Item No: 7c Supp
Date of Meeting: June 1, 2010

Trends and Dynamics in the Aviation Industry

Considerations for Seattle-Tacoma International Airport

June 1, 2010

Agenda

- Airline Industry Dynamics
- Implications / Issues for Sea-Tac
- Regional Aviation Strategy Trends
- Sustainability Efforts and Issues
- Other Key Strategic Issues

Challenging Economic Times

Gross Domestic Product, 1996-2009

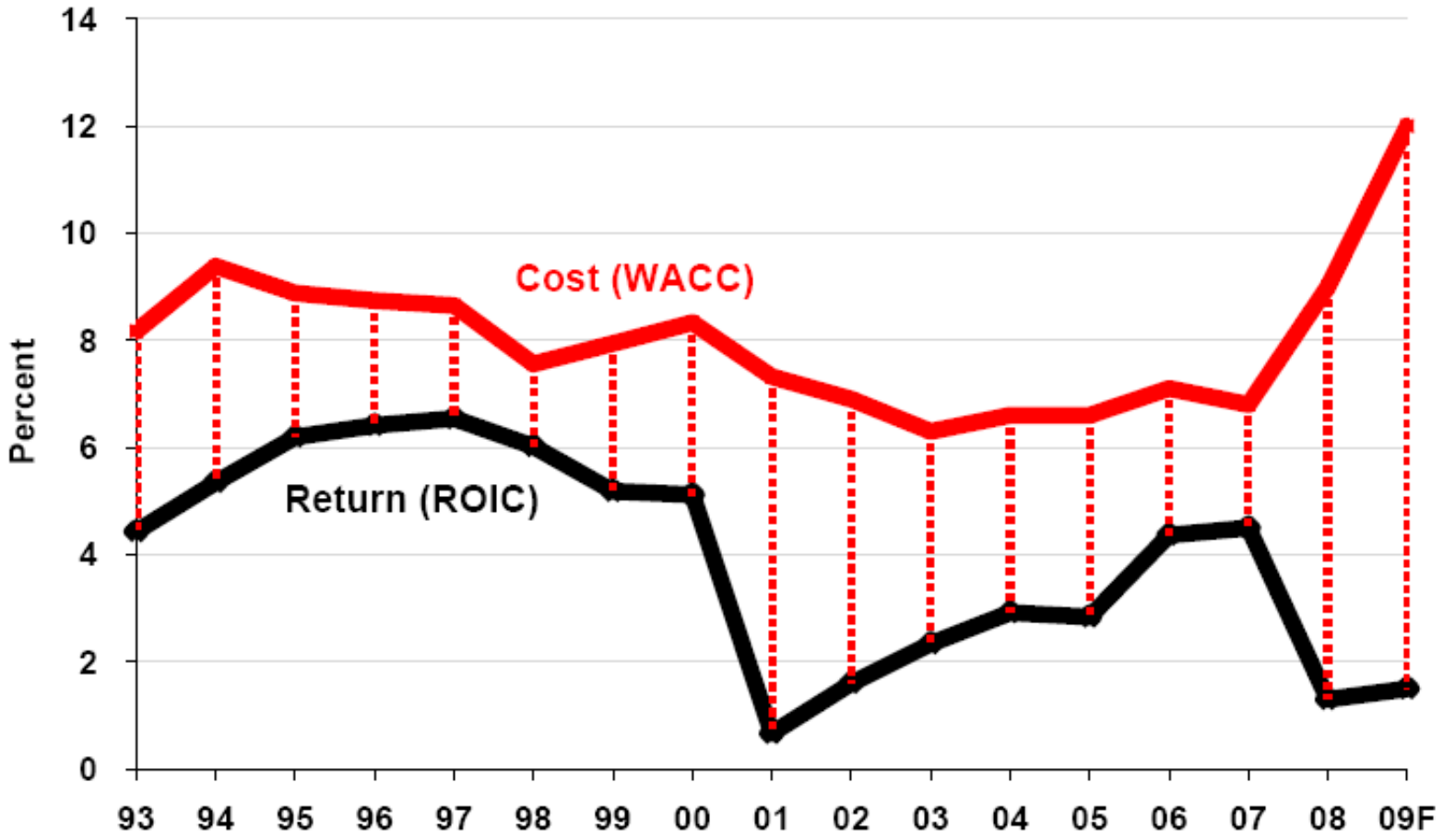
[1] Percent Change From Preceding Period in Real Gross Domestic Product

[2] Source: Bureau of Economic Analysis, Table 1.1.1 Real Gross Domestic Product

Airline Industry Profitability

Global Context: Airlines Challenged to Cover Cost of Capital

Airlines Not in a Position to Make Large Investments in New Markets or Equipment



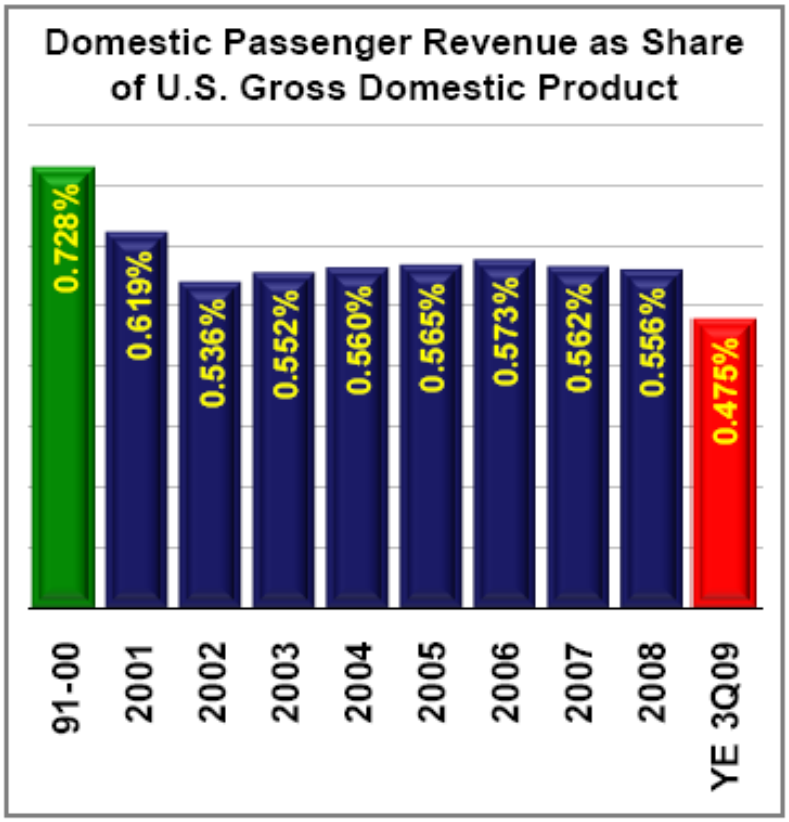
Source: 1993-2004 from McKinsey study ; 2005-2010F from IATA data/forecasts of global net income and estimates of invested capital

