Comment for Commission Meeting, October 4, 2011

Good afternoon Commissioners and Mr. Yoshitani and thank you very much for the opportunity to address the Commission regarding the Port of Seattle's proposal for its 2012 operating budget. My name is Karen Gruen, and I am the Managing Director of Corporate Real Estate for Alaska Airlines and Horizon Air. Today I will comment on the budget from the perspective of Alaska and Horizon, two air carriers owned by Alaska Air Group. Together Alaska and Horizon enplane approximately half of the total Seattle enplanements at SeaTac.

I begin by stating that we very much value our relationship with the Port of Seattle leadership and staff, and we appreciate the Port's openness and transparency in its dealings with us, including the transparency and communications regarding its operating budget. The leadership of the Port is to be praised for their continued focus on working with their customers, the airlines, to run an excellent airport and to constantly look toward improvements and enhancements that are mutually beneficial for the Port, the airlines, and passengers.

I am here today, joined by other airlines, to continue working together on the very important topic of the 2012 operating budget. As we work through our issues with the 2012 budget, we wish to continue our track record of finding solutions that mutually benefit all stakeholders.

As an airport customer, we observe that the budget currently proposed is 17% greater than the 2011 proposed budget and 29% greater than the 2010 actual budget results. Behind that increase is a myriad of additions to spending, specifically to full-time equivalent positions. Our concern is that each spending increase or each increase to FTEs, individually, may appear justified, but taken together they are alarming in that they are disconnected from the fiscal realities facing us all.

"The new normal" is lower costs and higher value to the end user, and we are all responsible to deliver on that proposition. The Port's 2012 budget must fit within today's reality of the "new normal".

Our current state at Alaska Air Group is a good news story. We are very proud of our business success, which has taken place in the face of much adversity in terms of industry turmoil, economic uncertainty, and significant competitive threats. We are ever mindful that to maintain profitability, we cannot take our attention away from cost containment. In our industry, it is critical that we, and our partners such as the Port of Seattle, understand that passengers want low fares, and to deliver on low fares, costs must be low. We simply cannot bear increases to our airport costs in Seattle in the 29, 17, or even 10% range.

As you know, the airport model is a cost recovery model. Thus, if we work together with the Port to ensure that costs are tightly managed, airport costs can remain competitive. Working together on cost control does no harm to the Port or to its focus on its strategic plan – in fact, controlling costs on the airport side will benefit the long-term strategy of the Port while it benefits airport customers.

In the slides there is mention of past decreases to the budget. To the Port's credit, these were cuts that were responsive to a marketplace that required tight constraint on spending and careful management of resources. We remain in that environment today. Companies in every industry, let alone companies operating within mature industries such as the airline business, are holding steady with their plans and being circumspect with their spending. They are not increasing their budgets by 29%, 17%, or even 10%. This airport needs to reflect the ecosystem in which it exists.

The cuts of years past were painful, as cuts always are. We are here today in part to prevent future cuts, for if airport expenditures grow to the extent proposed, if staffing grows by the number of FTEs proposed, that is most surely what will be called for by a fiscally responsible airport such as SeaTac. Please do not authorize FTE growth now that will only serve to visit upon us a fresh round of pain in the future.

We too at Alaska Air Group are preparing our 2012 budgets, and submitting them for approval. We know how hard it is to take on significant workloads and business initiatives but to struggle with limited resources, whether dollars or staff. We are well aware of the phenomenon of doing more with fewer resources, including fewer FTEs. But it is far easier to do so than to reduce headcount by layoffs. It is far easier to exercise restraint now, than in the future telling some portion of your workforce that to be a well-run organization with controlled costs, some must lose jobs. We have learned this the hard way. Our management headcount has been reduced repeatedly over the last several years, including this year, 2011.

Rather than building in FTEs that introduce costs and structural inflexibility to the airport's business, we urge the Port to consider some other measures.

Our experience has led us to find what we can do with process improvements through our LEAN/Six Sigma group. We offer this experience as one example for the Port to consider as an alternative to FTE increases, perhaps in the maintenance area. We understand that additional maintenance is called for, but we believe the right answer to fulfilling the need is to examine what might be done with existing resource.

Similarly, for some of the proposed FTEs, we encourage the Port to consider other solutions. While we do not intend to say that every FTE increase is unreasonable, we implore the Port to look hard at whether 4 FTEs are needed for 'path-finding' at the airport. We believe signage would do just as effective of a job at a far lesser expense and without the significant risk of future, painful cuts due to an unsustainable level of staffing.

We also question whether staffing increases should be all at once, versus an incremental approach that considers the current state of the business environment.

There are sources of discretionary spending that should be re-examined, particularly when they are not supported by the airline customer and when they layer in cost, overhead and complexity without enhancing the passenger experience. An example of a program that should be examined for cost containment opportunities is the airport common use program. If it is redundant of other programs, it could present an opportunity for us all.

We note that 48% of corporate costs are in the rate base for the airport. This too might provide an opportunity for better budget control. Thus, we also ask that the Port consider the corporate overhead allocation formula, so that the airport allocation is fair and closely aligned with use of corporate resources.

Together, we have made great strides in working on a successful model for airport operations. We thank you for the partnership that has created the model, and we wish to continue the success. Please stay the course and do not let our progress to date be undermined by a bloated 2012 budget. The Port has a talented and capable airport team, and if we keep the focus on efficient use of resource and contained cost, we will continue to reap the benefits of a sustainable, competitive and thriving business environment.

In its materials today, the Port indicates that it has developed a contingency plan in case of an economic downturn. We urge the Port to start with this plan. Private businesses, including the Port's airline customers, are still very much in a conservative, 'wait and see' mode. Private businesses across the US are not increasing their spending, much less increasing spending in the range currently contemplated. We ask that the Port consider the economic times and the needs of its customers, and that it use today as the day to start on what it considers its contingency plan.

Thank you very much for the opportunity to speak and have a good day.