

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2465 SCOMM 103 HOUSE SPEC. COMM. INTL. TRADE & TOURISM, 1997-98

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

textiles travel by these modes. General freight volume will grow substantially by 1.3 billion tons, from 38 percent of all shipments to 41 percent, gaining in market-share over bulk freight.

#### **Asian Economy**

Almost all of the international air cargo activity passing through Anchorage International Airport is Trans-Pacific service. The recent financial crises in Asia, as well as the underlying structural problems that were their root cause, are expected to substantially lower the region's growth prospects over the next two years. Standard & Poor's DRI has produced an interim forecast for the Asian economies that reflects this reassessment. Among the four key developing nations of Southeast Asia, growth is likely to average 3.5 percent in 1998 and 1.6 percent in 1999, as they cope with excess capacity, falling asset prices, and banking problems. The sharp currency depreciations will raise regional inflation to double-digit rates in 1998. On the positive side, it is expected that these devaluations will improve the region's competitiveness. But given that roughly 40 percent of Asia's trade is intra-regional, export-led growth will be something of a challenge. Over the medium term, average Asian GDP growth is unlikely to exceed 6 percent, in light of the large capacity overhang in many key industries such as autos, semiconductors, steel, and petrochemicals.

According to DRI, the slowdown in Asia may have a significant impact on the rest of the world. It is expected that Japan will be hit the hardest: roughly half of its exports go to Asia. With its domestic demand expected to remain weak, it is expected that Japanese GDP growth will be lowered by roughly a full percentage point. Since about one-third of U.S. exports go to Asia (including Japan), U.S. growth is likely to be reduced by 0.3-0.5 percentage point. But less than 10 percent of Europe's exports are bound for Asia; therefore, the impact of the Asian downturn on European growth will be quite modest. Overall, the direct and indirect effect of the Asian crises could reduce real world GDP growth by as much as 0.5 percentage point.

For the long term, economists predict that the Southeast Asian currency crisis of 1997 are not a sign of the end of Asian growth, but rather a recurring, if difficult to predict, pattern of financial instability that often accompanies rapid economic growth. It is expected that, in the long term, growth will continue because most of Asia has adopted capitalism as the organizing basis of economic life and has become deeply integrated into the global economy.

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Exhibit 3.2: Growth Prospects for Asian Economies, 1995-2005

| <u>GDP Per Capita Relative to U.S.</u> |                   |                   |                          | Projected Per Capita<br>Growth Rate,<br>1996-2005 |
|----------------------------------------|-------------------|-------------------|--------------------------|---------------------------------------------------|
| <u>Economy</u>                         | <u>1965</u>       | <u>1995</u>       | <u>Projected in 2005</u> |                                                   |
| <b>Four Tigers</b>                     | <b>17.3 %</b>     | <b>72.2 %</b>     | <b>98.5 %</b>            | <b>2.8 %</b>                                      |
| Hong Kong                              | 30.1 %            | 98.4 %            | 116.5 %                  | 2.1 %                                             |
| Singapore                              | 15.9 %            | 85.2 %            | 107.0 %                  | 2.5 %                                             |
| South Korea                            | 9.0 %             | 48.8 %            | 83.6 %                   | 3.5 %                                             |
| Taiwan                                 | 14.2 %            | 56.2 %            | 88.0 %                   | 3.1 %                                             |
| <br><b>China</b>                       | <br><b>3.2 %</b>  | <br><b>10.8 %</b> | <br><b>38.2 %</b>        | <br><b>6.0 %</b>                                  |
| <br><b>Southeast Asia</b>              | <br><b>10.0 %</b> | <br><b>21.2 %</b> | <br><b>45.7 %</b>        | <br><b>4.5 %</b>                                  |
| Indonesia                              | 5.2 %             | 13.1 %            | 35.8 %                   | 5.0 %                                             |
| Malaysia                               | 14.3 %            | 36.8 %            | 71.2 %                   | 3.9 %                                             |
| Philippines                            | 10.7 %            | 9.4 %             | 28.5 %                   | 5.3 %                                             |
| Thailand                               | 9.7 %             | 25.6 %            | 47.4 %                   | 3.8 %                                             |
| <br><b>South Asia</b>                  | <br><b>8.5 %</b>  | <br><b>9.2 %</b>  | <br><b>21.3 %</b>        | <br><b>4.4 %</b>                                  |
| Bangladesh                             | 9.9 %             | 8.5 %             | 17.2 %                   | 3.9 %                                             |
| India                                  | 6.5 %             | 7.8 %             | 24.4 %                   | 5.5 %                                             |
| Pakistan                               | 7.7 %             | 7.7 %             | 18.1 %                   | 4.4 %                                             |
| Sri Lanka                              | 10.1 %            | 12.6 %            | 25.3 %                   | 3.9 %                                             |

Source: Foreign Affairs, Nov./Dec. 1997.

As shown in Exhibit 3.2 above, Asian economies are expected to see healthy increases in future growth, but are likely to grow more slowly in the next 30 years than in the past thirty years because of both capital deepening and demographic changes.

In spite of the currency crisis, 1997 has been a excellent year for cargo carriers on transpacific routes. Westbound traffic growth was hampered by the strong U.S. dollar, but that was more than offset by the growth in air exports from Asia to the Americas. Moreover, carriers get better yields on the eastbound leg, so they attribute a lot more importance to their traffic flows out of Asia.

It is expected that while passenger revenues will drop significantly for many Asian carriers, cargo growth will continue as exports will be dictated more by the European and US markets than domestic markets. An International Air Transport Association (IATA) survey of 69 scheduled airlines concluded that in spite of its problems, survey respondents expect Southeast Asian air freight to grow 10.3% per year. Korean Airlines, in recent industry news articles, have indicated that cargo demand from Europe and the U.S. will increase 15 percent 1997 over 1996. The steady growth in air freight volumes to Europe is due mostly to the emergence of eastern European countries as major buyers of Korean made goods. Domestic carriers such as Northwest, United, and FedEx have all reported increasing all-cargo freighter service between the U.S. and Asia. Early reports have indicated that cargo tonnage at Macao International Airport (a key gateway to China) grew 142% during the first eleven months of 1997.

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#### **Alaska**

Historically, the Alaskan economy has been driven by booms in the resource extraction industries. Since the 1970's both the State and Anchorage economies have been strongly influenced by the petroleum industry, which accounted for almost 50 percent of Alaska's Gross Domestic Product (GDP) in 1989. Other long term influences on the Alaskan economy have been mining, fishing and timber, government employment, and tourism.

Over the past few years, the economy has matured and diversified and growth has slowed somewhat as the economy transitions to one with a larger commercial and retail industry base. The oil industry has matured and most likely future growth will be limited to new finds. The fishing industry has been historically second to oil in importance to the state. According to industry reports, prospects for growth appear to be constrained into the future due to market problems with the Japanese, quotas on salmon and halibut fishing, and reduction in the lengths of the fishing season. Due to environmental concerns and federal action, future growth in the timber industry is also expected to be constrained. A bright spot in future economic growth is the tourist industry, which has increased every year over the past thirty years.

Forecasts by the Institute of Social and Economic Research (ISER) at the University of Anchorage for the Anchorage International Airport 1989 Master Plan Update project a rate of employment growth of 1.2 percent for the state to year 2012.

According to the Anchorage Economic Development Corporation (AEDC), a mild surge in economic growth made 1997 the ninth consecutive year of growth for the Anchorage economy. The local Anchorage economy grew 1.48 percent adding an estimated 1,792 new jobs. Much of the growth is attributed to the success of health services, air transportation, and communications. AEDC anticipates a growth rate of 1.5 percent in 1998.

#### **3.2 OTHER FORECAST FACTORS**

As discussed previously, prospects for growth in the traditional air freight industry are generally limited to the growth of the overall economy and to changes in transportation costs. Until the late 1970s this was true for the whole industry. In the early 1980s, this relationship became less clear as GDP-based models began to consistently under-predict air freight movements. Beginning in the early 1980s, customers began to shift their cargo, typically higher value goods generating higher yields, from traditional cargo channels to the service oriented express carriers. The timing of this shift suggests a relationship between the widespread adoption of office computing equipment and the burgeoning demand for premium delivery services. Beginning with a four percent market share, growth rates for the express segment of the cargo industry since 1977 has averaged 25 percent per year and claims close to 60 percent of the domestic market today.

#### **An Expanding Integrator/Express Market**

Early in the decade, Federal Express (now renamed FedEx) dominated the U.S. express market. As the market grew, however, so did the competition. Airborne Express made the decision early to specialize in the express business; DHL continued to expand its express business in the U.S. market

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while putting most of its effort in the international market, and expanded into heavy freight (shipments over 150 pounds); Purolator was acquired by Emery Worldwide, which was already an express carrier but which also was a heavy freight carrier and was having difficulty handling both types of service in the same operational system; UPS made tremendous strides in competing with Federal Express in the U.S. and international express markets. Both UPS and Federal Express, like DHL, have expanded into the heavy freight business. In acquiring Flying Tigers, Federal Express became a major participant in heavy freight. UPS moved into heavier freight concomitant with the expansion of its system worldwide.

