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Thank you, Chairwoman Ayotte, Ranking Member Cantwell, and members of the Subcommittee for inviting me to testify on Airport Issues and Infrastructure Financing.

I am the Managing Director of Seattle Tacoma International Airport (Sea-Tac) and the Immediate Past Chair of Airports Council International-North America (ACI-NA).

Located in Washington state, Sea-Tac is an increasingly critical part of America's aviation system. In 2014, we facilitated over 18.7 million enplanements and were the 13th largest airport in the United States. In fact, with a 7.7% increase in passengers in 2014, Sea-Tac was the fastest growing large hub airport in the United States. So far in 2015, our passenger load has grown by 13.1% (Q1, 2015 vs. Q1, 2014).

The vibrant economy of the Greater Seattle region has been a major driver of this growth. In 2013, Seattle was the fastest growing large city in the U.S., according to the US Census Bureau. Today, Sea-Tac proudly supports more than 170,000 jobs in the region, totaling about $6.1 billion in personal income and $16.3 billion in business revenue. Our international traffic has grown by 67% since 2007, providing tremendous economic benefit to the region. In fact, each new international flight at Sea-Tac adds about $75 million annually to our regional economy.

But it is not just the robust Seattle economy that is requiring Sea-Tac Airport to scramble to handle this extraordinary increase in airline traffic. In fact, Sea-Tac is playing an increasingly important role in the National Airspace System (NAS). Each and every new flight – last year we handled over 23,000 more take-offs and landings – came to Seattle as a result of an airline decision. For example, in 2014 Delta Airlines grew by 1,606,585 passengers (+37.7%) and 10,141 landings (+79.3%); Alaska Airlines grew by 1,341,253 passengers (+7.5%) and 3,756 landings (+4.3%). These decisions were in part a result of very significant changes in the global aviation marketplace. As aircraft technology has evolved and as foreign flag airlines have initiated non-stop service from cities across Asia to U.S. cities, Seattle's role as a critical U.S. gateway to Asia has become more pronounced. This circumstance has certainly benefited the Seattle region but, more importantly, it has made the NAS more efficient by effectively replacing a Northeast Asia hub with a U.S. gateway hub. Quite logically, there is a growing amount of "feed" traffic from all over the United States to Seattle to make the most efficient use of a gateway that is closer than any other in the US to the vast majority of Asian destinations.

Sea-Tac's extraordinary growth is just one example of how airports, airlines, and the federal government must act in concert to ensure that we can meet the needs of airports and the NAS in the face of increasing economic growth nationwide.

While Sea-Tac's growth may be among the most extraordinary, airports across America are facing the challenge of meeting the demands of our resurgent economy. The Federal Aviation Administration (FAA) estimates that U.S. airport enplanements will grow to more than $1.14 billion over the next 20 years. So Sea-Tac's experience is not unique. But it is an excellent case study in the real-world challenges that the American airport industry faces today. In this testimony I will outline these challenges and demands, with a particular focus on Sea-Tac's challenges to meet the needs of the NAS and the region's continued economic growth as a result of the limited financial tools available to U.S. airports.

Today's airport industry is vastly changed from just a few years ago. Expanding global networks, surging passenger demand, and domestic-carrier consolidation have forced airports to adapt their business models. In our business today, U.S. airports are working to become more efficient and more customer-friendly in order to compete with each other, with other modes of transportation, and with our international counterparts who are setting new standards for airport customer service. But the fact that four major carriers handle about 85% of all U.S. traffic makes our operating environment more difficult as our communities have seen airline competition go down and airfares go up. So airports are expected to provide better customer service and modernized facilities all the while trying to keep airline rates and charges as low as possible. In this environment, many airports have struggled to retain their current air service and passenger flows, let alone attract new business.

Unless something changes, this constrained environment will, unfortunately, become the new normal -- much to the detriment of regional economies across the nation.

The Port of Seattle's statutory responsibilities and federal obligations require Sea-Tac to do everything we can to provide the aeronautical capacity to support the NAS and our region's economic demands. That obligation is becoming tremendously more challenging. We are now in the midst of a 20-year master planning process. So far, we have completed the forecast that indicates that the region's economy will need Sea-Tac to handle 66 million passengers in 2034, 28.5 million (76%) more than we did last year. This passenger growth will require us to handle nearly 200,000 (+ ~60%) more operations during that period. That will mean we will have 36% more aircraft on our airfield during peak hourly operations; we will need to handle 70% more deplaning passengers during peak arrivals times and 58% more enplaning passengers during peak departure times.

