



Written Testimony of Lance Lyttle
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Thank you, Chairman LoBiondo, Ranking Member Larsen, Chairman Shuster, and Ranking Member DeFazio, and members of the Subcommittee for your leadership on ensuring 21st century competitiveness for US airports, and for inviting me to testify today. It is an honor for me to be here.

I would also like to especially thank Representative Larsen, who is a great champion for Washington state and our airports. It is a pleasure to be able to thank you in person for your efforts to ensure the competitiveness of our aviation and aerospace industry.

My name is Lance Lyttle, and I am the Managing Director of Seattle-Tacoma International Airport. Accommodating passenger growth and building world-class aviation infrastructure is a critical priority for airport operators and members of the Subcommittee, and I would like to focus my remarks this morning on laying out the challenge we face at Sea-Tac in creating the needed facilities to support our rapid growth, how we think about financing our required investments and how we work to ensure that the benefits of our growth are shared by our surrounding communities. I would also like to touch on how we think Congress can help, in particular by removing the federal cap on the Passenger Facility Charge.

2016 marked the sixth year in a row of record-breaking growth at Sea-Tac:

- We served over 45 million passengers, an 8% increase, after 2015's 13% increase.
- International travel also increased – up 11% from 2015 – and total air cargo went up for the 5th straight year, increasing 10%.
- This vaults Sea-Tac to the 9th busiest U.S. airport based on passenger volume and we now work with over 2 dozen airlines flying direct routes to more than 80 domestic and 24 international destinations.
- We supported 110,000 jobs, including 18,000 jobs at the airport.
- We generated \$6.1 billion in personal income, \$16.3 billion in business revenue, and \$565 million in state and local taxes.
- We do all this with an operational area that is one of the smallest footprints for a major US airport.

At Sea-Tac, our focus is not growth for growth's sake. We're proud of our growth because it reflects the increasing economic dynamism and global relevance of the Puget Sound region and Washington state overall. With innovative companies such as Boeing, Microsoft, Amazon and Starbucks along with disruptive start-ups in biotech, global health, retail, manufacturing and IT, our economy is booming, and the Seattle area has one of the fastest growing populations in the country. A globally competitive airport – making travel to the Seattle region for business and tourism both convenient and accessible – is an essential part of this economic vitality.

But it is not just the robust Seattle economy that requires 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 came to Seattle as a result of an airline decision. Last year, our

major carriers expanded flights, destinations and plane sizes while we welcomed two additional international carriers. 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.

The Challenge: Financing Infrastructure Investment to Keep Pace

With all of those factors, our essential mission as an airport is to avoid being a chokepoint, either for our region, for our customers or for the NAS. We are the infrastructure for sustainable regional prosperity and increasing global connectivity, and our success is shared by people throughout the state, the country and the world. Conversely, if we fail to provide needed capacity, we put countless opportunities at risk for all of our partners.

Sea-Tac's experience is not unique. The Federal Aviation Administration (FAA) estimates that U.S. airport enplanements will grow to more than 1.24 billion over the next 20 years. But it is an excellent case study in the real-world challenges that the American airport industry faces today.

To accommodate more passengers and airlines, the Port is currently investing more than \$3.2 billion in capital improvement projects during the next eight years, including our \$550 million North Satellite Modernization project, a new \$660 million International Arrivals Facility and a new \$317 million baggage handling system. Our capital improvement projects will add eight additional gates to the airport, create a direct connection to the terminal for international travelers and more than double North Satellite dining and retail establishments. Funding this capital plan will use essentially all of Sea-Tac's anticipated PFC collections through 2035, and most of the PFC collections through 2047, to pay revenue bond debt service on PFC eligible projects.

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 expect that the airlines will need to load and unload some flights by transporting passengers by bus because we will not have enough gates for all the aircraft who want to come to Sea-Tac.

