

**Testimony of Alaska Airlines
Before the Seattle Port Commission
April 14, 2014**

Thank you for the opportunity to once again address the Sea-Tac IAF funding issue. We know a lot of folks on all sides of the matter are working it hard and we're hopeful fatigue is not setting in. I'm especially hopeful that you're not getting fatigued with having me in front of you!

It seems that there is a lot of information flowing around on the IAF and how different airlines may be viewing the topic. Given this, I'd like to begin by highlighting a few very key *facts*:

- Alaska fully supports making improvements to the IAF. Approximately 73% of all international connections at Sea-Tac are coming to or from an Alaska flight. We benefit, and we know the region benefits, from international air service to Seattle and we *do* want to see the airport's international facilities improved.
- Next important fact: what Alaska is seeking is a level playing field, not – as some seem to be suggesting – favorable treatment for financing the North Star project. To be really clear on this important point, Alaska pays around 50 percent for the **total** domestic terminal rents at Sea-Tac – the most of any airline. This includes the C and D concourses, the A and B concourses that we essentially do not use, as well as the North Satellite. Not only are we not seeking favorable treatment, but if the Port would prefer us to move from the North Satellite to a different part of the airport, we would be happy to do so.
- Finally, there is a misperception regarding historical allocations of PFCs and whether they've benefitted international service. Of the roughly \$2 billion in PFCs collected or committed over the last 20 years, \$1.5 billion has benefitted **all** users of the airport - domestic and international - for projects like runways, trains, baggage systems, etc. Only \$390 million has been spent exclusively on domestic projects. To put domestic and international spending on projects into proportion with PFC collections, we'd only need to spend \$43 million in PFCs on the international facilities.

Beyond these facts, in recent months, we have heard this Commission wisely express concern about *overall* airport costs. Accordingly, it seems important to review where we are with airport cost per enplanement, or "CPE".

- With an \$11.49 CPE, Sea-Tac is already an expensive airport, and its costs will increase considerably if a significant amount of PFCs are diverted to pay for the IAF. The CPE at Sea-Tac is far higher than Atlanta at \$3.40, Salt Lake City at \$3.90, and Minneapolis at \$6.70. The airport staff seems

determined to create an artificially low FIS fee at the expense of what risks to be ballooning airport-wide CPE. This is made worse by the inequity of requiring domestic carriers and their customers to subsidize the cost of an international facility to be used by a mega carrier with much lower costs at *its* hubs, especially when this will only lead to further increased costs for your hub airline at Sea-Tac.

- Further adding to the cost problem, Sea-Tac's average domestic fare is lower than many other US airports, resulting in a higher percentage of airport costs on a domestic ticket...an especially bad formula for both airlines and passengers at Sea-Tac.
- As you'll recall from the presentation from a respected economist that we shared with you last May, demand for domestic airline service is significantly more price-sensitive than international service. In addition, the FIS fee that the airport staff is so heavily focused on is a very small percentage of the average international fare. For example, a projected future \$32 FIS fee – the scenario with the international airlines essentially paying their full share of the IAF - represents just 3.4% of the average fare from Seattle to Asia vs 7.2% for projected CPE on an average domestic ticket. And while we know this is an apples and oranges comparison, even if a CPE amount is added in for an international carrier, the combined amount is still likely in line with or lower than the percent of CPE on a domestic ticket.
- Another point that we suspect the Commission is understandably concerned about is the high cost of the proposed new IAF. A fair question that we do not believe has been answered is whether there are other, more cost effective ways to address the FIS processing congestion challenge while also providing some modest modernization of the facility. LAX provides a compelling comparison: The LAX Bradley International Terminal investment cost \$737 million to support over 8 million international enplanements in 2010. At Sea-Tac, the proposed \$608 million spend is to support just 2.7 million *projected* passengers in 2019.
- The cost of the project also drives a key legal question. An important hurdle for FAA approval for use of PFCs is that a project must be cost-effective compared to reasonable alternatives.

One of the proposed funding scenarios now being circulated by airport staff would have PFC allocations to the IAF project limited to 10%. This scenario is fair given that domestic passengers comprise 90% of the total traffic at Sea-Tac. And it is one we believe is supported by the majority of the signatory airlines, including American, United, and Southwest who together with Alaska Air Group represent over 74% of the enplaned passenger share at Sea-Tac.

We know the Commission will be encouraged to provide direction to the airport staff. However, given the many unresolved issues and the concerns of a majority of airlines at Sea-Tac, we do not believe a viable funding plan is even close to being ready for approval by the Commission.

Ensuring Sea-Tac remains a great airport for international carriers while maintaining a level playing field for all the airlines is an achievable balance for the Port. Thank you for your important work on this front.