Because Sea-Tac's operational area (i.e., the airfield and terminal footprint) is only 1,500 acres, we simply have no "elbow room" to easily handle this substantial increase in activity. Thus, providing the facilities that our region and the NAS needs at Sea-Tac will require major investments and financial resources.

While in the middle of this master planning, Sea-Tac is also in the midst of a five-year capital improvement program which will modernize our North Satellite concourse including the addition of eight new gates ($512 million), reconstructing one of our runways ($100 million), updating our baggage system to improve security and efficiency ($317 million), and constructing a new International Arrivals Facility (approximately $600 million) to replace our 1970s facility that cannot handle current demands. The financing plan for this $1.7 billion program includes $1.2 billion in new debt, most of which will result in higher airline rates and charges and a commitment of essentially all of our PFC capacity through 2035.

Yet despite this significant investment, Sea-Tac will not be able to keep up with airline or passenger demands. In 2021 – even after adding the eight new gates – we anticipate that the airlines will need to load and unload some flights by transporting passengers by bus to and from as many as 12 remote hardstand locations because we will not have sufficient gate capacity. The preliminary master planning work indicates that, to serve 66 million passengers, Sea-Tac would need to add 35 more gates, dramatically expand our ticketing/check-in facilities, and substantially redesign and rebuild our vehicle drives systems. Because we do not have readily available expansion space, we will likely need to move three airline maintenance hangars, several cargo buildings, an Aircraft Rescue and Firefighting (ARFF) station and, perhaps, a freeway. At this point we believe these capital expenditures will cost at least $10 billion to implement – above and beyond our current capital plan and financing plan.

I would like to share with the Subcommittee how I think about the options Sea-Tac faces as we contemplate this massive investment challenge. First, let me note that, while some airlines identify airports' access to the bond market as one of the reasons that there is not an airport funding problem, in fact bond revenues are only a means of financing construction. The bonds – with interest – must be paid back. Claiming that bonds are the answer to the airports' funding needs would be like claiming that a home mortgage was the answer to someone's housing needs. Yes, a mortgage will help buy a house but the homeowner needs to have a source of income to pay the debt service on the mortgage. So the options addressed below are those we could use to either fund directly, or pay bonds issued to finance, the capital investments.

One option – in fact, the option the airlines claim should be the default – is to put the costs of these investments into the airlines' rate base. The vast majority of the $10+ billion investments will indeed support airline activity. Putting the debt service costs of, say, $8.5 billion of aeronautical investments in the airlines' rates and charges could drive their costs per enplanement (CPE) at Sea-Tac from $14.00 (current projection for 2019) to $35.00 in 2030 (due to the many unknowns about the many factors associated with future projects, the financing environment and the pace of passenger growth, this figure is an informed but very preliminary projection). This increase could dramatically change the airlines' propensity to serve Sea-Tac and, thus, penalize our economy as airlines headquartered in other parts of the country make corporate decisions based on their profit and loss statements, not what is good for Seattle region or the NAS.

Some could argue that a better option would be to use local taxes to build local airport facilities. While the Port of Seattle does have limited additional property taxing authority, it is critical to funding the Port's seaport facilities. More to the point, though, as we consider airport investments and the NAS, is that only about one third of Sea-Tac passengers are King County residents (those who would pay increased property taxes). As I mentioned above, Sea-Tac is increasingly playing a significant role as a gateway for international flights; our best estimate is that fully 40% of our international passengers are connecting at Sea-Tac to reach another US destination. It would be highly inequitable to require all King County taxpayers – including those who seldom or never use the airport -- to pay for facilities used by travelers from all over Washington state and the United States, as well as passengers from all over the world.

Another source of funding some propose to be adequate to the task is the non-aeronautical revenues the airport receives from dining and retail, parking and other non-airline sources. While this is in fact a growing source of net income at Sea-Tac, our current airline agreement requires the airport to devote half of that net income to reduce airline rates. The net income retained by the airport will be needed to fund airport operations and facilities (e.g., dining and retail infrastructure, parking, roadways, etc.) that are not eligible to be paid by airline rates, PFCs or federal grants.

