airport itself, a gross analytic error. The same people would be in the East End spending the same money whether or not the airport existed, even assuming the gross figure is accurate.

There is no evidence offered in the DOT report or the Rudin puff piece of even negligible additionality attributable to East Hampton Airport. There is no reason to expect any. The airport is not the necessary cause of any trip to East Hampton or the East End. Accordingly, analysis of the actual economic output of East Hampton Airport is properly limited to its net income, including that of fixed based operators, net of factor inputs purchased from outside the locality. This net income is shared between the salaries of employees, the profit of owners, and a modest level of local purchases.

The airport itself is forbidden by federal law, the grant assurances that it entered into in exchange for FAA subsidies, from generating a profit so long as it is operated as an airport. All income generated from the airport property, including the rents paid by tenants at the industrial park, can be expended only on the airport itself for the benefit of aviation users. Nothing can be transferred to the Town's general fund (except in payment, at cost, for services rendered by the Town to the airport).

As a guide to a plausible figure for airport output, we can consider that there are 25 direct jobs, rather than 65. Applying the ratio of 25/65 to the *pro forma* direct total expenditures of $8.6 million cited by the DOT yields an on-airport expenditure estimate of $3.3 million. As shall be seen, this is indeed a very fair estimate of the gross economic output of the airport.

Because East Hampton is a small economy, a large portion of the net product generated must immediately be spent on inputs from elsewhere. Furthermore, anything earned at the airport as income after expenses must

ultimately be spent on airport infrastructure which will be provided overwhelmingly by contractors external to East Hampton (particularly because airport paving, the largest expense, is a specialty). Because the airport, by law, cannot generate revenue in excess of its own expenditures for aviation, the appropriate measure for the income of the airport itself is therefore the salaries and benefits of employees plus any inputs that could plausibly be purchased locally.

In 2014, salaries and benefits for the municipal airport operation were approximately $350,000, according to the BFAC Airport finance sub-committee. Other purchases in total that might possibly have been locally sourced amount to $200,000.* On the order of $200,000 per year is paid to the Town for services rendered. The total net product for the airport is therefore approximately $750,000 a year.

Income for fixed based operators is difficult to estimate because their books are not disclosed to the Town. However, an estimate can be made based on fuel sales, which are overwhelmingly the bulk of net margin for FBOs. The BFAC Airport finance sub-committee has estimated that gross margins on jet and helicopter fuel sales are on the order of $2.00 per gallon (before the Town's fuel flowage fee). Based on 2014 fuel flowage fees paid to the Town of $0.30 per gallon, fuel gross profit in 2014 would be on the order of $1.3 million.

Separately, the BFAC sub-committee estimates 270,000 gallons of sales to

* Other major expenditures paid to vendors outside East Hampton, totaling $650,000, include the air traffic control tower, noise monitoring, insurance, and utilities. These, together with the possibly locally sourced expenditures, comprise the operating budget of $1.1 million.

helicopters and 560,000 gallons of sales to jets, a total of 830,000 gallons in 2014 (following a surge in helicopter traffic above the 2013 level).[+] This translates to roughly $1.4 million of margin for FBOs, confirming the financial estimate above.[*] A fair assumption is that additional gross margin earned by FBOs, beyond their fuel sales, goes to pay for inputs not locally produced.

Alternatively, we can assume that 20 employees of FBOs earn an average of $50,000, for a total of $1 million, and that owner profits are $700,000, the ratio of profit to labor income for the country as a whole. That yields an overall estimate of $1.7 million of net product for FBOs. If we take a further step and assume that household income of airport employees is $80,000 per year, the local average, and that those employees account for 2/3 of household income, then the estimate for the net product of FBOs rises to $2.25 million. When added to the output of the municipal airport operation, we have a plausible range of $2 million to $3 million for airport product. With a multiple of 1.1, the high end of this range yields $3.3 million of local economic impact, the same estimate we obtain by adjusting the NYS DOT estimate for the real level of airport employment.

Yet another alternative method, based on the number of employees, yields

---

[+] For 2013, the comparable figure based on BFAC estimates is approximately 750,000 gallons.