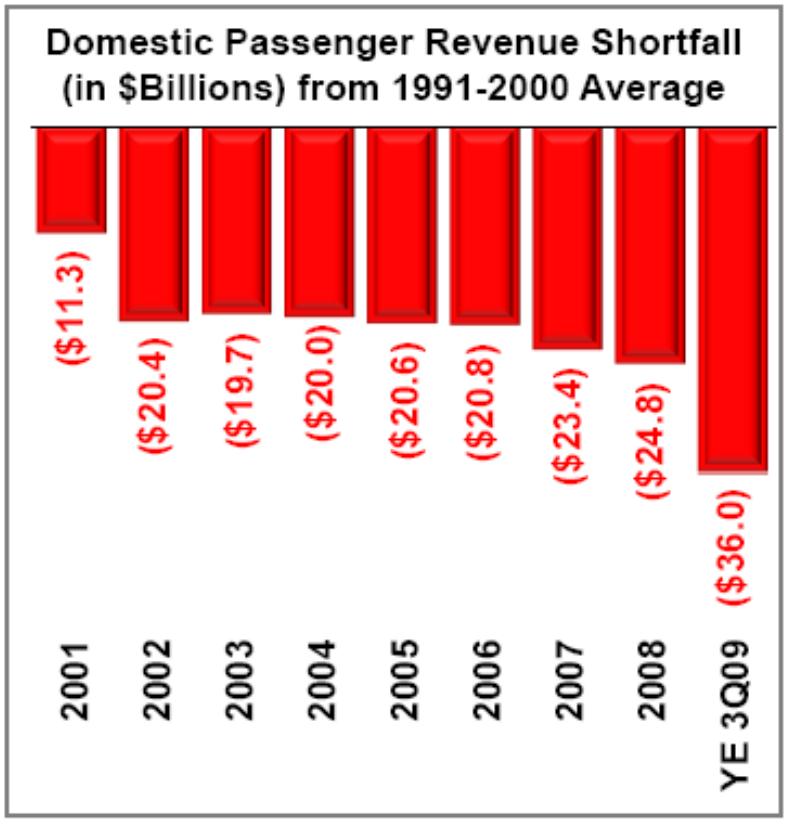
Airline Revenue Reductions

Demand for Domestic Air Travel Has *Not* Recovered

Smaller Portion of U.S. Economy Being Spent on Air Travel Means Revenue Shortfall

"The events of 9/11 marked…a permanent decline in domestic airline demand. We estimate that the gap between pre-9/11 demand and the post-9/11 period demand resulted in…the equivalent of the industry having no domestic revenue in 2007 and 2008." ("9/11 Revenue Impact in Context," Barclays Capital, Feb. 10, 2009)

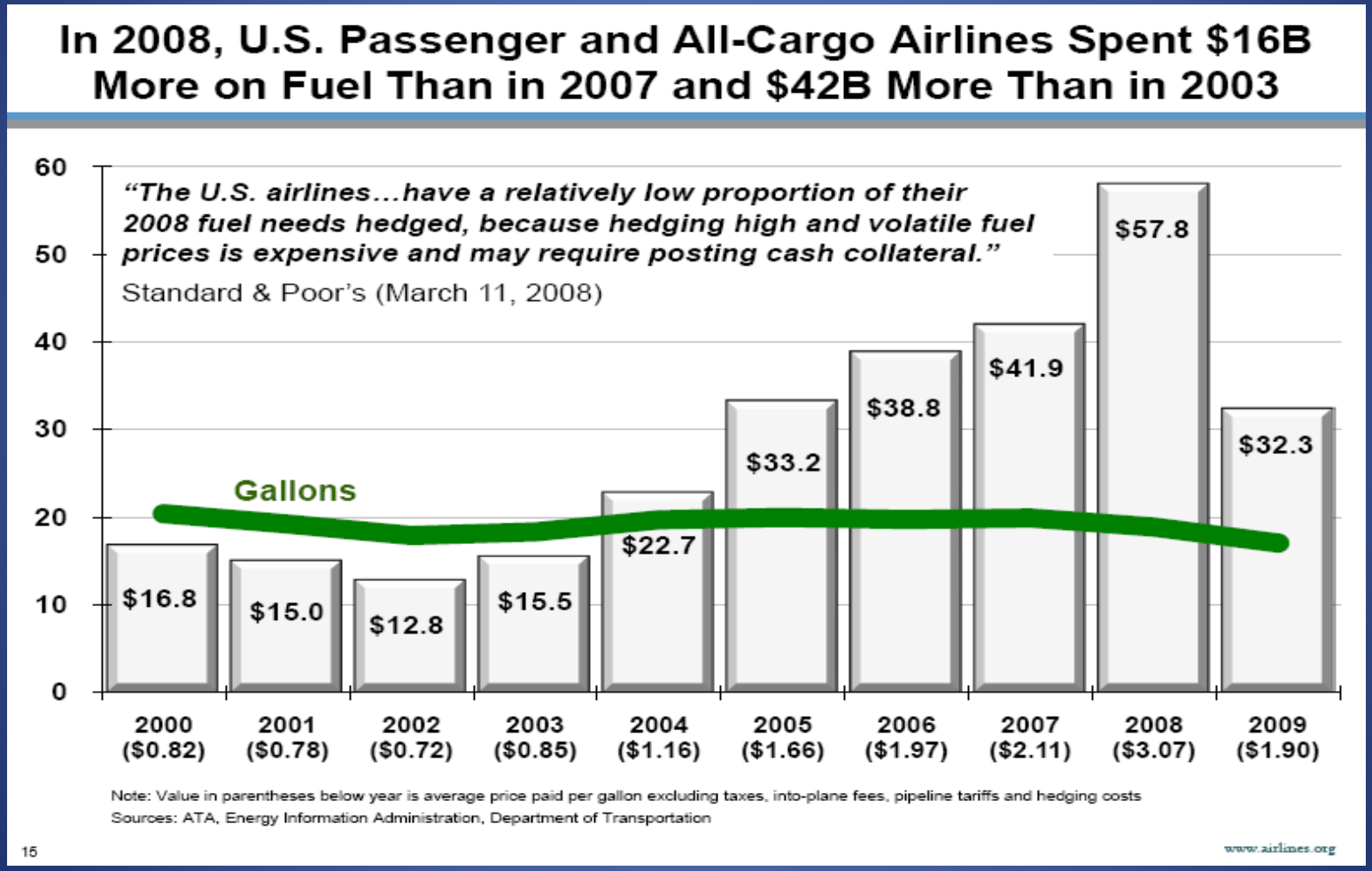




Source: ATA analysis of BEA and BTS data

* Year ended third quarter 2009 (i.e., 4Q08 through 3Q09)

Airline Fuel Cost Pressures



The Search for Black Ink

Expense Cuts

- Customer service cuts – food, pillows, etc.
- Overhead reduction – “back office” layoffs
- Outsourcing staff services (e.g., ramp, agents)
- Outsourcing regional air service
- Compensation reductions
- Bankruptcy