It is worth taking a moment to note that, in addition to ensuring adequate, safe aeronautical capacity is in place, airports must also make substantial investments to provide for a wide variety of non-airline facilities. Providing for the many facets of the passenger experience requires airports to build ground transportation roadways and parking areas, restaurants and stores, recycling facilities, cell phone lots, etc. No federal grants and no PFCs can be used to pay for these facilities.

If increased airline rates and charges, local taxes and non-airline net income are inappropriate or inadequate to the task, what about the options within the jurisdiction of the Congress: The Airport Improvement Program and Passenger Facility Charges?

In 2011, Congress capped the Airport Improvement Program (AIP) at $3.3 billion, six percent less than its funding level in 2007-2011. Not only was the authorization an overall funding cut, but the amount of AIP that is actually going to fund projects at airports has also decreased as administrative costs for the Office of Airports have grown. For a large hub like Sea-Tac, AIP can provide a share of the cost of an airfield project, but the AIP is wholly inadequate to have a meaningful impact on the funding needs of larger airports. However, AIP is critical to smaller airports throughout the nation. It serves as a funding lifeline for projects at general aviation, non-hub, small hub and many medium size airports. The overall distribution of funds for decades has worked extremely well, balancing the needs of both general aviation and commercial service airports. As the AIP pot of money has decreased, though, smaller airports have felt the pinch as money available to fund AIP-eligible projects has decreased and local match requirement have increased. As a result, all size airports have had to turn to other funding options to pay for projects.

The AIP is funded through the Airport and Airways Trust Fund (AATF), which as a contract authority program has provided funding stability for airside projects in the entire airport system. As Congress explores options for changes for reforming FAA and the AATF, it is vitally important that airports be a part of that conversation.

The final option is the Passenger Facility Charge (PFC) – the funding source that, at Sea-Tac, is most closely aligned with the passengers who are using the airport and, along with the airlines, causing us to plan and pay for the tremendous facility expansion ahead. PFCs can and must be a critical part of the funding plan for Sea-Tac to meet the needs of our region and the NAS. The federal cap on PFC user fees was last adjusted fifteen years ago -- by $1.50 per enplanement. As you are aware, the PFC is a locally generated and approved user fee, not federal funding. The federal government never touches the fees and the decision to charge a PFC is made on an airport-by-airport basis by local airport governing bodies. In the case of Sea-Tac Airport, that would be the directly-elected (by the voters of King County) Port of Seattle Commission. While airlines and community stakeholders play a role in the PFC approval process, the decision about whether or not to charge a PFC user fee and use it as a funding source is truly a local decision and impacts only those passengers that utilize the airport's facilities. This allows airports and their governing bodies to make decisions that are in the best interest of their region to encourage competition among carriers, secure capacity increases and support economic growth through a passenger's direct investment in local airport infrastructure. As public institutions accountable to local citizens, airports balance the very real need to keep costs low while ensuring that aviation specific infrastructure meets regional demand.

As I mentioned above, the financing plan for our current capital program commits all but 10% of our projected PFC revenue stream until 2035. The remaining 10% would equate to about $8 million per year (in 2016) and, as you can imagine, would make a negligible impact on the $10+ billion cost of implementing our master plan.

This current federal cap on the PFC means that in 2015 it is worth less than half of its spending power when the cap was adjusted in 2000. To provide airports the same PFC spending power today, the PFC cap would need to be $8.50. The outdated cap on the PFC prevents airports like Sea-Tac from making the capital investments required to meet the air travel needs of both our communities and the nation. In addition, the federal cap substitutes the Congress's one-size-fits-all decision making for that of locally-elected officials regarding appropriate fees for passengers at individual airports.

Our preliminary analysis indicates that, if Congress would modernize the PFC by making its spending power equivalent to the cap imposed in 2000, the Port of Seattle Commission would have the option of determining the appropriate PFC level and potentially make available $3 billion of capital to help pay for our $10+ billion master planning investments. This would be $3 billion that would not need to go into the airlines' rates and charges.