The largest air freight operation in the country (also the world) today is FedEx, followed by UPS and Northwest. FedEx operates over 500 aircraft with a daily global lift capacity of 12.5 million pounds. On average, they move over 2.4 million packages worldwide operating out of 325 airports. Operating 35,000 trucks, FedEx couriers drive over 2.5 million miles per day.

### **Aggressive US Government Open Skies Policy**

An aggressive federal government policy of the liberalization of bilateral air rights between the United States and foreign countries is opening up new markets to the air cargo carrier industry.

The United States government has conducted formal aviation negotiations with 56 foreign governments between January 1989 and March 1996. U.S. officials discussed air cargo issues in at least one negotiating session in talks with 44 of these governments. Most negotiating sessions focused on passenger issues, however, about one-third of the more than 300 individual sessions dealt with air cargo issues.

During this seven year period, the United States amended or inaugurated 74 aviation agreements. Thirty-two of these agreements contained specific provisions governing all-cargo services. Of these, 18 agreements specify separate routes for all-cargo services and 21 agreements define the intermodal rights available to airlines.

The most important news, however, regarding international operations is the Open Skies policy. During the past five years there has been an expansion of the Open Skies policy of the United States. Under an Open Skies agreement, there are no restrictions on routes, the frequency of flights, or the number of airlines that can operate under and which most bilateral restrictions are eliminated. The Open Skies policy has been extended primarily to European countries where the United States has signed Open Skies agreements with 12 European countries (Austria, Belgium, the Czech Republic, Denmark, Finland, Germany, Iceland, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland). The U.S. also signed an agreement with Canada substantially liberalizing the trans-border aviation market. Discussions are currently underway with the United Kingdom, Malaysia, and Chile.

Now the US has begun the quest to further expand the policy to some of the Pacific Rim and Southeast Asian countries. Singapore, Taiwan, and South Korea have joined Singapore in signing Open Skies agreements with the U.S. The American flag carriers will certainly be able to expand their passenger and cargo service, as will the American all cargo carriers. But those foreign flag air carriers who operate freighter aircraft, in addition to their scheduled passenger service, will now have an opportunity to greatly expand their cargo business to and from US cities.

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The international carriers' passenger service and cargo service (even when they operated some freighter aircraft) were always considered jointly when applying for bilateral rights to another foreign destination. If the carrier was denied extended routes for passenger service, it was automatically denied extended routes for its freighter aircraft. Even though the carrier had potential to a particular city, the rights were tied to the approval/disapproval of the passenger service.

Open Skies changes this method of granting rights through the bilateral system. If KLM or Lufthansa elects to operate freighter service to a new US city (not included in their original bilateral authority) they may do so. Lufthansa went a step further and created a subsidiary company, Lufthansa Air Cargo, operating widebody freighters internationally, they are reviewing additional cities to serve. The new cities will be evaluated on the potential for cargo only. This ability allows Lufthansa Air Cargo to select cities other than the traditional passenger gateway.

For the foreign flag carrier from nations that do not enjoy an open skies policy with the U.S. and are held to only cities approved in the bilateral agreements, they are adopting a different strategy. They will continue to operate their freighter schedules to authorized cities but they can operate charters to cities not in their bilateral agreements, upon special approval by the US DOT.

#### **Recent U.S./Japan Bilaterals**

An important decision related to bilaterals directly affecting the potential of increased flights through Anchorage was announced on January 30, 1998. On that date, a new pact between the United States and Japan was signed. This new agreement will boost the number of flights and carriers serving the \$10 billion a year market, \$2 billion of which comes from cargo. Under the new agreement, U.S. domestic incumbent carriers, those who already enjoyed extensive rights under the original 1952 treaty (United Airlines, Northwest Airlines, and FedEx), will gain full rights to offer service between any U.S. points to any points in Japan. Nonincumbent all-cargo carriers (UPS and Polar Air), will gain new opportunities to transport goods beyond Japan and one additional all-cargo carrier will be eligible to enter the market in four years. The pact will run for four years, and negotiators will begin discussing greater liberalization in the third year.

United is expected to take advantage of this new agreement by doubling its flights between Tokyo and its Chicago hub; United is also in a position to expand its global network in an alliance with All Nippon Airways, Japan's number two carrier, taking advantage of new rights that allow U.S. airlines to forge links with Japanese carriers. Other U.S. airlines will be allowed to triple their service with a total of 90 new Trans-Pacific flights: American Airlines, Continental Airlines and Delta Air Lines are expected soon to add new flights from hubs in Chicago, Dallas, Atlanta, Houston, and Newark. US Airways and TWA will get to add new flights over the next two years. In exchange, All Nippon Airways and Nippon Cargo Airlines will receive broad access to fly to the U.S. and onward. Japan Airlines will probably form an alliance with a U.S. carrier.

Perhaps the biggest winners in this new agreement are the all-cargo carriers. FedEx, which has a strong presence at Anchorage, will be free to increase its flights between Japan and the rest of Asia, a key to FedEx's growth in the intra-Asian market. FedEx can only serve its hub at Subic Bay in the Philippines with adequate access from Japan. FedEx's expanded rights will include the first direct flights by an all-cargo U.S. airline between Japan and China. Polar Air, another carrier with a

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strong presence in Anchorage, won the right to serve Tokyo and to fly cargo beyond Japan to other points in Asia. Under the new agreement, Polar will be allowed to fly to one point in Asia from each of its Japanese cities. Under a 1996 all-cargo agreement with Japan, Polar was admitted to the market and was allowed to fly to Osaka six times a week. It was allowed to fly to one city beyond Osaka, but was not allowed to carry cargo. United Parcel Service (UPS), also with a strong presence at Anchorage, increased its opportunities with this new agreement. UPS won the right to fly cargo to four destinations beyond Japan. In the past, UPS was allowed to fly cargo only to two points beyond Japan.

Despite the currency crisis in Asia, Japan is still viewed as the most important country in the world's fastest growing travel region and the main gateway to the now export-driven economies of Southeast Asia. This new agreement will most likely increase the potential for an increase in cargo operations at Anchorage International and make the airport more attractive to third party logistics providers.

#### **Alaska Air Cargo Transfer Initiative**

In Alaska, state officials came forward to the U.S. DOT with a proposal for a strategy that would benefit Anchorage and Fairbanks Airports and still contribute to the attainment of important national policy objectives. The result was the "Alaska Cargo Transfer Initiative", a proceeding decided by DOT in 1996 in which the State of Alaska and its international airports obtained essentially unlimited cargo transfer flexibility for foreign air carriers. The objective of this initiative was to capture for Alaska, and hence the U.S., a greater share of the large and fast growing Asia-Europe cargo market.

The DOT decision grants all foreign air carriers which currently hold, or which may subsequently receive, effective DOT authority, except Great Britain and Japan, to engage in scheduled foreign air transportation of cargo authority to engage in the following cargo transfer activities at Anchorage and Fairbanks International Airports:

- (1) to transfer cargo from any of their aircraft to any of their other aircraft, provided that both aircraft are operating to/from a point in the carrier's homeland;
- (2) to make changes, at points in Alaska, in the type or number of aircraft used to transport cargo, provided that in the outbound direction the transportation beyond Alaska is a continuation of the transportation from the carrier's homeland to Alaska, and in the inbound direction, the transportation to the carrier's homeland is a continuation of the transportation from behind Alaska;
- (3) to commingle cargo moving in foreign air transportation with cargo traffic not moving in foreign air transportation;
- (4) to discharge cargo in Alaska for transfer to a U.S. carrier for onward carriage to a final destination in the United States or in a third country, and to uplift from Alaska cargo transferred from a U.S. carrier which was transported by that carrier to Alaska from a point of origin elsewhere in the United States or in a third country; and

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(5) to discharge cargo in Alaska for transfer to another foreign carrier for onward carriage to a final destination in a third country, and to uplift from Alaska cargo transferred from another foreign carrier which was transported by that carrier to Alaska from a point of origin in a third country.

This agreement, once its implications have been fully evaluated by the air cargo industry, should play a major role in increasing transload and distribution opportunities at Anchorage International.

#### **Expanded Transnational Alliances and Code-sharing**

Since the Northwest/KLM strategic alliance in 1993, there have been approximately 390 airline alliances involving 177 airlines. Strategic alliances are designed to allow carriers to provide seamless service, offer a broader range of services, expand their geographic coverage and provide a larger concentration of services. In some cases the alliance results in major investments between companies, while others are based solely on perceived synergies and productivity gains.

Key alliances include the Star Alliance made up of Lufthansa, United Airlines, SAS, Singapore Airlines, Varig, Air Canada, and Thai International; the British Air/American Airlines alliance; the Delta/Swiss Air alliance; and the Japan Airlines/Lufthansa investments in DHL.

Strategic alliances, combined with the U.S. Open Skies policy, could potentially be the catalyst that makes the Alaska Air Cargo Transfer Initiative work and make inter-lining between alliance partners an important part of the activity at Anchorage.

