

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

Date of Meeting September 27, 2011

DATE: September 26, 2011

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Ehl, Director Aviation Operations
Kazue Ishiwata, Air Services Development Manager

SUBJECT: Revised Incentive Program for New Commercial Air Service for Seattle-Tacoma International Airport

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to implement a revised incentive program for new commercial air service for Seattle-Tacoma International Airport (Airport) to include a proposed new category of services (Category A) for extra-long-haul international operations.

SYNOPSIS:

The purpose of this action is to enhance the Airport's incentive program for international air services specifically for longer distance with higher operating costs on the part of the airlines, with the goal of increasing our chance of attracting the type of services that are also projected to bring a higher amount of revenue to the Aviation Division, as well as the economic benefit to both the local community and region.

The previously authorized incentive program has proven to be an effective tool in final inducement in the carriers' decision-making process. However, *we have* encountered a higher hurdle to pass when it comes to certain markets with longer distance, as carriers cite a significantly increased risk involved due to the high cost such of extended-range aircraft, as well as additional crew and fuel.

The proposed modification would increase our opportunity to attain some of the more challenging but valuable routes by presenting better risk mitigation to the carrier.

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PROGRAM COMPARISON OF CURRENT PROGRAM VS. PROPOSED PROGRAM:

Proposed Service Category:

Service Category	Description
<i>NEW Category A</i>	<i>International nonstop air service of 6,000 miles and longer to an unserved new city</i>
Category B (was A)	International nonstop air service of 4,000 miles to less than 6,000 miles to an unserved new city
Category C (was B)	International nonstop air service of 2,000 miles to less than 4,000 miles to an unserved new city
Category D (was C)	New competitive international nonstop air service of 4,000 miles and longer on an existing route
Category E (was D)	Small community air service for unserved destinations in Washington, Oregon and/or Idaho

Part II Incentive: Temporary waivers of landing fee and terminal facility charge

	Landing Fee Waived		International Arrivals Facility Fee Waiver		Common Use Aircraft Gate and Lobby Fees	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
<i>New Category A</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>N/A</i>	<i>N/A</i>
Category B	100%	75%	75%	75%	N/A	N/A
Category C	75%	N/A	75%	N/A	N/A	N/A
Category D	N/A	N/A	N/A	N/A	N/A	N/A
Category E	100%	100%	N/A	N/A	100%	100%

Part III Incentive: Joint Marketing Program

Service Category	Total of Multi-Year Marketing Fund	Usage Timeline
<i>New Category A</i>	<i>\$455,000</i>	<i>2 years, not to exceed 3 budget years</i>
Category B	\$455,000	2 years, not to exceed 3 budget years
Category C	\$200,000	2 years, not to exceed 3 budget years
Category D	\$200,000	1 year, not to exceed 2 budget years
Category E	N/A	N/A

Notes: The eligibility of the categories remain the same except for one element. Only for the proposed new Category A, we would require a minimum of five scheduled round trips each week (as opposed to the three weekly in the previously authorized program) in order to maximize our return on investment and assure a higher level of revenue. If the carrier does not meet the eligibility fully, the benefit to the carrier would be limited to the lower-tier program's level. The

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Federal Aviation Administration (FAA) does not allow an incentive program to be categorized by aircraft size or seats, while it is permitted by the regional or distance differentiation.

FINANCIAL IMPLICATIONS:

Below is an example of a fee waiver structure based on a B777-300ER example, at 75% load factor for 350 seats, under the newly proposed category, compared to the previously authorized maximum benefit for the same service:

Airport Charges	Standard Annual Cost to Airlines	Waived %	Waived Amount	Estimate Cost Paid by Airlines
Landing Fee	\$ 579,613	100%	\$ 579,613	\$ 0
Gate/Lobby	\$ 483,260	-	-	\$ 483,260
International Arrival Facility Charge (per passenger)	\$ 395,499	100%	\$395,499	\$ 0
International Arrival Facility Charge (fixed charge)	\$ 40,030	-	-	\$ 40,030
Ramp Tower Fee	\$ 2,387	-	-	\$ 2,387
Baggage Make-Up	\$ 123,918	-	-	\$ 123,918
PFC Revenue	\$ 431,978	-	-	\$ 431,978
Total for Year One (excluding ticket counters and office space rental)	\$ 2,056,685		\$ 975,112	\$ 1,081,573
Total for Two Years	\$ 4,113,370		\$ 1,950,224	\$ 2,163,146
Total for Two Years under the previously authorized program	\$ 4,113,370	100%/ 75% waiver	\$ 1,607,572	\$ 2,505,798

Notes: In addition to the above, a new entrant carrier normally requires ticket counter space (at approximately \$53,000 annually for six counter positions for three hours at 2011 rate of \$8.05 per position), as well as office rental revenue (at approximately \$100,000 annually for 450 sq feet office). Additional revenues from the indirect revenue in parking and concession are also expected but are not included here.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- June 28, 2011 – The Commission approved a revised incentive program consistent with recently-published Federal Aviation Administration guidelines.