U·S AIRWAYS

October 4, 2011

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Port of Seattle Commission
Attn: Mr. Paul White, Commission Records
Pier 69, 2711 Alaskan Way
Seattle, WA 98111

RE: US Airways, Inc.'s Concerns with Port of Seattle's Proposed FY 2012 Budget

Dear Commissioners:

On behalf of US Airways, Inc., and with concurrence from Virgin America, whose representative was unable to attend the Port of Seattle's 10/4/11 Commission Meeting, I'd like to thank you for the opportunity to provide the following comments pertaining to the Port's proposed FY 2012 Budget. I'd like to start by emphasizing US Airways values its excellent working relationships with Port staff, and while US Airways may disagree with certain Port policy decisions or components of the proposed Budget, the following comments are not intended to diminish the high regard US Airways has for the dedication, talent, and experience of the Port team members.

US Airways believes there are several Port assumptions used in developing the proposed FY 2012 Budget which imply overly-optimistic assessments of the airline industry's recovery. First, the proposed Budget notes the airline industry was profitable in 2010, and is projected to break even in 2011. U.S. passenger airlines achieved a combined net profit of $2.2B for 2010. This equates to a 1.9% profit margin. For the 2001 – 2009 timeframe, U.S. passenger airlines incurred $65.1B of combined losses. (Source: ATA Economics, 10/1/11, "The Economic Climb-Out for U.S. Airlines: Global Competitiveness and Long-Term Viability). US Airways has worked feverishly to offset rising fuel and airport costs, and has adopted significant changes to its business model. Unfortunately, this has included a reduction of approximately 3,000 employees over the past three (3) years. Profitability will only become a trend when it is achieved in consecutive years. Airlines, similarly to other businesses, need to replenish their reserves in order to prepare for the next industry downturn.

Second, the Port contends the airline industry has figured out how to survive high fuel costs. Airline fuel savings result not only in overall operating expense reductions, but also in reduced greenhouse gas emissions—a goal shared by US Airways and the Port. To continue this progress, airlines must have financial capital available to continue with aircraft fleet replacement and technological enhancements. Increases to airport rates and charges drain airline financial resources for these programs. Airlines have reduced their workforces. We strive to do more with less, and we ask our partners, including airport operators, to seek out efficiencies within their organizations and operations.

Third, the U.S. airline industry will experience limited domestic growth, which will be focused at large and medium hub airports, especially at those airports with limited regional competition. Capacity and growth plans obviously vary among airlines. Limited growth, coupled with increased consolidation of operations at larger airports, will generally result in a downward push in revenues airlines can derive from airfares. While this is a positive trend for our mutual customers, it is only sustainable when operating expenses (including airport rents, fees, and charges) are reduced in proportion to the decrease in revenues.

US Airways concurs with several items included in the Port's proposed FY 2012 Budget which are projected to yield favorable financial impacts to Port customers, including the addition of energy management team members which are intended to assist with identifying and implementing energy cost savings measures. The preliminary proposed FY 2012 Operating Budget indicates an increase from $140M to $163M (17% increase)—a large component of which is the expenses associated with the Airline Realignment Project ($8.2M). US Airways supports the Airline Realignment Project, which benefits the Port, the airlines, and our mutual customers—1) direct efficiency gains in operations by consolidating airline locations and co-locating alliance partners, and 2) deferral of terminal complex expansion by increasing utilization of existing facilities.

Although US Airways supports the Airline Realignment Project, $8.2M of this project will flow into the FY 2012 Operating Budget, and $14M will flow into the FY 2013 Operating Budget, resulting in substantial impacts to airline rates and charges. US airways recognizes the Port seeks to maximize non-airline sources of revenues whenever possible. Nonetheless, the proposed FY 2012 Operating Budget will increase significantly. At a time when the proposed FY 2012 Operating Budget includes several large limited-time items, such as the Airline Realignment Project, only "must have items" should be included in the Budget.

Excluding incremental increases to certain line items associated with the Airline Realignment Project and the opening of the new Consolidated Rental Car Facility, the overall Operating Budget is slated to increase approximately $6.3M (4.5% increase), primarily consisting of compensation and contractual increases ($5M). However, FY 2012 total enplanements at Seattle-Tacoma International Airport (SEA) are forecast to increase only 1.5%. US Airways requests all discretionary increases to compensation, including salary/wage adjustments and most requests for additional staff positions, be deleted or at least deferred to FY 2014 (after the expense impacts from the Airline Realignment Project are realized). Rather than add staff proportionately to the projected FY 2012 Budget increases in flight and customer activity, US Airways requests the Port use its existing staff resources more efficiently, then reconsider the addition of staff resources for the FY 2014 Budget.

We appreciate the opportunity afforded to US Airways in sharing its comments with the Commission, and we look forward to continued collaboration with the Port for future budgets. If you have any questions or need additional information, please contact me at your earliest convenience. Thank you for your consideration.

Best regards,

David J. Anderson
Regional Manager, Airport Affairs