At the same time, we are in the midst of updating our 20-year master plan. The current forecast indicates that the region's economy will need Sea-Tac to handle 66 million annual passengers by 2034 – 20 million more than we did last. Sea-Tac, like most of the nation's large airports, is more than 40 years old, and it's a challenge to update and maintain the infrastructure. The combination of basic infrastructure upgrades, coupled with the need to meet anticipated passenger growth over the next 20 years, drives our capital program quite high. Sea-Tac will need to add 35 more gates, dramatically expand our ticketing/check-in facilities, and substantially rebuild our airport access roadways. Without readily available expansion space, we

will likely need to move three airline maintenance hangars, several cargo buildings, and an Aircraft Rescue and Firefighting (ARFF) station to construct gates and hold aircraft positions. 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.

The Need: Sufficient Tools and Flexibility to Fund Infrastructure Investments

I would like to share with the Subcommittee how we approach this massive investment challenge. We have limited options to remain competitive with our airlines' rates and charges, which is critical to retain the international growth we have experienced. Unlike origin and destination traffic that is organic to Sea-Tac alone, airlines have choices in how they choose to get to Asia. If we are unable to remain competitive in our airline rates and charges, we may see traffic relocate to another U.S. airport.

We have four main revenue sources to meet our infrastructure needs: increasing non-airline revenue; securing additional Airport Improvement Program grants; increasing local taxes on King County residents; and raising the Passenger Facility Charge. Let me highlight each of these briefly.

First is airport net operating income. Per FAA guidelines, aeronautical revenues are set to recover costs, and so essentially all of the net operating income out of Sea-Tac is generated from non-aeronautical sources such as parking, rental cars and airport dining and retail concessions. While this is a critical source of revenue, it is not sufficient to meet our capital needs.

Second is federal Airport Improvement Program funding. While I am sure all of today's panelists would welcome as much direct federal investment as possible, the reality is that fewer and fewer of these scarce dollars are available for projects. And those dollars that are available are limited to uses that do not include some of our biggest terminal investment needs.

Third, the Port of Seattle has limited property taxing authority, which we almost never use for airport capital project financing. More to the point, though, as we consider airport investments and the NAS, only about one third of Sea-Tac passengers are King County residents (those who would pay increased property taxes). 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, the United States, and all over the world.

The fourth option is the Passenger Facility Charge (PFC) – the funding source that, at Sea-Tac, is directly aligned with the passengers who use the airport. 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. 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 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 each 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, increase capacity and support economic growth through a passenger's direct investment in local airport infrastructure. As public institutions accountable to local voters, airports balance the very real need to keep costs low while ensuring that aviation specific infrastructure meets regional demand.

This current federal cap on the PFC means that, in 2017, it is worth less than half of its spending power when the cap was adjusted in 2000. 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 a federal one-size-fits-all decision making for that of locally-elected officials regarding appropriate fees for passengers at individual airports.

As I mentioned previously, funding our existing capital plan will use essentially all of Sea-Tac's anticipated PFC collections through 2035, and most PFC collections through 2047, to pay revenue bond debt service on PFC eligible projects. Therefore, there will be little available PFC capacity to pay for the projects identified as part of the master plan that are necessary to add capacity to meet regional demand through 2036. Without additional PFC authority, our debt service on the bonds to fund master plan projects would flow directly into the airline rate base, driving airport costs to airlines at Sea-Tac, most likely to the highest in the nation. This would not be financially feasible for the airlines serving Sea-Tac and it would not be workable for the region.

If Congress would modernize the PFC by removing the federal cap, the new funds would be dollars that do not have to be included in airline rates and charges. Again,

we understand that an uncapped PFC would give us the authority to raise the fee, but that our decision would have to be balanced with the need to keep our costs competitive with other U.S. airports.