#### **Globalization, Logistics and Trade**

With the worldwide reduction in trade barriers, new communications advancements, and transportation deregulation there has been a growing trend to industrial globalization where various parts of products are manufactured in different areas of the world and then accumulated in a another location for final assembly and distribution. As a result, logistics has moved to the forefront as a way of improving corporate profitability and marketing effectiveness. Logistics is now a significant element of the world economy. In 1995, U.S. companies alone spent \$709 billion on logistics. Further, transportation expenditures totaled \$443 billion with 4 percent (\$18 billion) spent on air cargo.

The increasing preference for using air transportation as a shipment mode is related less to the value of the commodity itself, and more to the value of having it exactly when needed, so as to quickly respond to emergencies and changing customer preferences, as well as to reduce inventory and warehousing costs. The speed and reliability of air transport is particularly suited to the needs of time sensitive industries that are willing to pay a high transport cost to avoid the even higher costs and competitive disadvantages of delayed or uncertain delivery. These include the toy and apparel industries, whose products are subject to demands that are highly seasonal, capricious, and unpredictable, and the agricultural produce industry, whose perishable products have a very limited shelf-life. It also includes the manufacturing of high tech products that are customized to order and/or have very short life cycles.

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A survey by Air Cargo Management Group, an aviation based consulting company, report that international air express services grew at an annual rate of 19.3 percent for the past three years. Total international air express traffic volume grew 15.7 percent from 1996 to 1997.

#### **Big Emerging Markets**

Since January 1993, the Department of Commerce (DOC) has been analyzing the interests of the United States in the world economy, and what role the government can play to help American business discover and exploit commercial opportunities abroad. In that process, DOC came to a major conclusion: over the next two decades, the markets that hold the greatest potential for dramatic increases in U.S. exports are not the traditional trading partners of the U.S. in Europe and Japan, which now account for the overwhelming bulk of U.S. trade. Rather, the greatest commercial opportunities are to be found in the Big Emerging Markets (BEMs): the Chinese Economic Area (including China, Hong Kong, and Taiwan), India, Indonesia, South Korea, Mexico, Brazil, Argentina, South Africa, Poland, and Turkey.

These ten markets could account for the same value of exports as either Japan or Europe by the end of this decade. By 2010, they are likely to exceed our exports to both Japan and Europe combined.

Based on this analysis, the current federal administration has re-developed its strategy to make the U.S. competitive in these markets. It is a major policy initiative that focuses on changing attitudes in Washington toward export promotion; activities of key departments and cabinet officers; the growing links between government and business strategies; the development of country strategies for each (BEM); the focus on Big Emerging Sectors; the creation of bilateral forums to promote long-term commercial cooperation; the establishment of commercial centers within the BEMs to promote U.S. exports; the effort to win projects for American firms in the BEMs; the development of a global marketing network to help U.S. firms in the BEMs; the establishment of a strategy center in Washington; and the relationship between global initiatives and the BEMs.

#### **4.0 FORECAST**

The purpose this section is to examine the historical air cargo activity at Anchorage International Airport and develop profiles of future cargo demand, review and evaluate industry forecasts, and project air cargo demand for the next five years. It is divided into the following sections:

- Review of Historical Activity at Anchorage International Airport;
- Review of Industry Forecasts; and
- Anchorage International Airport Projections.

This forecast will become the basis to determine future warehouse facility requirements, additional ramp parking for freighter aircraft, and other infrastructure needs and support services for Anchorage International Airport. The forecast will also support the identification of future air cargo development opportunities.

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#### **4.1 OVERVIEW OF CARGO ACTIVITY AT ANCHORAGE INTERNATIONAL**

##### **Introduction**

Anchorage International Airport (ANC) is the major air gateway to the State of Alaska for both passengers and cargo, and its strategic location has made it an important technical stop for air cargo freighters flying between Asia and North America, and between Asia and Europe. Approximately 70 percent of all freight and mail entering Alaska for in-state consumption arrived through Anchorage International Airport in 1997. Preliminary reports indicate landings by both domestic and international freighter aircraft exceeded 30,000 at the airport for calendar year 1997.

A list of air carriers operating at Anchorage International is provided in Exhibit 4.1. As of December 1997, there were 35 scheduled airlines operating at Anchorage and 11 airlines conducting regular seasonal charter service. Twenty airlines are engaged exclusively in international air cargo operations, seven exclusively in domestic cargo operations, and three who operate both international and domestic operations (Alaska Airlines, FedEx, and UPS). As can be noted in Exhibit 4.1, several passenger carriers at the airport also operate all-cargo freighters.

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#### **Exhibit 4.1: Air Carriers Operating at Anchorage International (as of December 1997)**

| <b>Domestic</b>                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Passenger Operations</u><br>Alaska Airlines<br>America West<br>Continental Airlines<br>Delta Air Lines<br>Era Aviation<br>Frontier Flying Service<br>Northwest Airlines<br>Peninsula Airways<br>Reeve Aleutian Airways<br>Reno Air<br>South Central Air<br>United Airlines | <u>All-Cargo Operations</u><br>Airborne Express<br>Air Cargo Express<br>Alaska Central Express<br>Alaska Airlines<br>Empire Airlines<br>Era Airlines<br>Lynden Air Cargo<br>Northern Air Cargo<br>South Central Air                                                                                                                                                                                                                              |
| <u>Passenger Charters</u><br>Hawaiian Airlines<br>Sun Country                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>International</b>                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <u>Passenger Operations</u><br>Aeroflot<br>Air China*<br>Alaska Airlines<br>Asiana Airlines*<br>Cathay Pacific Airways*<br>China Airlines<br>EVA Air*<br>Korean Air<br><br>transit only*                                                                                      | <u>All-Cargo Operations</u><br>Air China<br>Air Hong Kong<br>American Transair<br>Asiana Airlines<br>Atlas Air<br>Cathay Pacific Airways*<br>China Airlines<br>EVA Air<br>Evergreen International Airlines<br>FedEx<br>Japan Airlines<br>Korean Air<br>Nippon Cargo Airlines<br>Northwest Air Cargo<br>Polar Air Cargo<br>Singapore Airlines<br>Southern Air Transport<br>United Airlines Worldwide Cargo<br>United Parcel Post<br>World Airways |
| <u>Passenger Charters</u><br>Balair<br>Condor<br>Japan Airlines                                                                                                                                                                                                               | <u>All-Cargo Charters</u><br>Aeroflot<br>American International Airlines<br>Emery Worldwide Airlines<br>Gemini Airlines<br>Malaysia Airlines<br>Southern Air Transport<br>Tower Air                                                                                                                                                                                                                                                              |

Source: ANC Airport Records

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Of the carriers engaged in international service, five carriers - FedEx, UPS, United, Polar and Northwest perform significant transloading operations at the airport. Almost all other carriers engaged in international operations are using Anchorage as a technical stop only for fuel and crew changes. Nevertheless, recent discussions with the international carriers have revealed that many are currently experimenting with the local live and fresh fish business on a limited or seasonal basis.

#### **Air Cargo Traffic**

Unlike passenger activity, very little detail exists on current and historical air cargo volumes at Anchorage International Airport. Because it is critical to know the volume and category of cargo that moves through Anchorage in order to prepare a forecast of future demand and determine needed facility requirements and potential opportunities, a significant effort was made to estimate past volumes and to identify existing activity.

The two primary sources used to gather air cargo data were the United States Department of Transportation (DOT) records and a survey of carriers who have significant cargo operations on the airport. DOT records that were reviewed included:

**T-100 Data Bank 28DM Domestic Market Data:** This file contains data reported by U.S. carriers operating between airports located within the boundaries of the United States and its territories. These data are often referred to as either "Market" or "On-Flight O&D" records. These data fields contain information on passengers, freight and/or mail enplaned at the origin airport and deplaned at the destination airport.

**T-100 Data Bank 28DS Domestic Segment Data:** This File contains data reported by U.S. carriers operating nonstop between airports located within the boundaries of the United States and its territories. These data fields contain information by aircraft type and service class for departures performed, available capacity and seats, passengers transported, freight and mail transported, scheduled departures, and aircraft hours ramp-to-ramp and airborne.

**T-100 Data Bank 28IM International Market Data:** This file contains data reported by U.S. and foreign air carriers. For the U.S. carriers, at least one point has to be outside the United States or in one of its territories. All foreign air carrier data must have at least one point in the United States or in one of its territories. These data are often referred to as either "Market" or "On-Flight O&D" records. The data fields contain information on passengers, freight and/or mail enplaned at the origin airport and deplaned at the destination airport.

**T-100 Data Bank 28IS International Segment Data:** This file contains data reported by U.S. carriers operating nonstop between airports where at least one airport is located outside the boundaries of the United States or its territories. Non-U.S. (foreign) air carriers are required to report all nonstop segments where at least one point is in a U.S. state or territory. These data fields contain information by aircraft type and service class for departures performed, available capacity and seats, passengers transported, freight and mail transported, scheduled departures, and aircraft hours ramp-to-ramp and airborne.

When working with DOT data related to air cargo carriers, there are many reporting gaps. Domestic all-cargo operators are not required to file detailed segment and market traffic data.

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Particularly, those carriers that are identified as air freight forwarders (or in the old Civil Aeronautics Board and DOT parlance, those called "indirect air carriers"), including many who now operate large fleets of aircraft, are exempt from all reporting to DOT. To overcome the lack of DOT statistics for some carriers, personal interviews were conducted with individual carriers.