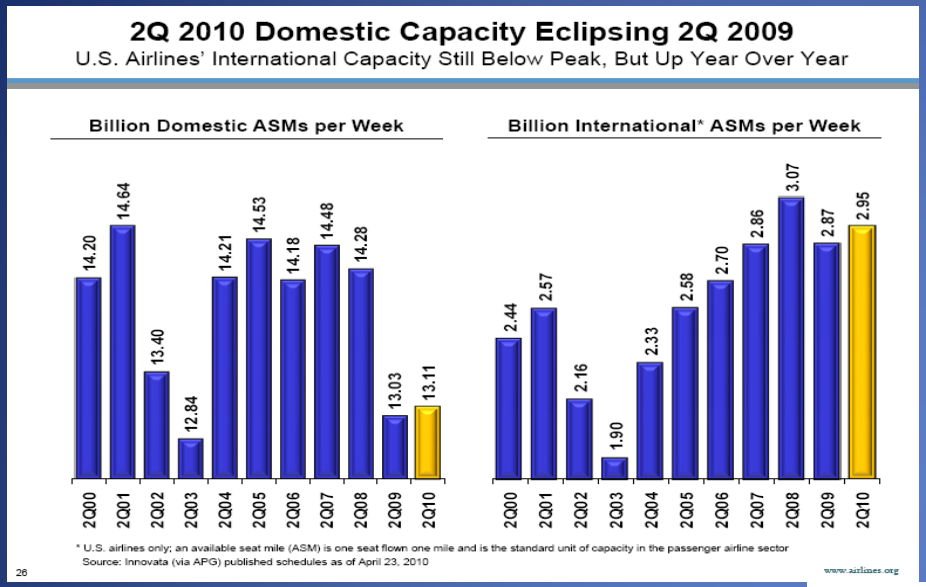
The Search for Black Ink

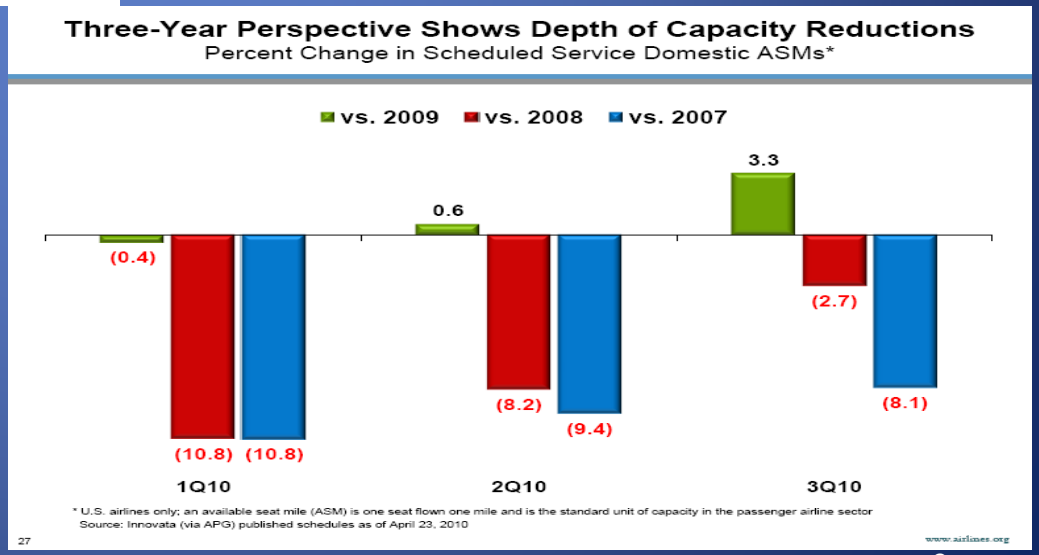
Revenue Enhancement

- Yield management – sophisticated matching of higher demand with higher prices
- Charges for “ancillary” services -- food, bag check, bathrooms(?)
- Fuel surcharges
- Focus on international service
- Scheduling “sculpting” – reducing supply
  - Significant seasonal capacity shifts