[*] Most of the goods and services consumed by jets and helicopters using East Hampton Airport -- pilot salaries, maintenance, insurance, amortization, and most of their fuel -- are not purchased locally, which is why the local impact, as opposed to the state-wide impact, is small. Helicopters do not purchase fuel locally at the same rate as jets in part because most helicopters are ferrying passengers from a base in or near NYC and often cannot afford the time required to turn off their engines to re-fuel and then wait to re-start, about 45 minutes altogether. Jeff Smith, the executive director of the Eastern Region Helicopter Council, advised the BFAC sub-committee that most helicopters and jets are large enough to "tanker" most of their fuel requirements rather than purchase in East Hampton.

the same result. Median household income in East Hampton is $80,000 per year. Labor share in the US is 60%, implying $133,000 of aggregate output per worker at East Hampton Airport. Twenty-five workers would therefore generate $3.3 million of direct output, exactly the same figure obtained by adjusting the DOT estimate for actual, rather than assumed, employment. Thus, we have net income estimates ranging from $2.2 million to $3.3 million of direct local airport product, as the NYS DOT report defines it.

That, however, would be the economic impact on the area surrounding the airport, not on East Hampton. Only half of the aircraft based at the airport are owned by East Hampton residents. This is not surprising as the airport directly abuts Town Line Road. Only one of the two FBO owners is an East Hampton resident. It is a fair assumption that half of the locally generated income from the airport flows to Southampton and other neighboring towns. Thus, the income injection to the East Hampton economy is in the range of $1.1 to $1.7 million per year.

$600,000 a year is generated in property rents at the airport and could still be generated if the airport were not operated as an airport. The *marginal* economic impact on East Hampton of aviation operations is thus a mere $500,000 to $1.1 million per year.

There are not more than 10,000 year-round households in East Hampton. Median household income of $80,000 per year yields an estimate for the total East Hampton economy of roughly $800 million per year. The airport, at the high estimate of $1.1 million per year of marginal economic impact on East Hampton,

therefore represents not more 2/10 of 1% of the East Hampton economy, and an even smaller share of the Southampton economy, which is much larger. It is noteworthy that Southampton's Town Board and Supervisor are urging that East Hampton act to restrict operations and reduce noise although half of the local economic impact of the airport is likely experienced in Southampton Town.

To check the realism of this estimate, we can consider again employment. Seven thousand is a reasonable estimate of employment for the 10,000 year-round households in East Hampton, given that there are many retirees. Twenty-five airport employees, half of whom are assumed to be East Hampton residents, therefore represents 2/10 of 1% of East Hampton employment. The figure is identical to what we obtain as the airport's share of East Hampton total product. While this is necessarily an estimate, the fact that multiple means of making the estimate converge suggests strongly that the order of magnitude is correct.

In considering whether and how to regulate airport access, it is by no means the case that most of the existing income disappears. What is under discussion is not closing the airport, but limiting aircraft access. As the BFAC committee has determined that the airport can be self-sustaining at a reduced level of traffic, and it must be so in order not to require any future FAA subsidies, *the entire net income of the municipal airport operation itself is necessarily maintained despite any access restrictions*. Only the estimated FBO net product of $1.3 to $2.3 million is potentially affected.

The Noise Sub-committee estimates that its proposed measures would, on a proportional basis, reduce helicopter and jet fuel sales by 325,000 gallons a year

from their 2014 level. The income/output reduction to FBOs would be approximately $550,000 per year, of which roughly half would be a loss to the East Hampton economy. With a multiplier of 1.1, the most aggressive estimate of the cost of proposed airport access restrictions to the East Hampton economy is approximately $300,000 per year.* This is not even 4/10 of 1% of the East Hampton economy.