Summarized below in Exhibit 4.2, and presented graphically in Exhibit 4.3, is the total air freight and air mail handled at Anchorage International Airport from 1990 to 1996. Unless otherwise noted, all cargo in this section is reported in standard tons (one ton equals 2,000 pounds) and years are January 1 through December 31 calendar years.

**Exhibit 4.2: Historical Air Cargo Volumes at ANC (Tons)**

| Year | Freight | Mail   | Total*  | Percent Change |
|------|---------|--------|---------|----------------|
| 1990 | 345,100 | 59,581 | 404,700 | --             |
| 1991 | 367,700 | 56,200 | 423,900 | 4.7            |
| 1992 | 377,400 | 62,400 | 439,800 | 3.7            |
| 1993 | 326,900 | 62,100 | 389,000 | -11.6          |
| 1994 | 379,800 | 67,600 | 447,400 | 15.0           |
| 1995 | 427,500 | 70,800 | 498,300 | 11.4           |
| 1996 | 458,000 | 85,600 | 543,600 | 9.1            |

Source: Keiser & Associates, Inc.

\*Columns may not add up due to rounding

As can be seen in the exhibit, with the exception of 1993, air cargo volumes have grown steadily over the past six years, with an average annual growth rate of five percent. The greatest growth in cargo is in international freight, which grew at an average annual growth rate of 13.5 percent. Indications are that 1997 will exceed 1996 figures significantly due to the increase use of the airport as a transload point for international freight. Northwest Airlines, United Airlines, and Polar Air Cargo all began transload operations in mid 1997.

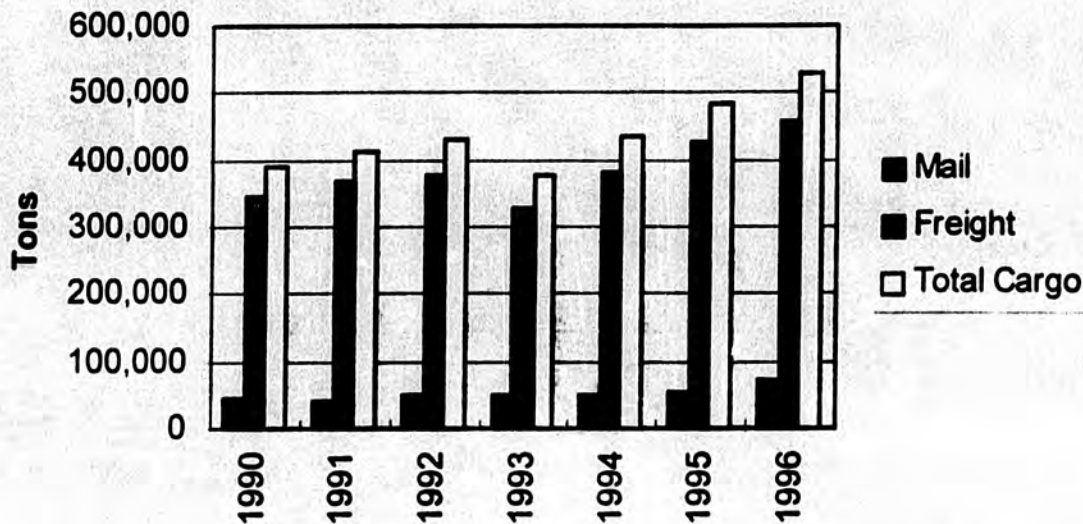
**Anchorage International Airport  
Air Cargo Volumes 1990-1996**

Exhibit 4.3

**Analysis of Air Freight**

A breakout of domestic and international freight is presented in Exhibit 4.4. As can be seen from this exhibit, growth in international freight activity has far surpassed domestic freight volumes. The average annual growth rate for domestic freight is negative 1.6 percent, while international freight volumes have averaged 13.5 percent per year over the past six years. Much of the international growth can be attributed to the introduction of FedEx and UPS operations, which accounted for almost 90 percent of all international freight handled at Anchorage International in 1996.

**Exhibit 4.4: Historical ANC Freight Activity (Tons)**

| Year | Domestic | % Change | International | % Change | Total   |
|------|----------|----------|---------------|----------|---------|
| 1990 | 227,600  | --       | 117,500       | --       | 345,100 |
| 1991 | 217,800  | -4.3     | 149,900       | 27.6     | 367,700 |
| 1992 | 189,000  | -13.2    | 188,400       | 25.7     | 377,400 |
| 1993 | 186,800  | -1.2     | 140,100       | -25.6    | 326,900 |
| 1994 | 200,800  | 7.5      | 179,000       | 27.8     | 379,800 |
| 1995 | 205,900  | 2.5      | 221,600       | 23.8     | 427,500 |
| 1996 | 206,600  | 0.3      | 251,400       | 13.5     | 458,000 |

Source: Keiser &amp; Associates, Inc.

The decline and slow growth in domestic freight volumes is somewhat misleading. Much of the decline in domestic activity is due to the loss of MarkAir's operations and growth in intra-Alaskan traffic is more accurately reflected in mail volumes generated by the bypass mail system.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

The decline and slow growth in domestic freight volumes is somewhat misleading. Much of the decline in domestic activity is due to the loss of MarkAir's operations and growth in intra-Alaskan traffic is more accurately reflected in mail volumes generated by the bypass mail system.

#### **Domestic and International Freight 1990-1996**

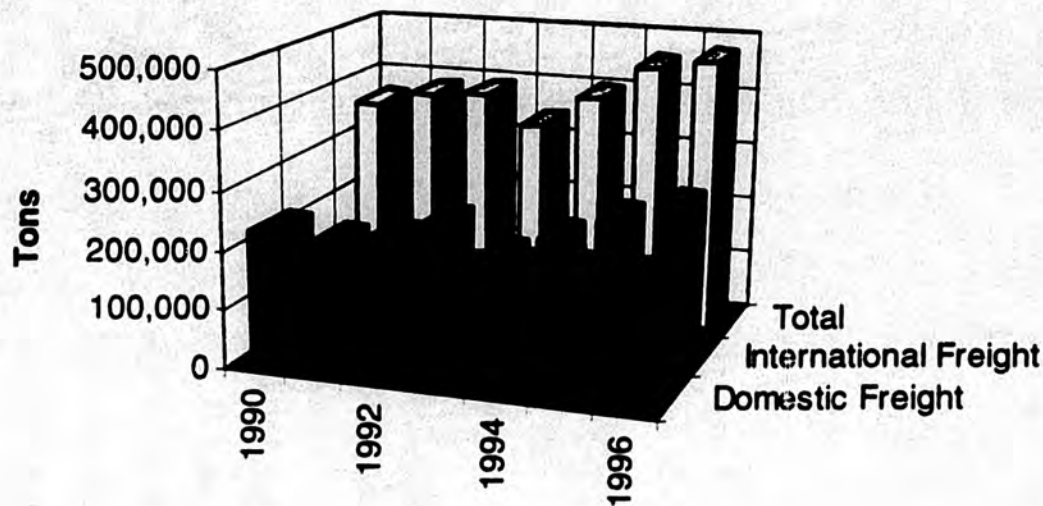


Exhibit 4.5

Most of the international freight traffic at Anchorage is generated by transload, or sometimes called crossload, operations. An international transload typically occurs when a carrier has scheduled one aircraft arriving in Anchorage from international City A with a final destination to international City B; and a second aircraft scheduled to arrive in Anchorage from international City C with a final destination to international City D. At Anchorage, the carrier will transload cargo from the aircraft arriving from City A with cargo destined to City D to the aircraft scheduled to City D; while cargo on the aircraft from City C, destined for City B, will be transferred to the aircraft scheduled for City B. In a transload operation, the cargo is physically deplaned from one aircraft and enplaned onto a second aircraft. The transload may take place over a few hours, or over the course of a few days. Depending upon a particular carrier's type of operation, if a transload of two or more aircraft is performed simultaneously, then sufficient apron space must be available in close proximity to facilitate the transload operation. If the transload takes place over a few days, then sufficient warehouse space must be available for storage and/or sorting.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

#### **Air Mail**

Air mail refers to mail under the control and authority of the United States Postal Service (USPS). It is important to distinguish mail from freight as mail is handled, packaged, and contracted out by the USPS using their own air mail facilities (AMF) and manpower. The carriers only load and unload mail pallets or containers, with the USPS responsible for all storage and warehousing operations.

In the State of Alaska, mail is priced and handled differently than in the rest of the U.S. Almost all bulk air mail in Alaska is priced as standard mail B (fourth class parcel post ground mail) to the shipper, but air carriers are paid full air rates by the USPS for the carriage of mail. There also exist a unique system of mail delivery called the bypass mail system. The bypass mail system allows shippers of prepackaged, pre-approved mail in 1,000 pound units to "bypass" delivery to the post office and be tendered directly to an air carrier. All postal shipping regulations must be adhered to and it must be inspected by the postal service before acceptance by the carrier. Most users of the bypass mail system are wholesale grocery outlets. To the carrier, there is little difference between mail tendered directly by the USPS from their AMF or by private shippers using the bypass mail system.