The Search for Black Ink Airline

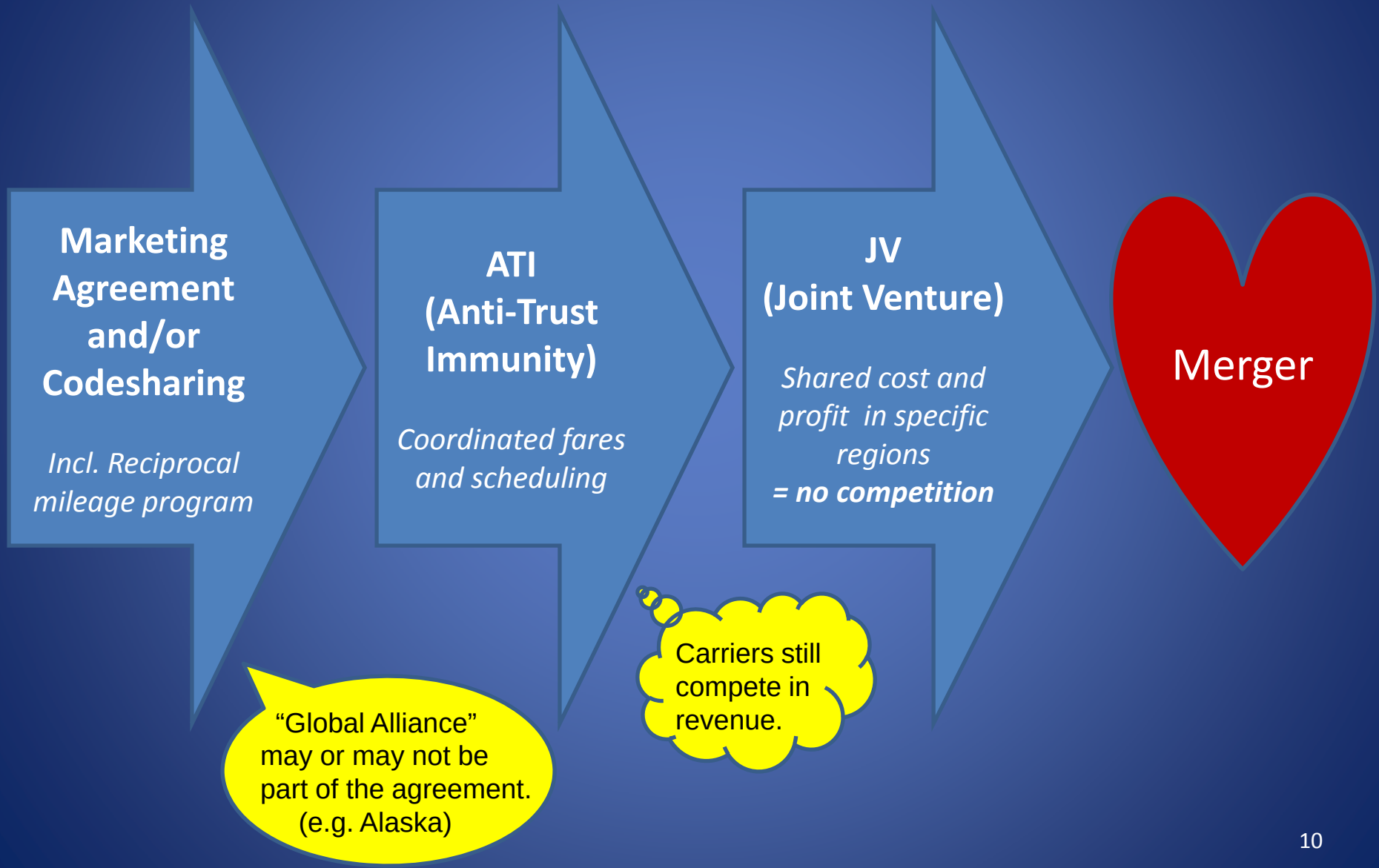
Capacity Reduction





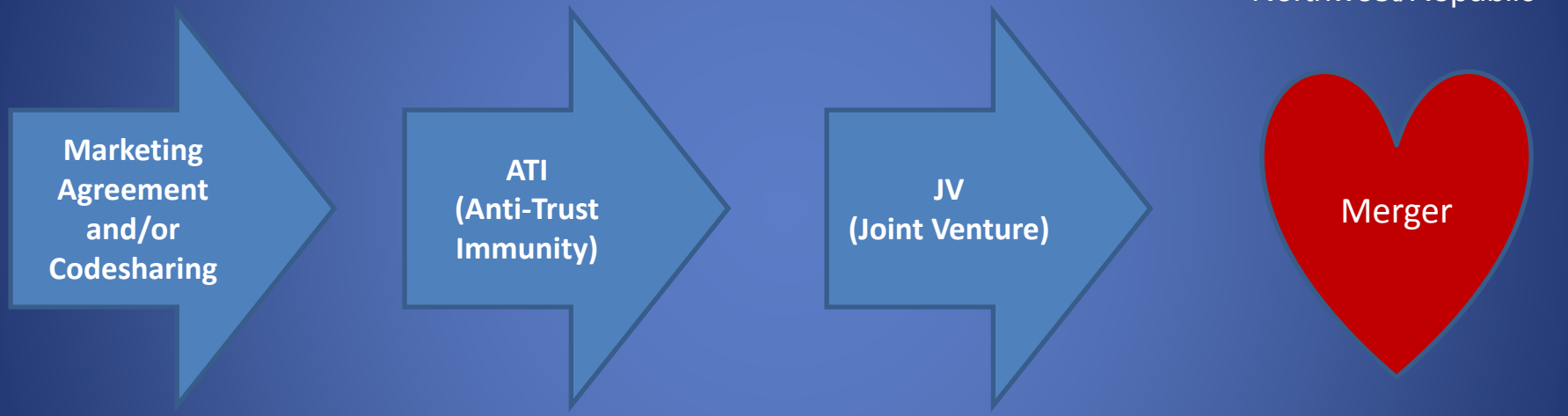
The Search for Black Ink

Consolidation



The Search for Black Ink

Consolidation



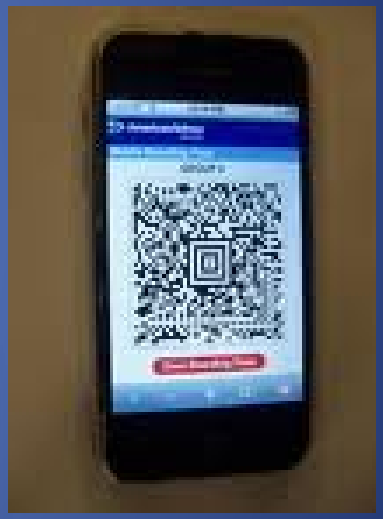
Delta/Western
America/TWA
American/Reno Air
Northwest/Republic

Delta/Northwest
US Airways/
America West
United/Continental
Air France/KLM
British Airways/
Iberia
Lufthansa/Austria/
BMI

The Search for Black Ink

Application of Technology

Industry Collaboration = Airline Cost Savings of $1.6Billion/year

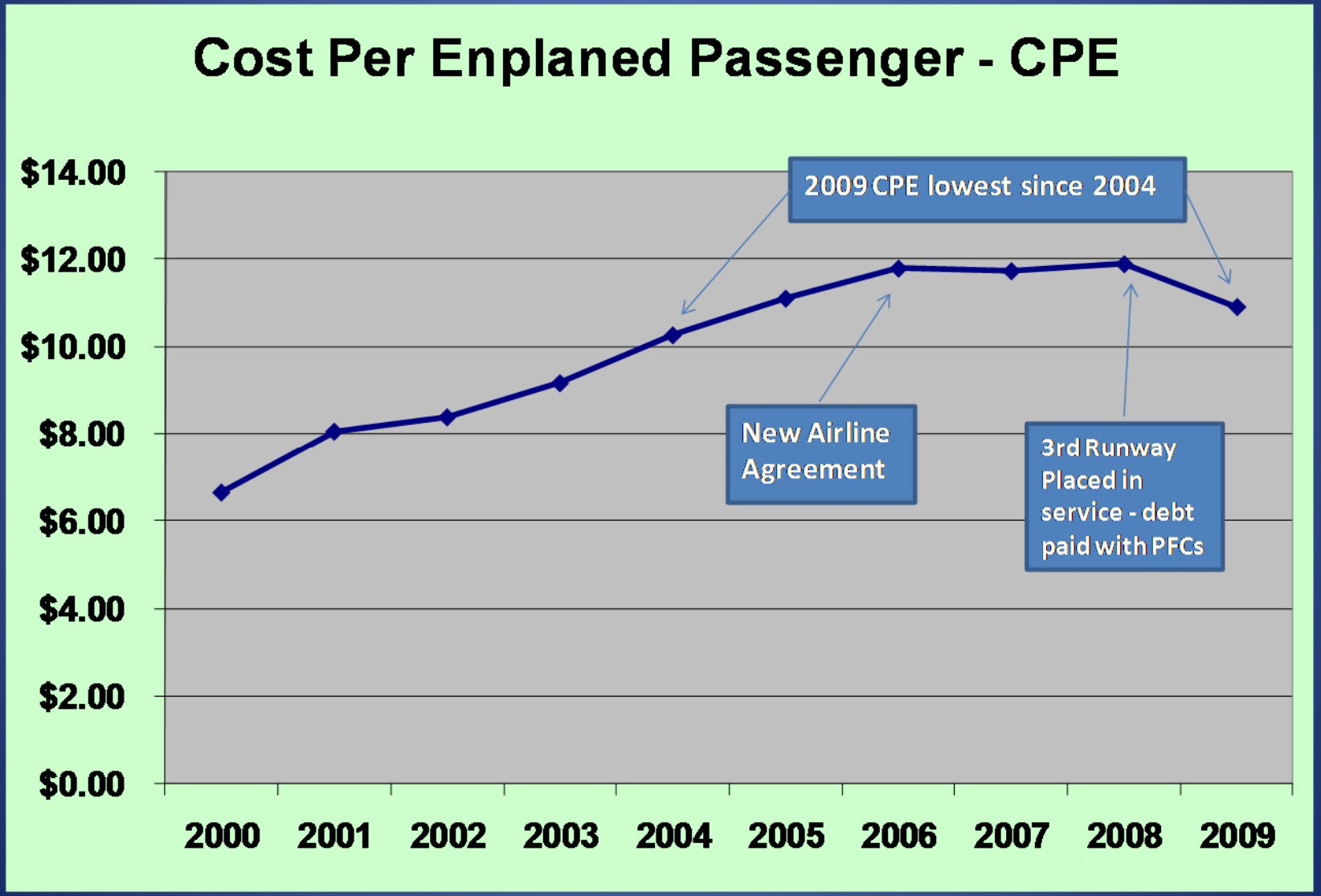


Air Transport Association IATA ACI

Implications for Sea-Tac: Airlines' and Airports' Responsibilities

- Airlines:
  - Short-term commitment to shareholders; ultimately mobile assets
  - Airline industry roiled by extraordinarily dynamic/difficult environment
- Airports:
  - Long-term responsibility to communities; 50-year investments
  - Responsive to airline challenges but have "larger" responsibilities