Against this we must weigh the fact that the airport is already subsidized by the public in the form of the exclusive use of 600 acres of valuable, commercially-zoned property that is in limited supply. Though not all of the property is used for aviation purposes, under federal law all income generated by the airport property must be used exclusively to support the airport itself and exclusively for the benefit of aviation users. The BFAC committee has estimated not less than $50,000 an acre per year as fair market rent for the property. If a third were developed, the rent to the Town would be $10 million per year. The airport property could likely generate many more than 25 jobs, even if only lightly developed, as an airport is, after all, mostly undeveloped space. The local employment potential is certainly in the hundreds. Although the airport generates an estimated marginal $1.1 million per year for the East Hampton economy, this is considerably less than the value of the subsidy provided by the taxpayers.

Also to be considered is the economic cost of the noise imposed on residents. The Phase I noise study estimate 30 million exceedances per year due

* 2014 saw a surge in helicopter traffic attributable at least in part to crowd-sourcing. From the previous, more typical level of 2013, 750,000 gallons of helicopter and jet fuels sales, the lost economic output in East Hampton due to airport use restrictions would be approximately $230,000.

to the airport. An exceedance is defined as an aircraft generating noise across a residential property line in excess of the standards set in the Town noise ordinance. Would East End residents pay 10 cents per exceedance to avoid all the noise? More than likely. Even someone afflicted by every helicopter landing in a year would have to pay only $400 per year to be rid of them all.

If the value of the cost of exceedances is 10 cents a piece, the annual total monetized cost of airport noise is $3 million per year -- no doubt far too low – exceeding its marginal economic impact on the area, and that before consideration of the cost of the public land subsidy to aviation.

If 1/3 of the noise is incurred in East Hampton itself, that is $1 million per year of economic cost to East Hampton residents for the not more than $300,000 per year of marginal economic output/income that, by hypothesis, flows to the Town, completely ignoring the cost to the public of the land subsidy to aviation. The Town is not generating economic income at the airport. Rather, it is selling residents' peace and quiet to commercial jet and helicopter operators, and that for a pittance.

A 2/3 reduction in exceedances, which is expected if the Noise Sub-committee's proposed rules are adopted, saves East Hampton residents $700,000 per year at an economic cost to the economy of the Town of not more than $300,000 per year, a net economic gain. If other communities on the East End are considered, there is a $2 million economic gain due to the noise reduction at an estimated $600,000 loss to the economy of the East End, an even better margin.

There is an additional, likely significant, adverse economic impact of airport noise – loss of real estate value and the consequent reduction in the tax base of the Town of East Hampton. Appraisers, real estate brokers, and afflicted owners recognize that the market value of residential property in the airport noise impact area, which includes properties at a significant distance from the airport, is adversely affected. Given that thousands of homes are affected by airport noise, the loss in value could easily be in the tens of millions of dollars. The devaluation then reduces the tax base and imposes an additional tax burden on all East Hampton Town taxpayers who must make up for the revenue lost on those impacted properties. The Noise Sub-committee does not have the resources for even a pilot study of the impact of airport noise on real estate values. However, in evaluating the economic impacts of the airport on the community, this must be kept in mind.

If East Hampton were located remotely from major economic centers, the airport might be an economic engine. In East Hampton, it is not. For some,[*] it is a recreational amenity, as are our beaches, hiking and biking paths, and preserved open space, or a convenience. They all enhance the human and social environment and the quality of life, as can the airport if it is not at the same time seriously degrading the human environment due to noise impacts. By returning the airport to its primary role as an amenity -- a source of pleasure and recreation for those who like to fly, and of access for residents with distant places to which

[*] Between based-aircraft and arrivals, the committee estimates that the airport serves approximately 1% of East Hampton households and a like number of households in neighboring towns, principally Southampton.

they travel by business jet or turboprop – but without the intolerable noise burden, the economic gains will be as tangible as the environmental gains.

The economic costs of regulating airport access are negligible, far less than Town residents pay for a wide variety of amenities, and far less than the economic opportunity costs of building and other restrictions that have been essential to preserving the character of the community. The economic costs of foregone local income due to airport regulation are as likely as not outweighed, even grossly outweighed, by the economic benefits of noise regulation.

We conclude that there is no material economic obstacle to airport access regulation.

Respectfully submitted,

Airport Planning Committee,
Noise Sub-committee