Historical air mail volumes for Anchorage International Airport are shown in Exhibit 4.6. Approximately 96 percent of the mail is domestic with four percent international. As can be seen in the exhibit, there is a greater than 2:1 ratio of enplaned mail to deplaned mail. This ratio reflects the high volume of bypass mail that is generated within the Anchorage region for distribution to outlying communities throughout the rest of the state.

**Exhibit 4.6: Historical ANC Air Mail Activity (Tons)**

| Year | Enplaned | Deplaned | Total  | Percent Change |
|------|----------|----------|--------|----------------|
| 1990 | 43,600   | 16,000   | 59,600 | --             |
| 1991 | 39,500   | 16,700   | 56,200 | -5.7           |
| 1992 | 43,400   | 19,000   | 62,400 | 11.0           |
| 1993 | 43,700   | 18,400   | 62,100 | -0.4           |
| 1994 | 46,900   | 20,700   | 67,600 | 8.9            |
| 1995 | 47,500   | 23,300   | 70,800 | 4.7            |
| 1996 | 59,900   | 25,700   | 85,600 | 20.9           |

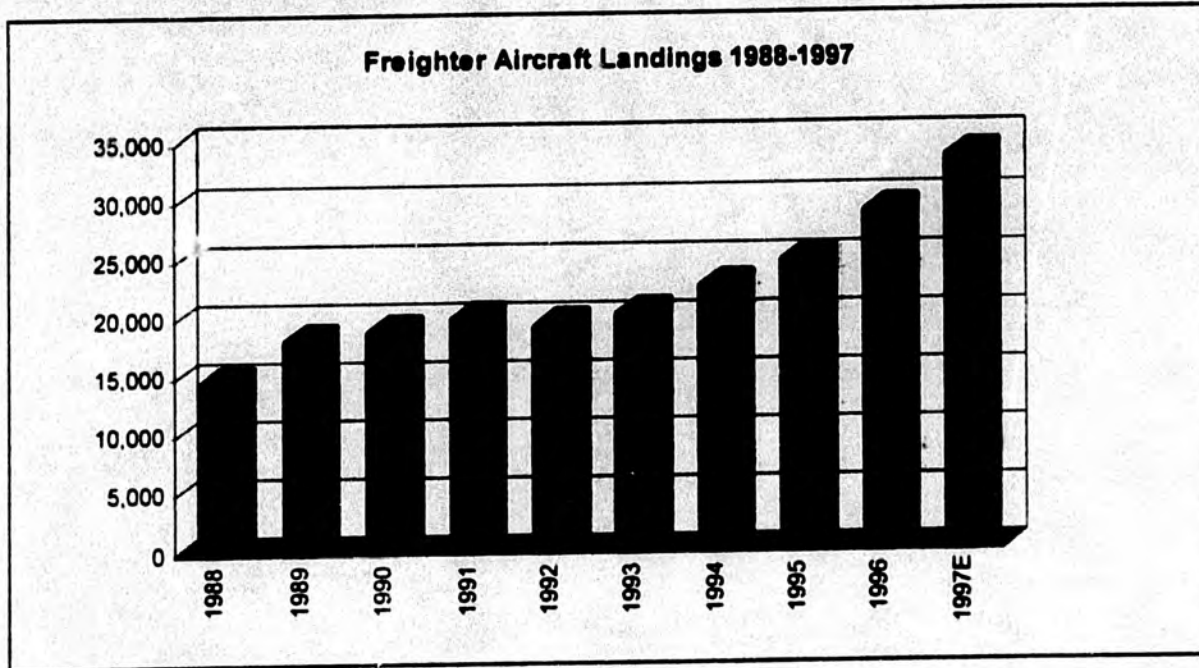
The primary source of mail into Anchorage is through a USPS contract with American International Airways (AIA). AIA operates a DC-8 six days a week from Seattle to Anchorage. During the Christmas holidays, the USPS also charts a B747 that flies daily from Ontario, California to Anchorage via Seattle as well as a second DC-8 from Minneapolis. Mail from the lower 48 is flown to Anchorage by AIA and then distributed to instate air carriers as well as trucked to Fairbanks. All bypass mail originates and terminates in Alaska. International mail is carried primarily by FedEx under contract to the USPS out of Oakland, California. Due to the low shipping rates of intra-Alaskan mail, domestic volumes are quite large at Anchorage and make up the bulk of many the local carriers' cargo operations.

***Anchorage International Airport***  
***Preliminary Air Cargo Forecast***

**Freighter Landings**

Freighter landings are an important measure of air cargo activity at Anchorage International Airport. There were 28,882 landings by all-cargo freighter aircraft in 1996, up over 97 percent over the last eight years, representing an average annual growth rate of 8.82 percent. Indications are that freighter landings in 1997 will exceed 1996 levels by almost 16 percent.

Exhibit 4.7



In 1996, five carriers accounted for over 45 percent of the freighter landings at Anchorage, with FedEx leading all carriers with 3,375 landings. The top nine carriers accounting for over 65 percent of the freighter landings are shown below in Exhibit 4.8.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

**Exhibit 4.8: Air Cargo Freighter Landings for 1996**

| Carrier                | Landings | Predominate Aircraft Type | Landed Weight |
|------------------------|----------|---------------------------|---------------|
| FedEx                  | 3,634    | MD-11F                    | 471,500 lbs.  |
| Korean Airlines        | 2,935    | B747-400F                 | 666,000 lbs.  |
| Northern Air Cargo     | 2,383    | DC-6F                     | 92,000 lbs.   |
| United Parcel Service  | 2,258    | B747-400F                 | 666,000 lbs.  |
| Japan Airlines         | 1,922    | B747-400F                 | 666,000 lbs.  |
| Northwest Airlines     | 1,783    | B747-400F                 | 666,000 lbs.  |
| Nippon Cargo Airlines  | 1,362    | B747-400F                 | 666,000 lbs.  |
| China Airlines         | 1,328    | B747-400F                 | 666,000 lbs.  |
| Alaska Central Express | 1,248    | Beechcraft 1900           | 16,100 lbs.   |
| All Other Airlines     | 10,029   | --                        | --            |
| Total                  | 28,882   | --                        | --            |

There seems to be a fairly strong statistical correlation ( $r$  0.93) between total air cargo volumes and the number of freighter landings as demonstrated in Exhibit 4.9, but little correlation between freighter landings by a particular carrier and the amount of air cargo enplaned or deplaned by that carrier as demonstrated in Exhibit 4.10.

**Comparison of Freighter Landings  
to Cargo Volumes 1990-1996**

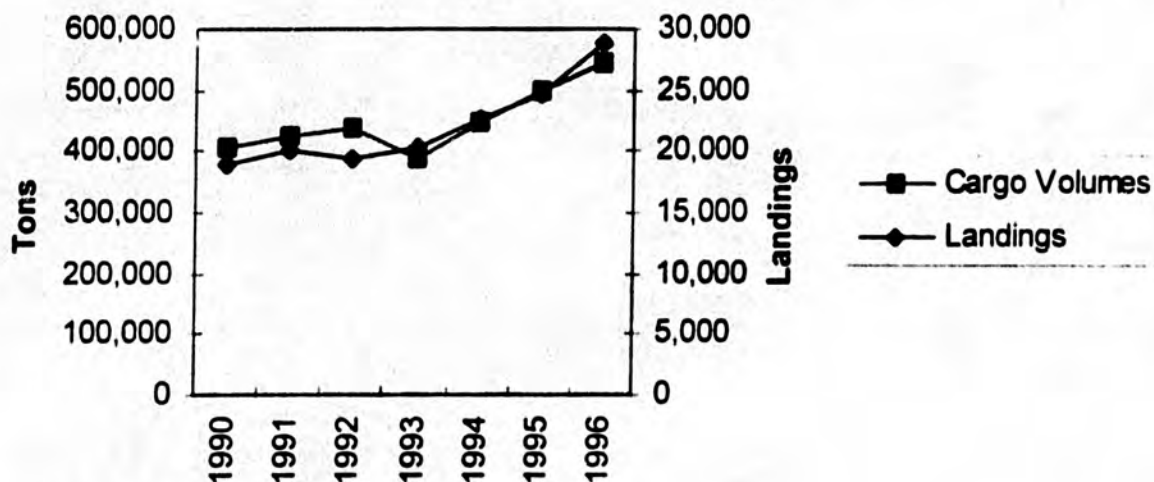


Exhibit 4.9

**Anchorage International Airport**  
**Preliminary Air Cargo Forecast**

**1996 Freighter Landings and Cargo Volumes**

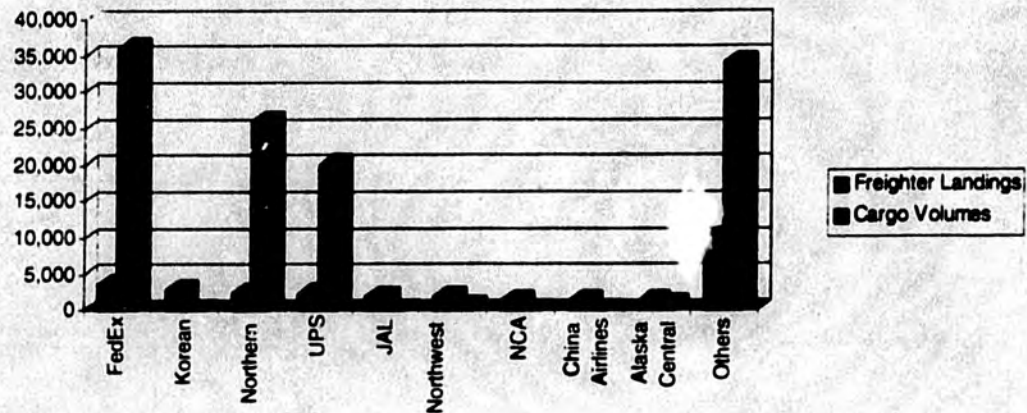


Exhibit 4.10

The lack of a correlation between freighter landings and cargo volumes becomes even more evident when the landed weights of freighter aircraft are considered. Korean Airlines, Japan Airlines, Nippon Cargo Airlines, and China Airlines, all place within the top ten carriers in freighter landings utilizing the Boeing 747-F freighter, but enplane or deplane little, or no cargo, at Anchorage.