Managing CPE Growth



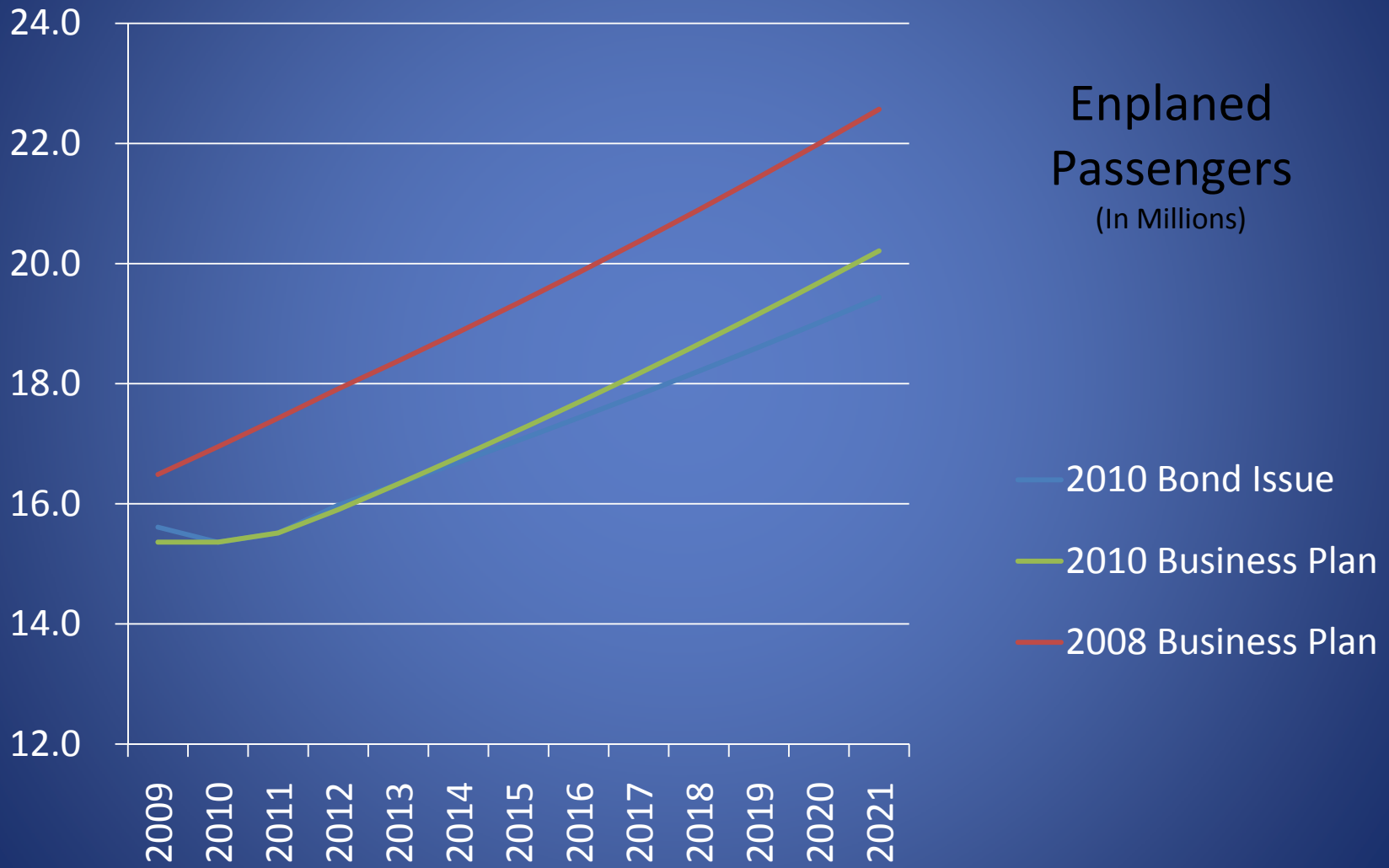
Seattle's Nonstop International Services

2005 - 2010

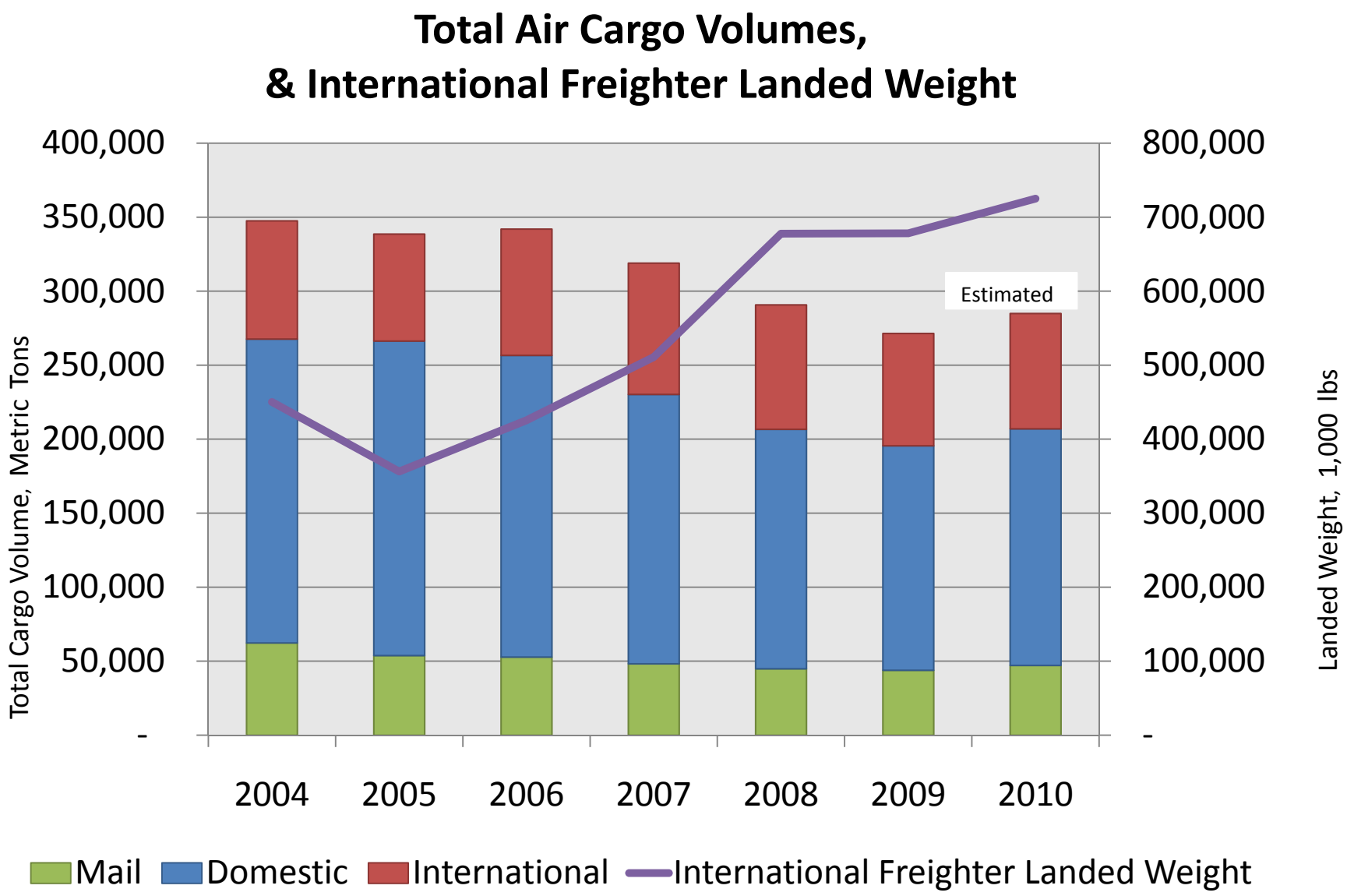
* Beijing via Delta scheduled to start June 4, 2010
** Osaka via Delta scheduled to start June 7, 2010

