

ALASKA AIRLINES RAISES CONCERNS WITH \$608 MILLION INTERNATIONAL ARRIVALS FACILITY

- Alaska Airlines, the only major airline headquartered in Seattle, employs over 6,000 people in this region. We are the largest carrier at Sea-Tac Airport, with more than 50% of the passenger traffic. This means that most major capital projects at Sea-Tac materially impact our operating costs and our ability to provide good jobs in our community.
- Alaska has a successful business model, and we are asking you to take measures that will enable this success to continue. When Alaska succeeds, Sea-Tac and our entire region benefits. In the last 10 years, we have grown by 43%, versus 6% for the average US airline. We win awards for customer service, community involvement, operational performance and financial stewardship. We are asking you to not put our future at risk. Our industry is consolidating rapidly. Just 10 years ago, it took 9 airlines to account for 88% of industry revenues. Today it takes four. Alaska is fighting hard to buck this trend, and keep for Seattle an airline that we believe brings unique value to the community.
- Alaska supports making upgrades to the airport facility, including improving the international infrastructure at the airport. However, we strongly oppose the exorbitant cost of the project and the current funding options in front of the Commission. We believe these upgrades should be cost effective and paid for by the airlines that are receiving the profits, or the customers that are benefitting from these facilities.
- Thus far, our efforts to engage with the Port on this matter have not resulted in an equitable solution. All we are asking for is a level playing field. We believe that you have an obligation to provide this, and we also believe it is the best practice in terms of growing both domestic and international travel at Sea-Tac.
- Late last year, the public was notified the International Arrivals Facility project cost would substantially increase from \$344 million to \$608 million, an increase of nearly 80%. We have significant concerns regarding this tremendous cost increase. Given some of the challenges other large public works projects in this region have recently faced, it is important to get this one right. The Airport Master Plan demonstrates there are other substantial airport-wide needs that should be considered before committing to a project of this magnitude. We are asking the Port to go back to the drawing board, and come up with a project that costs less money. We urge the Port to engage the airlines that serve Sea-Tac to find a more cost-effective solution and Alaska is committed to being a part of this process.
- The current favored funding plan unfairly burdens local area customers of Sea-Tac. We have raised this concern before. But despite our efforts, it appears that the alternative favored by airport staff continues to have domestic airline customers paying for the international facility. These individuals comprise 90% of the total traffic at Sea-Tac. They are Alaska's customers and your constituents. In practice, what this actually means is that customers of Alaska and other domestic airlines, pay the taxes for a massive facility to be used by out of state and out of country airlines. This is not fair, and it puts your hometown airline at a competitive disadvantage. PFCs and other general port assets that could and should be used for investments such as domestic terminals, roads, or trains will be used for the IAF, while Alaska's rents will be much higher than they otherwise would be because projects which benefit Alaska and our customers will be deprived of PFCs.

- For the record, Alaska pays the Port of Seattle \$115 million per year and we are your largest customer. To allay any confusion over this subject, we use 40% of the airport space, and we proudly pay for our fair share of the space we utilize.
- The question has been posed as to what % of PFCs and general port assets *should* be allocated to the international facilities. To us, the answer to this question is simple. We should look back over a representative period of time – say 10 or 20 years – and the international cost centers should receive PFC benefits to the extent international customers have paid these taxes. The international air travel business is profitable, and airport handling costs are no more material to an international airline than they are to a domestic airline. There is simply no economic justification for smaller airlines and their customers to subsidize large megacarriers.
- We would be remiss to not point out that there are potential legal hurdles to the Port pursuing the IAF project under a plan of finance that relies on a domestic airline subsidy of the cost. FAA policies are clear. FAA approval is **not available** for airport applications for use of PFCs which are (i) not cost-effective compared to reasonable alternatives, (ii) anticompetitive, or (iii) unfairly discriminate against one class of airlines over another.
- Ladies and gentlemen, thank you for hearing us out today. If it sounds like we're frustrated, we are. Alaska supports upgrades to the international facilities at Sea-Tac. We're simply looking for you to provide a level playing field to enable us to compete successfully, and allow us to do good things for this community which we all care so much about.