#### **Service Patterns**

International all-cargo activity at Anchorage is growing rapidly. Since 1993, the number of weekly scheduled arrivals has increased from 262 to 410, an average growth rate of 11.8 percent per year, while the number of destinations flown nonstop has risen from 24 to 30.

Exhibit 4.11 shows the weekly scheduled all-cargo arrivals at Anchorage. These flights include all scheduled widebody freighter operations (747s, 767s, MD-11s, and DC-10s) along with DC-8 operations. Although some flights also carry domestic freight, these operations are predominately international

**Anchorage International Airport***Preliminary Air Cargo Forecast***Exhibit 4.11: Growth in International All-Cargo Service at Anchorage International Airport**

| Weekly Scheduled Arrivals from Nonstop Markets |             |             |               |
|------------------------------------------------|-------------|-------------|---------------|
| <u>Market</u>                                  | <u>1993</u> | <u>1997</u> | <u>Change</u> |
| SEL                                            | 32          | 63          | 31            |
| NRT                                            | 68          | 53          | -15           |
| JFK                                            | 28          | 43          | 16            |
| SFO                                            | 16          | 33          | 19            |
| LAX                                            | 23          | 30          | 7             |
| ORD                                            | 15          | 28          | 13            |
| TPE                                            | 13          | 27          | 14            |
| KIX                                            | 0           | 27          | 27            |
| HGK                                            | 7           | 17          | 10            |
| KHV                                            | 0           | 14          | 14            |
| SDF                                            | 15          | 12          | -3            |
| EWR                                            | 6           | 7           | 1             |
| AMS                                            | 5           | 7           | 2             |
| MEM                                            | 6           | 6           | 0             |
| IND                                            | 0           | 5           | 5             |
| OAK                                            | 0           | 5           | 5             |
| RFD                                            | 0           | 5           | 5             |
| DFW                                            | 3           | 4           | 1             |
| FRA                                            | 2           | 4           | 2             |
| ONT                                            | 5           | 3           | -2            |
| LHR                                            | 4           | 3           | -1            |
| ATL                                            | 0           | 3           | 3             |
| YVR                                            | 0           | 3           | 3             |
| SEA                                            | 8           | 2           | -6            |
| CDG                                            | 1           | 1           | 0             |
| MSP                                            | 1           | 1           | 0             |
| SHA                                            | 1           | 1           | 0             |
| YYZ                                            | 1           | 1           | 0             |
| PEK                                            | 0           | 1           | 1             |
| PUS                                            | 0           | 1           | 1             |
| CTS                                            | 1           | 0           | -1            |
| MXP                                            | 1           | 0           | -1            |
| NGO                                            | 1           | 0           | -1            |
|                                                | 262         | 410         | 140           |

Source: OAG May 1997, June 1993

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

#### **Summary**

Air cargo is a significant and growing activity at Anchorage International Airport. Overall, air cargo landings have increased 97 percent from 1990 to 1996 and air cargo volumes have increased at an average annual growth rate of five percent. International air freight has led the growth in cargo volumes with a 13.5 percent average annual growth rate, followed by domestic mail with a 6.23 percent growth rate. Domestic air cargo volumes have decreased at an annual rate of 1.6 percent and international mail has grown at 4.8 percent.

Exhibit 4.12 compares total freight and mail volumes to world airport freight and mail volumes as reported by the Airports Council International (ACI).

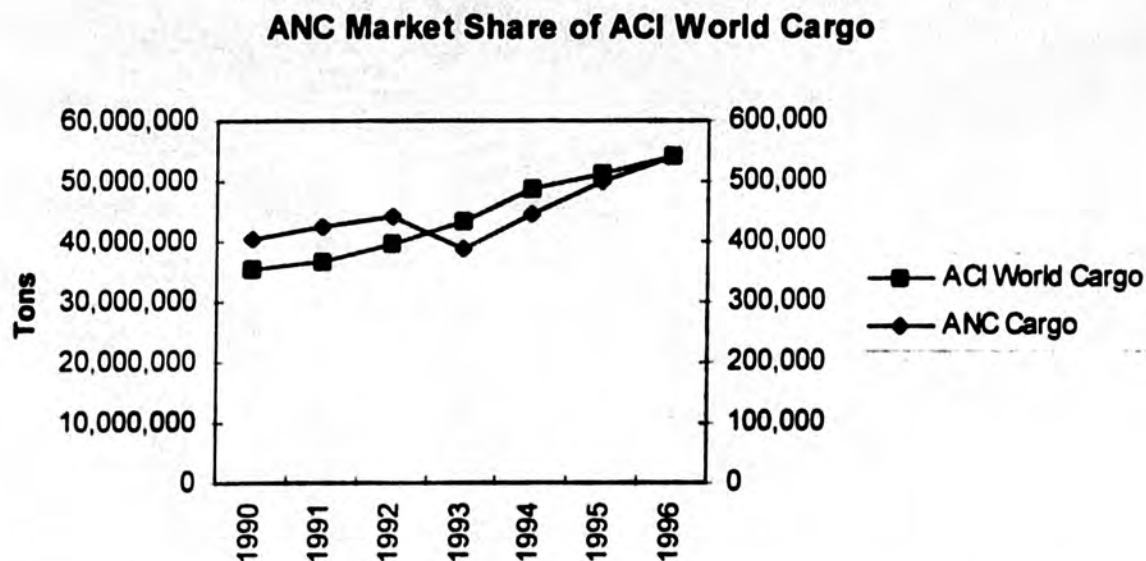


Exhibit 4.12

According to ACI statistics, world cargo volumes for member airports have increased at an average annual growth rate of 7.4 percent from 1990 to 1996. Historically, over the past six years, Anchorage has captured an average 1.03 percent of the world airport cargo market. Over the past three years Anchorage's market share has increased by 12 percent. This increasing market share underscores the importance Anchorage International Airport in the international air cargo arena and the sustainability of air cargo as supportable investment opportunity for the community.

## **4.2 AIR CARGO INDUSTRY FORECASTS**

The industry forecasts reviewed in this section come primarily from the *Boeing 1996/1997 World Cargo Forecasts* and the *FAA Aviation Forecasts for Fiscal Years 1997-2008*, *1997 World Air Freight Industry Analysis and Forecast* by MergeGlobal, Inc., and *U.S. Freight Transportation Forecast* by Standard & Poor's DRI. Historical data was compiled from a variety of sources, including the Airport Council International (ACI), Boeing, the International Civil Aviation Organization (ICAO), the Air Transport Association (ATA), the International Air Transport Association (IATA) and the U.S. Department of Transportation (DOT).

### **Freight Forecasts**

According to a study conducted by Standard & Poor's DRI for the American Trucking Association, the U.S. transportation industry will carry 13.2 billion tons of freight and generate \$547.7 billion in revenue by the year 2006. The study predicts that a three- to five-percent annual rise in international trade will help drive a 30-percent increase over 1996 revenues of \$420.2 billion, and a 21-percent increase over 1996 volume of 10.9 billion tons. Air freight shipments, while accounting for 3.2 percent of the U.S. freight-transportation market, will see the greatest increases due to the faster growth in the commodities that are moved by containerization over bulk commodities, such as coal, primary metal products and crude oil.

The study also projected that revenues for air freight will jump by 121 percent (from \$13.3 billion to \$29.4 billion) as more high-valued commodities such as electrical equipment, food products and textiles travel by air. General freight volume will grow substantially by 1.3 billion tons, from 38 percent of all shipments to 41 percent, gaining in market-share over bulk freight.

Boeing Commercial Airplane Company forecasts a continued long term growth rate of 6.6 percent for world air cargo between 1996 and year 2015. This represents a tripling of air cargo volumes in 20 years. This prediction indicates that international air cargo traffic will expand faster than domestic U.S. markets, with the result that non-U.S. airlines will increase their market share from 68 percent in 1995 to 73 percent by year 2015. Air freight will grow much faster than mail, with an annual rate of 6.7 percent, compared to only 3.4 percent for mail.