Source: OAG Schedules, August 2010

Future Enplanement Forecast Uncertainties

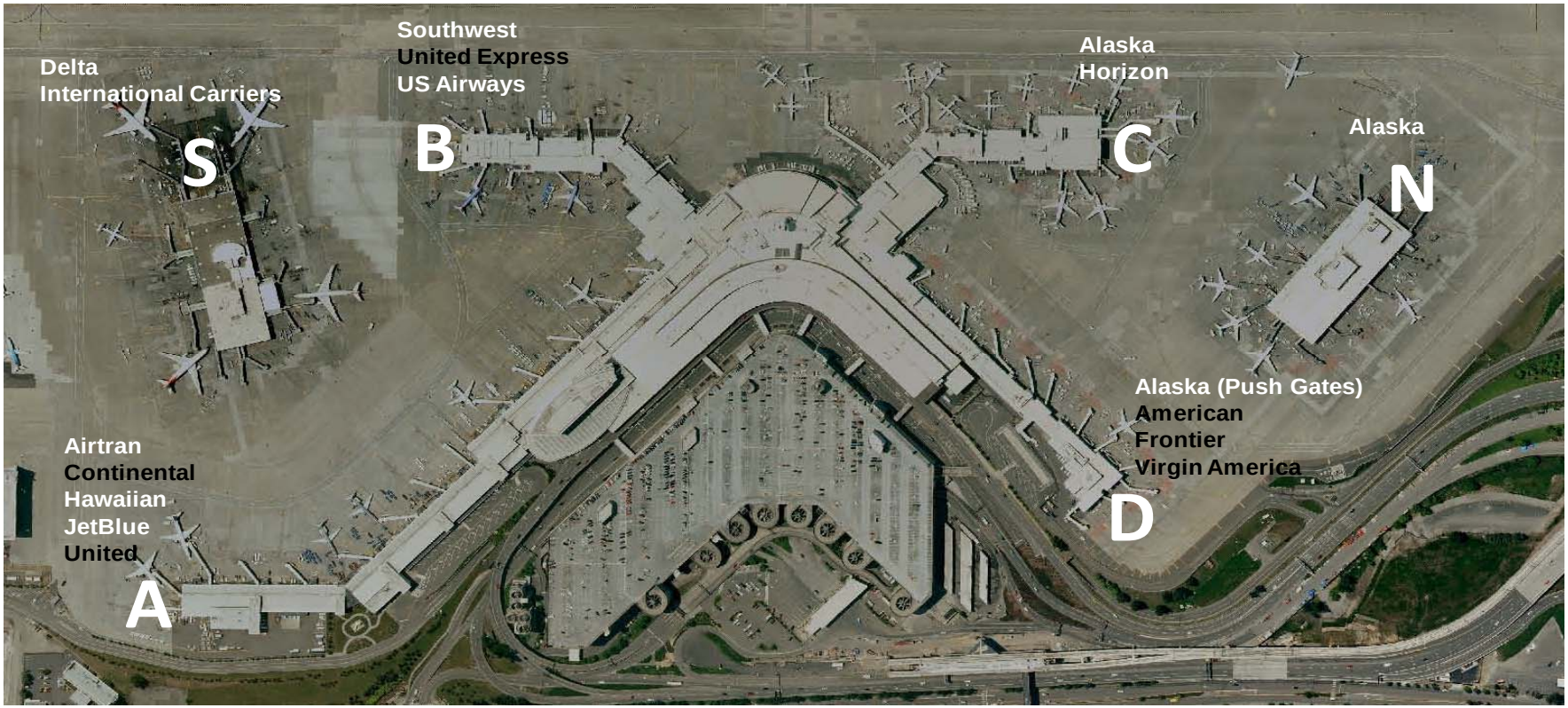


Cargo: Tale of Two Directions



Prospective Facility Realignment

POS Long-Term **Gate Option B**



Prospective Facility Realignment

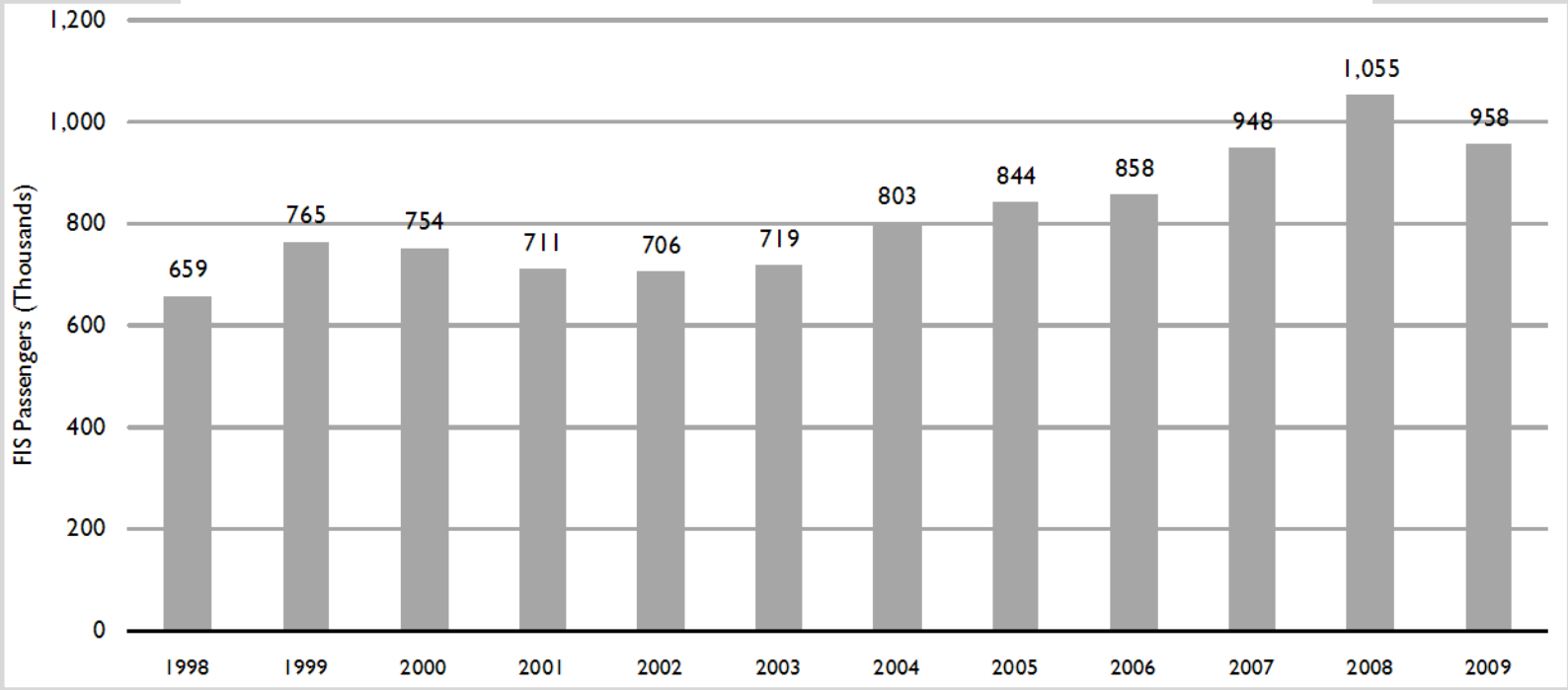
- Airport criteria regarding facility planning:
  - Optimal long-term facility utilization
    - High throughput configurations
    - Least cost planning
  - Equitable treatment of all airlines
  - Anticipation/incorporation of technology
- SLOA includes provision for one-time reconfiguration
- Airline negotiation regarding cost-sharing

Growth in International Service
Facility Challenges

- Federal Inspection Service (FIS) facilities