I would like to pause here to address two of the often-articulated concerns about raising the PFC. First, many airlines claim that increasing the PFC would have a negative impact on the propensity of the American public to fly. This assertion flies in the face of the data. At Sea-Tac, average airfares increased by 27% between 2009 and 2014; during that same period, passenger volumes increased by over 22%. If one is concerned that there may be a lag in the impact of those airfare increases, that impact has not yet shown up at Sea-Tac: As noted previously, passenger volumes continue to grow, increasing by 13.1% through the first quarter of this year.

The national data tell the same story: The airlines' argument seems to make no sense when you compare a small adjustment in the PFC to the rising price of airline tickets. According to the Bureau of Transportation Statistics since 2009, nationwide airfares have increased by more than 23%, while air travel has increased by more than 7%. In addition, bag fees have increased 99%, resulting in $11 billion in airline profits over the same time period. The four dollars airports are seeking in order to fund projects that improve passenger service and benefit local communities pales in comparison to the billions of dollars that passengers are paying in higher airfares, bag fees, change fees, seat reservation fees, etc.

The airline trade association is also quick to claim that a PFC increase is not needed because the airlines are more than prepared to pay the costs of capital improvements through their rates and charges. While I cannot speak to what may be happening in other parts of the country, I will note for the Subcommittee that in the past few weeks, five separate airlines have appeared in front of the Port of Seattle Commission, to plead that the Port allocate our limited PFCs to the project that would reduce the rates and charges of the individual airline. Some airlines are quite articulate regarding the merits of the PFCs being used to fund a new International Arrivals Facility (thus, decreasing the costs of one rate base) or to fund other terminal investments (thus, decreasing the costs of other rate bases). None of the airlines disputes the importance of any of the projects, but they are all quite clear that they would prefer that PFCs be used for their preferred project in order to decrease their rates and charges.

The airlines' positions in Seattle seems to run counter to Airlines for America's messaging here in Washington, suggesting that the issue for the airlines is not so much whether increased PFCs would be a valuable funding tool, but who gets to make decisions about which airports increase PFCs, for what projects and to what levels.

I will conclude my discussion about our experience at Sea-Tac by reiterating that -- at this point in time and based on what we now know while in the middle of our master planning process – Seattle-Tacoma International Airport will require increased Passenger Facility Charge fees in order to make the investments required to meet both the needs of our region and the needs of the NAS. If Congress is not prepared to eliminate the cap and leave such decisions wholly to locally-accountable officials, it should increase the cap to at least $8.50 and index it to account for inflation.

While Sea-Tac may, more than other airports, be facing the challenge of remarkable growth right now, our airport is not a lone exception. Other airports throughout the United States – large, medium, and small – face similar financial challenges. According to ACI-NA's most recent capital needs study, airports of all sizes need over $15.14 billion annually in infrastructure improvements to modernize aging runways and terminals, relieve congestion and delays, and spur new airline competition – far more than the $6.2 billion that airports received last year from both PFCs and AIP. As a result, infrastructure projects all over the country are stalled because of declining federal grant dollars and the eroding purchasing power of today's PFC. ACI-NA and AAAE have chronicled several of these examples in a report it shared with many of you and posted on the AirportsUnited.com website, but let me highlight a few now:

- JFK, Pittsburgh, and San Diego need new terminal projects to meet growing demand and to spur competition in their markets.
- Newark and LaGuardia need to make airfield improvements to reduce chronic traffic delays in the New Jersey-New York metropolitan region.
- Chicago, Fort Myers, Kansas City, San Antonio, Dallas and Jackson, MS, all have delayed runway projects, which are constraining capacity at their airports.
- Los Angeles needs to move forward with a transformational ground-transportation plan for their severely land-locked facility.
- Reno and Savannah-Hilton Head both need to expand their Customs and Border Protection facilities to meet increased demand for international service.
- Gerald Ford in Michigan needs to build a consolidated checkpoint for TSA.
- Oakland needs to repair its airfield-perimeter dikes that do not meet FEMA's current flood-control standards.
- The list goes on and on…

In conclusion, America's airports are powerful economic engines, generating more than $1.1 trillion in annual activity and supporting more than 9.6 million jobs. New investments in airports will help local communities all across the country maintain their current air service and attract new carriers, which will increase competition and lead to lower fares for passengers. As I have detailed, the airport community is united in its belief that modernizing the PFC user fee and maintaining AIP are the best options for strengthening our nation's airport system to meet the needs of today and the challenges of tomorrow. I appreciate this opportunity to testify before you today and welcome your questions.