On a regional basis, Boeing forecasts indicate that markets involving Asia will achieve the highest growth rates, predicting 9 percent growth for inter-Asia freight traffic and 8 percent growth for North America-Asia traffic. U.S. domestic traffic is projected at 5.4 percent.

The International Air Transport Association predicts that freight traffic will rise faster than passenger growth and estimates a 7 percent per year growth rate through year 2005 for freight. IATA projects freight tonne kilometers will increase 9.5 percent in the Asia Pacific region, 6.5 percent in Latin America and the Caribbean, 6 percent in the Middle East, 5.5 percent in North America, 5 percent in Europe, and 4 percent in Africa.

The International Civil Aviation Organization (ICAO) forecasts a total worldwide growth of scheduled freight tonne kilometers of 7 percent per year through 2005 and a 7.5 percent increase in international scheduled freight services. On a regional basis, ICAO predicts 8.5 percent growth for

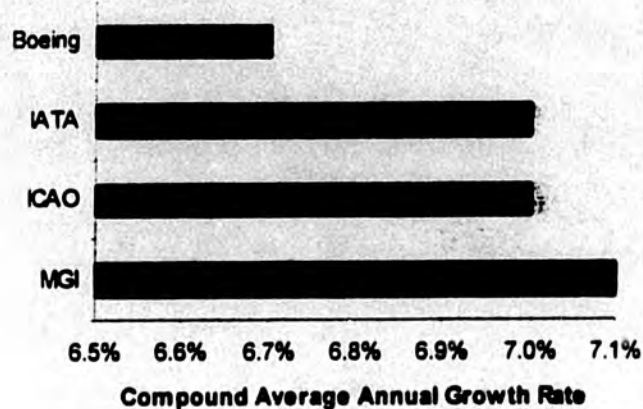
## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

Asia, followed by 5.5 percent for the Middle East, 5 percent for Latin America and the Caribbean, and 4 percent growth for the North American market.

Exhibit 4.13

#### **Comparison of World Air Freight Growth Rate Projections**



MergeGlobal, Inc., an air freight industry analyst, publishes an extensive annual world freight industry forecast. They predict a long term air freight growth of 7.1 percent through year 2002. They predict the highest growth will be 9.5 percent in the intra-Far East market, followed by a 7.3 percent growth for U.S. International traffic and 5.7 percent for U.S. domestic freight.

Despite the fact that all of the projections described herein

were published prior to the currency crisis in Asia, many analysts in the industry, and many of the carriers interviewed for this project, still expect to see a seven percent growth rate worldwide and expect Asia to be the largest generator of new traffic over the next five years.

#### **U.S. Mail**

Forecast of mail prepared by the U.S. Postal Service predict a 4.12 percent average annual growth rate in priority mail for year 2002 and a 2.43 percent growth in express mail. Over all, the USPS predicts a 2.34 percent average annual growth in total mail volumes.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

Boeing predicts that growth in air mail will range from a low of 2.1 percent to a high of 4.3 percent. According to Boeing, factors that cloud the future growth outlook for mail include inroads by express operators into package mail, electronic transmission of letters and documents, and the USPS entry into the express air freight operations.

**USPS Projected Growth Rates 1996-2002**

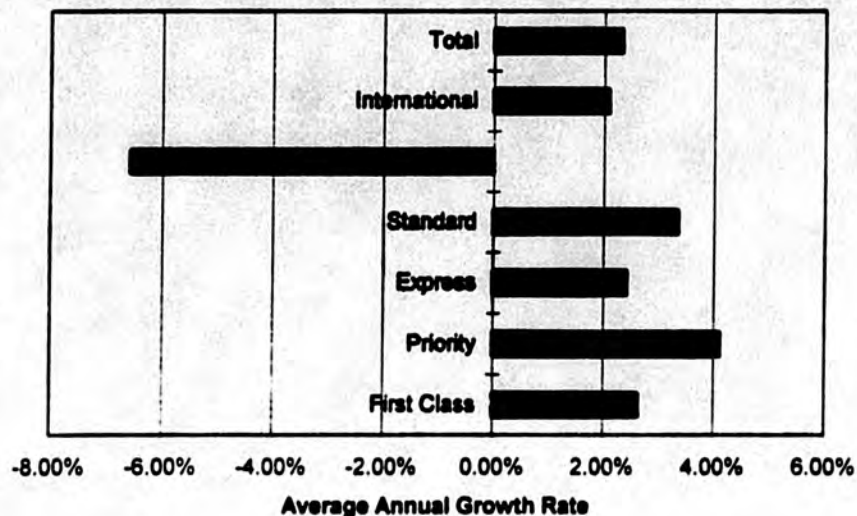


Exhibit 4.14

### **4.3 ANCHORAGE INTERNATIONAL AIRPORT AIR CARGO FORECAST**

The purpose of this section is to forecast air cargo volumes and freighter landings for a five year planning horizon. The base year will be 1996 and forecast years will be 1997, 1998, 1999, 2000, and 2001. This section will be organized as follows:

- Forecast of Freight,
  - Domestic,
  - International;
- Forecast of Mail;
- Freighter Landings Forecast, and
- Airport Forecast Summary.

The development of the air cargo demand forecasts will involve both quantitative analysis and subjective judgement. In general, past aviation activity data are examined in anticipation of identifying past trends that will give an indication of future activity levels.

The most reliable approach to estimating aviation demand is through the use of more than one analytical technique. Methodologies considered for these forecasts included regression analysis, time-series extrapolation, market share analysis, and survey analysis.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

#### **Forecast of Freight Volumes**

Factors influencing freight volumes are different for domestic and international freight. To compensate for these differences, domestic freight will be forecasted separately from international.

#### **Domestic Freight Forecast**

Domestic freight is freight that is transported within and between the fifty States of the United States and its territories and possessions. The largest carriers of domestic freight at Anchorage are FedEx, Northern Air Cargo, Alaska Airlines, and UPS.

As mentioned at the start of this section, there are many reporting gaps in domestic cargo statistics. Domestic all-cargo operators are not required to file detailed segment and market traffic data. Much of the data collected by DOT is based upon the unique reporting habits of individual carriers which differ from carrier to carrier. As a result, domestic cargo data may be understated or overstated by a significant amount by large volume carriers such as FedEx and UPS.

Much of the domestic freight reported by FedEx is international cargo arriving at Anchorage, clearing customs, transloaded onto different aircraft, and then reported as domestic enplaned freight. In 1996, FedEx accounted for over 65 percent of enplaned domestic freight and over 55 percent of total domestic freight.

Domestic freight projections are presented in Exhibit 4.15. Projections were generated by time series analysis and growth rate models. The growth rate models are based upon the forecast of employment for the state (1.2%), the growth rate of the U.S. economy from 1992-1996 (2.6%), and by Boeing's U.S. domestic cargo industry forecast growth rate (6%).

**Exhibit 4.15: Projections of Domestic Freight 1997-2001 (Tons)**

|                   | Time Series<br>Trend Analysis | State Employment<br>Growth Rate | US Economic Growth<br>Rate | Boeing Forecast<br>Growth Rate |
|-------------------|-------------------------------|---------------------------------|----------------------------|--------------------------------|
| <b>Historical</b> |                               |                                 |                            |                                |
| 1990              | 227,600                       | 227,600                         | 227,600                    | 227,600                        |
| 1991              | 217,800                       | 217,800                         | 217,800                    | 217,800                        |
| 1992              | 189,000                       | 189,000                         | 189,000                    | 189,000                        |
| 1993              | 186,800                       | 186,800                         | 186,800                    | 186,800                        |
| 1994              | 200,800                       | 200,800                         | 200,800                    | 200,800                        |
| 1995              | 205,900                       | 205,900                         | 205,900                    | 205,900                        |
| 1996              | 206,600                       | 206,600                         | 206,600                    | 206,600                        |
| <b>Forecast</b>   |                               |                                 |                            |                                |
| 1997              | 194,200                       | 209,100                         | 212,000                    | 219,000                        |
| 1998              | 191,500                       | 211,600                         | 217,500                    | 232,100                        |
| 1999              | 188,900                       | 214,100                         | 233,100                    | 246,100                        |
| 2000              | 186,200                       | 216,700                         | 229,000                    | 260,800                        |
| 2001              | 183,500                       | 219,300                         | 234,900                    | 276,500                        |

Source: Keiser & Associates, Inc.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

As can be seen in the exhibit, year 2001 projections ranged from a low of 183,500 tons to a high of 276,500 tons. The time series model, which had a correlation coefficient of 0, reflecting a perfect inverse correlation, projects domestic freight volumes to decline over time based upon historical trends. Both the projections of employment and the U.S. economic growth rates show similar modest gains. The Boeing forecasted growth rate yielded the highest projection of domestic freight.

It is expected that as more carriers become familiar with the new Alaska Air Cargo Transfer Initiative, the portion of domestic traffic between Anchorage and the rest of the United States will see significant increases. These increases will come as the foreign flags form alliances with U.S. domestic carriers to distribute cargo to and from the lower 48 vis-avis Anchorage. Because the potential is there, but will take time to develop, it was judged that the growth rate of 2.6 percent for the short term five year planning is the preferable forecast for domestic cargo at Anchorage, most likely increasing in the five to ten year time frame.