  - 1970's terminal building is beyond capacity
  - Aging infrastructure with inadequate HVAC
  - Poor first impression for foreign visitors
- Redevelopment Issues
  - Capacity: Near-, Medium-, Long-term
  - Customer-friendliness
  - Federal agencies' needs and desires

FIS Passenger Growth: 1998-2009

Deplaned FIS passengers grew 60% from 1998 to 2008.

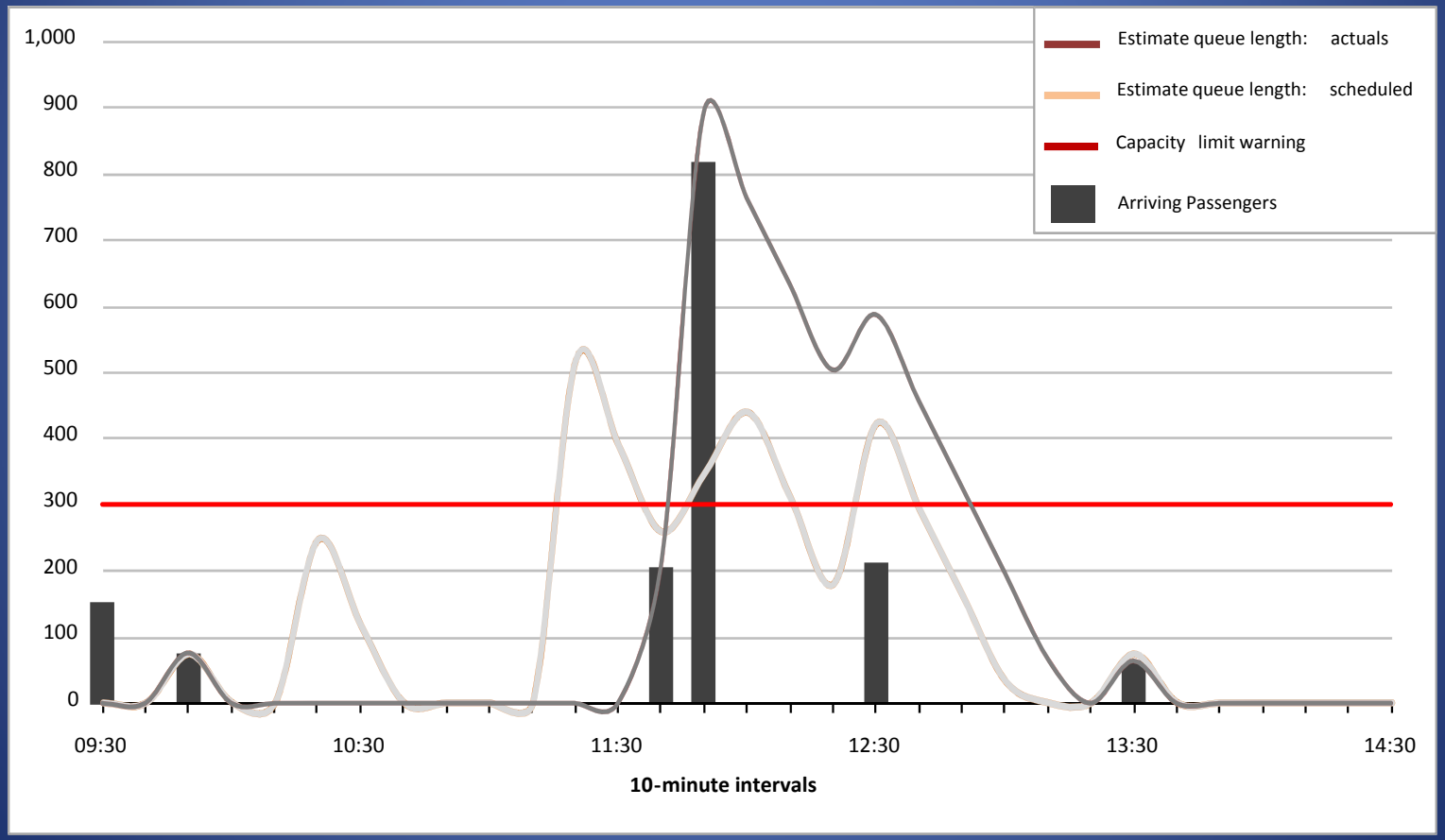


% Change vs. prior year												
FIS Deplaned Passengers	--	16.1%	-3.9%	-4.6%	-0.5%	1.8%	12.3%	4.6%	1.7%	10.5%	11.2%	-9.2%
Airport total deplaned passengers	--	7.0%	2.4%	-5.0%	-1.1%	0.5%	7.4%	1.5%	2.4%	4.2%	3.1%	-3.1%
Airline (s) commencing int'l service							China Airlines	Korean Air		AeroMexico Air France	Hainan Lufthansa	Icelandair