I should mention that increased investment flexibility also allows us to address the greatest challenge facing US airports: security. Airports have increasingly become targets, and infrastructure development is a key part of the solution, not only building out new checkpoints and other perimeter security facilities, but also reducing congestion. Last year's FAA extension was a great help to our airport on the security side, in part because of the TSA provisions that were included. While I know that is not the jurisdiction of this committee, I am hopeful that we can find ways to work with the House and Senate to continue to make progress in this area, particularly related to the availability of passenger screening canine teams.

The Opportunity: Increasing the Benefits of Airport Growth

The true measure of our success in developing our facilities is not only accommodating increased passenger volumes but also using being a great community steward. Our commissioners and our staff are committed to being the most efficient and customer-service focused airport in the country, while being a leader in growing responsibly and helping our residents benefit from our growth.

First, we do this through economic and workforce development, as we work to increase the percentage of funds spent with qualified small businesses to 40%, including a significant focus on DBE utilization in federally assisted projects. We have also set aggressive goals around apprenticeship utilization and diversity goals for the contractors on all of our large construction projects.

Second, we are committed to creating a sustainable airport that minimizes the environmental impacts of our operations; we already have a range of highly successful environmental programs in water quality, recycling, wildlife management, air quality, climate and noise reduction. Many of these programs have been recognized nationally as models for other airports. We understand that in order for our region to continue to grow and thrive in the 21st Century, we must find ways to do more while using fewer of our planet's scarce natural resources. This isn't just an environmental strategy; it is critical for our "permission to grow" and is of paramount importance for our economic future and the vitality of the Pacific Northwest community that we serve.

Our commitment to environmental quality and sustainable development remains as strong as ever. Earlier this year, the Port of Seattle, Alaska Airlines and the Boeing Company announced the release of a Biofuel Infrastructure Feasibility Study that assesses costs and infrastructure necessary to deliver a blend of aviation biofuel and conventional jet fuel to aircraft at Sea-Tac, a crucial step toward routine biofuel use in the future. The objective of the feasibility study was to identify sites that could support the receipt, blending, storage and delivery infrastructure required to supply Sea-Tac Airport with up to 50 million gallons per year (and to double to 100 million after 2025) of aviation biofuel. Because these biofuels are not produced yet in Washington State, they must be imported by truck, rail or barge and then be blended with regular petroleum-based jet fuel. Our ultimate goal is to power every flight fueled at Sea-Tac with sustainable aviation biofuel, which has a lifecycle carbon footprint typically 50 to 80 percent lower than regular jet fuel.

Third, we strive to minimize the issue that is of most vocal community concern: aircraft noise. Our airport offers one of the most comprehensive aircraft noise reduction programs in the nation, and we work closely with the FAA, our airlines and local communities to monitor existing noise programs and develop new ways of reducing airport and aircraft noise. However, there are a number of ways that the FAA could be an even more valuable partner in noise-related issues, and this again is an important area of focus for the next FAA bill.

At Sea-Tac, our primary focus around noise has been sound insulation programs and noise abatement programs. Almost 10,000 single-family homes near our airport have been insulated since our program began in 1985, as well as six condominium complexes, fourteen community college building, three private schools, two churches and one convalescent center. We also acquired 1,400 single-family home parcels and relocated the residents, and acquired and relocated the residents at five mobile home parks.

In addition, following an agreement reached in 2002 between the Highline School District, the FAA, and the Port of Seattle, the Port and FAA have also provided funding assistance for sound insulation in noise impacted public school buildings. We have completed about half of the 15 schools identified in the MOA, and we are working closely with the FAA to ensure that we complete this essential commitment to local school children.

In closing, Sea-Tac International Airport sees the federal government and Congress as essential partners. By granting us increased local authority on the PFC, greater tools and flexibility on addressing community impact, and greater investment in

security, you will help us once again make America's airports the envy of the world. I am grateful to have an audience with you today, and I am confident that with your leadership we can capitalize on this opportunity to be one of the key facilitators of US economic growth and make improvements to the benefit of all U.S. passengers. Thank you.