Growth in International Service
Facility Challenges

- Enhance, expand, replace?
- Potential “domino” impacts on landside space
- Port’s interest in providing “welcoming front door” vs. airlines concerns re cost
- Sea-Tac is, and may always be, high peak airport, which results in:
  - Long processing queues and/or…..
  - Passengers held on board

Growth in International Service
Facility Challenges
May 1, 2010



South Satellite – Short-term Improvements

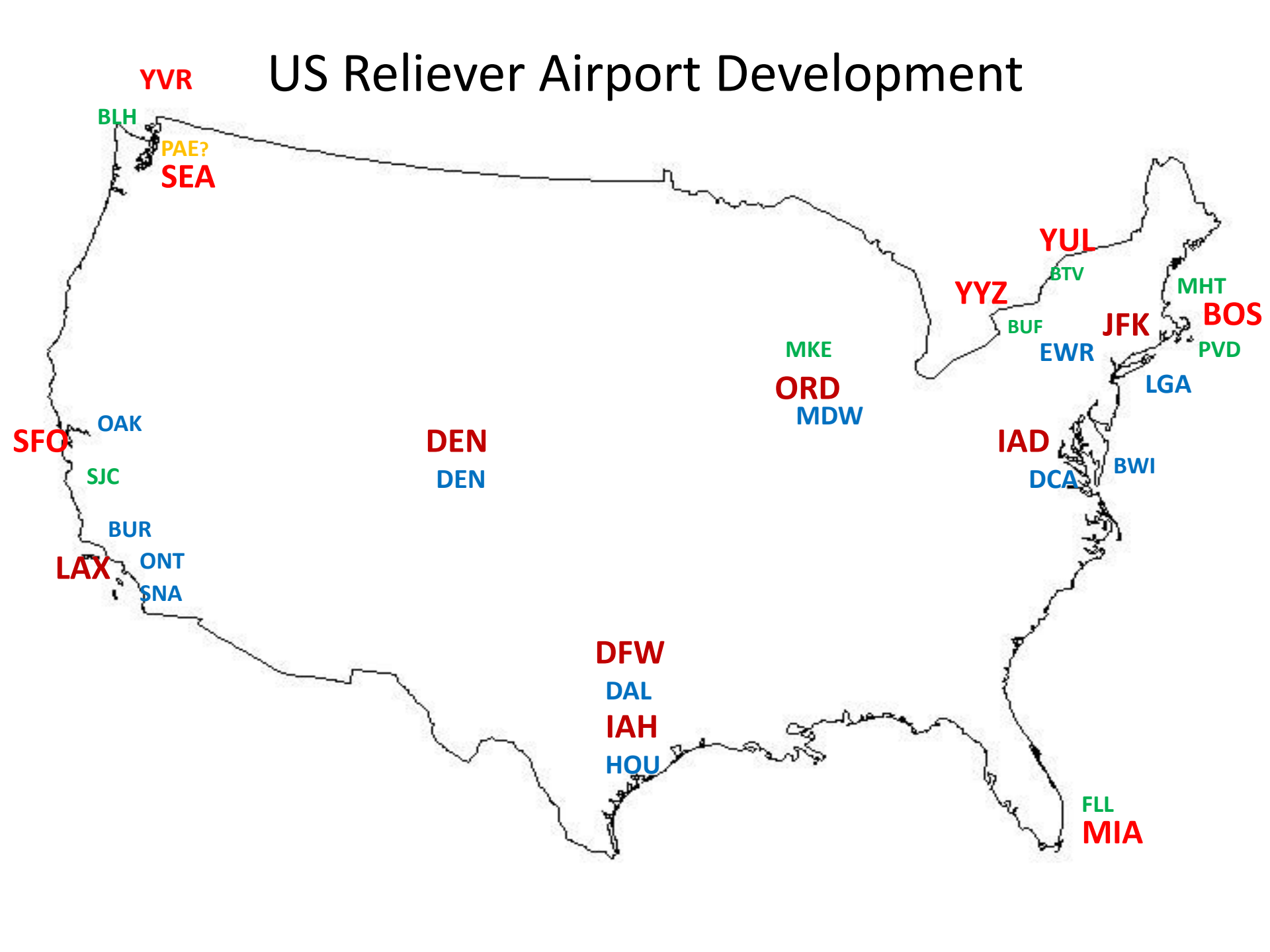
- 2010: Primary inspection -- 21 to 29 stations
- 2011: Primary – 29 to 39 stations, including 30 new booths

- Active discussions with CBP and airlines re medium- and long-term: Benefit/Cost issues

Regional Aviation Policy/Strategy

- 1996: PSRC authorized 3rd runway at SEA as first addition to air capacity, to be supplemented in future by reliever airports
- 2008: Allegiant Air & Horizon Airlines request to provide Paine Field (PAE) service
- 2009: LATS confirmed that Central Puget Sound would eventually need more capacity (assumed SEA capacity at 533,000 operations)
- 2010-11: Anticipated FAA decision regarding PAE service (followed by litigation?)

US Reliever Airport Development



Reliever Capacity in Puget Sound

- Potential drivers of reliever airport need
  - Passenger convenience
  - Congestion
  - Airline assessment of market; induced demand
- High cost to meet peak time demand at SEA
- Paine Field, 2011 is not Boeing Field, 2005
- Least cost regional capacity – e.g., cost of incremental gate

Regional Aviation Policy/Strategy

- Comprehensive Development Plan indicated Sea-Tac capacity of 45 million annual passengers (MAP)
  - Airfield operations **X** average seats/flight **X** load factor
- Same equation in spring 2010 = 67 MAP
  - Reflects larger aircraft and increased load factors
  - ***THIS IS NOT A FORECAST***
- Growth rates currently quite low; do not anticipate reaching 45 MAP until 2025 or beyond
- Staff evaluating how many passengers beyond 45 million SEA can accommodate
  - Gates and curb likely limiting factor, not airfield

Sustainability: Efforts to Date

- Sea-Tac is a leader among airports, pursuing cost effective environmental opportunities
  - PC Air Project
  - Recycling
  - E-GSE
  - Greening of taxi / shuttle fleets
- Adopted Environmental Strategy Plan in 2009
- Next phase of programs may bring projects without return on investment our partners seek

Sustainability: Future Direction

- How aggressive should the airport be?
  - Should the airport mandate sustainable practices beyond those with a relatively short-term paybacks?
  - Should the airport invest in renewable energy / conservation with long payback periods?
  - Should we pursue carbon neutrality?
  - How should the airport use pricing and/or incentives to influence behavior?

Additional Longer-Term Issues

- How much property should we reserve for off-airport cargo support?
- Should Sea-Tac include an on-airport hotel?
- What is appropriate approach to “managing” landside access to Sea-Tac?
- What other facilities or services are appropriate for Seattle’s and Washington state’s front door?
- What is appropriate level of customer service?

Questions? Discussion…