There is a large discrepancy between enplaned and deplaned domestic freight volumes. Historically, enplaned freight volumes have exceeded deplaned freight by an approximately 3:1 ratio. This ratio is expected to continue over the five year forecast period.

#### **Forecast of International Freight**

Most growth in air cargo at Anchorage International Airport has been in international freight, which has increased over 110 percent in the six year period since 1990. Two carriers, FedEx and UPS, have accounted for most of the growth.

To forecast international freight growth over the next five years, three models were developed resulting in seven different projections of international freight growth. The first model utilized was a trend analysis, the second projected differing growth rate; while the third looked at market shares for Anchorage. These projections are presented in Exhibits 4.16 and 4.17.

## Anchorage International Airport

### Preliminary Air Cargo Forecast

**Exhibit 4.16 Projections of International Freight 1997-2001 (Tons)**

| Historical      | Trend Analysis | Boeing World Growth Rate | IATA/ICAO Growth Rate | Boeing North America/ Asia Growth Rate | Historical Growth Rate |
|-----------------|----------------|--------------------------|-----------------------|----------------------------------------|------------------------|
| 1990            | 117,500        | 117,500                  | 117,500               | 117,500                                | 117,500                |
| 1991            | 149,900        | 149,900                  | 149,900               | 149,900                                | 149,900                |
| 1992            | 188,400        | 188,400                  | 188,400               | 188,400                                | 188,400                |
| 1993            | 140,100        | 140,100                  | 140,100               | 140,100                                | 140,100                |
| 1994            | 179,000        | 179,000                  | 179,000               | 179,000                                | 179,000                |
| 1995            | 221,600        | 221,600                  | 221,600               | 221,600                                | 221,600                |
| 1996            | 251,400        | 251,400                  | 251,400               | 251,400                                | 251,400                |
| <b>Forecast</b> |                |                          |                       |                                        |                        |
| 1997            | 254,800        | 268,200                  | 269,000               | 271,500                                | 285,400                |
| 1998            | 273,900        | 286,200                  | 287,800               | 293,200                                | 323,900                |
| 1999            | 293,100        | 305,400                  | 308,000               | 316,700                                | 367,700                |
| 2000            | 312,200        | 325,900                  | 329,500               | 342,000                                | 417,400                |
| 2001            | 331,300        | 347,700                  | 352,600               | 369,400                                | 473,700                |

Source: Keiser & Associates, Inc.

The trend analysis projected international air freight to increase 31 percent over the five year forecast period, but only produced a correlation coefficient of 0.67. The growth rate projections utilized included Boeing's forecast growth rate of 6.7 percent for world freight, the IATA/ICAO projected growth rate of seven percent for world freight, Boeing's eight percent projected growth rate for North America - Asia freight traffic, and finally, Anchorage's historical average annual growth rate of international freight of 13.5 percent for years 1990-1996. These growth rate projections resulted in a range a low of 347,700 tons of freight for year 2001, representing a 35 percent increase, to a high of 473,700 tons, representing a 88 percent increase in freight volumes.

**Exhibit 4.17: Market Share Projections of International Freight 1997-2001 (Tons)**

| Historical      | World RTKs | Average Market Share |         | Increasing Market Share |         |
|-----------------|------------|----------------------|---------|-------------------------|---------|
|                 |            | ANC Freight          | % Share | ANC Freight             | % Share |
| 1990            | 22,237,000 | 117,500              | 0.5284  | 117,500                 | 0.5284  |
| 1991            | 22,038,000 | 149,900              | 0.6802  | 149,900                 | 0.6802  |
| 1992            | 23,128,400 | 188,400              | 0.8046  | 188,400                 | 0.8046  |
| 1993            | 25,033,400 | 140,100              | 0.5600  | 140,100                 | 0.5600  |
| 1994            | 29,339,700 | 179,000              | 0.6101  | 179,000                 | 0.6101  |
| 1995            | 31,279,000 | 221,600              | 0.7082  | 221,600                 | 0.7082  |
| 1996            | 33,375,000 | 251,400              | 0.7533  | 251,400                 | 0.7533  |
| <b>Forecast</b> |            |                      |         |                         |         |
| 1997            | 35,611,000 | 236,800              | 0.6650  | 284,900                 | 0.8000  |
| 1998            | 37,997,000 | 252,700              | 0.6650  | 315,400                 | 0.8300  |
| 1999            | 40,543,000 | 269,600              | 0.6650  | 344,600                 | 0.8500  |
| 2000            | 43,259,000 | 287,700              | 0.6650  | 376,400                 | 0.8700  |
| 2001            | 46,157,000 | 306,900              | 0.6650  | 410,800                 | 0.8900  |

Source: Keiser & Associates, Inc.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

The market share model involved a historical review of activity at Anchorage International as a percentage of the larger world market. This technique involved comparing the volume of freight reported at Anchorage from 1990 through 1996 with world revenue tons per kilometer of freight as reported by Boeing. The resulting historical market share trend was then projected into the future using both an average market share, calculated for the six year period, and an increasing market share. The results, shown in Exhibit 4.17, ranged from a low of 306,900 tons in year 2001 to a high of 410,800.

As mentioned earlier, growth in international volumes are expected to show significant increases over the next five years due to new Trans-Pacific transload operations initiated by Northwest Airlines, United Airlines, and Polar Air Cargo in 1997. Prior to 1997, Northwest Airlines and Polar Air Cargo utilized Anchorage as a tech stop for fuel and crew changes and air cargo remained on the aircraft. Beginning in 1997, both carriers and United, which just began all freighter service, started utilizing Anchorage as an international transload point for multiple aircraft.

Because almost all of the international freight traffic generated at Anchorage is Trans-Pacific, it was felt that the Boeing North American - Asian projected growth rate of eight percent was the most reasonable and was selected as the preferable forecast for Anchorage International Airport. This projection results in a 47 percent forecasted increase in international freight at Anchorage International over the five year forecast period.

#### **Total Domestic and International Freight**

Forecast of domestic and international freight for Anchorage International Airport for years 1997 through 2001 are presented in Exhibit 4.18.

**Exhibit 4.18: Forecast of Air Cargo for Anchorage International Airport 1997-2001 (Tons)**

|               | Domestic Freight | International Freight | Total Freight |
|---------------|------------------|-----------------------|---------------|
| 1996 (Actual) | 206,600          | 251,400               | 458,000       |
| Forecast      |                  |                       |               |
| 1997          | 212,000          | 271,500               | 483,500       |
| 1998          | 217,500          | 293,200               | 510,700       |
| 1999          | 223,100          | 316,700               | 539,800       |
| 2000          | 229,000          | 342,000               | 571,000       |
| 2001          | 234,900          | 369,400               | 604,300       |

Source: Keiser & Associates, Inc.

#### **Forecast of Mail**

Volumes of mail passing through Anchorage have shown consistent growth since 1990, with a significant jump in 1996 volumes. Historically, enplaned mail has exceed deplaned mail by 70 percent. As with domestic freight, the high ratio of enplaned to deplaned mail is due to the high volume of consumer goods and resource extraction equipment and supplies flown from Anchorage into the smaller Alaskan communities.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

Three projections were generated for mail: time series analysis, United States Postal Service (USPS) forecasted growth rate of 4.12 percent, and a historical growth rate projection of 6.23 percent.

**Exhibit 4.19: Projections of Mail 1997-2001**

| <b>Historical</b> | <b>Time Series<br/>Trend Analysis</b> | <b>USPS Forecast<br/>Growth Rate</b> | <b>Average Annual<br/>Growth Rate</b> |
|-------------------|---------------------------------------|--------------------------------------|---------------------------------------|
| 1990              | 59,600                                | 59,600                               | 59,600                                |
| 1991              | 56,200                                | 56,200                               | 56,200                                |
| 1992              | 62,400                                | 62,400                               | 62,400                                |
| 1993              | 62,100                                | 62,100                               | 62,100                                |
| 1994              | 67,600                                | 67,600                               | 67,600                                |
| 1995              | 70,800                                | 70,800                               | 70,800                                |
| 1996              | 85,600                                | 85,600                               | 85,600                                |
| <b>Forecast</b>   |                                       |                                      |                                       |
| 1997              | 82,400                                | 89,100                               | 90,900                                |
| 1998              | 86,400                                | 92,800                               | 96,600                                |
| 1999              | 90,400                                | 96,600                               | 102,600                               |
| 2000              | 94,400                                | 100,600                              | 109,000                               |
| 2001              | 98,400                                | 104,700                              | 115,700                               |

Source: Keiser & Associates, Inc.

The USPS growth rate projection of 4.12 percent was selected as the preferred forecast of mail volumes at Anchorage International Airport. International mail is expected to remain at 3.5 percent of the total and the ratio of total enplaned mail to deplaned mail is expected to remain at 2.3:1 for the five year forecast period.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

#### **Forecast of Freighter Landings**

To forecast freighter landings two models were utilized. The first was a simple time series (trend) projection which assumes that factors affecting past activity will continue to affect future activity. The second model used was the application of average annual growth rates to determine the future number of landings at Anchorage International Airport. In this model, the average annual growth rate of landings from 1990 to 1997 was calculated (8.4%) and applied to future years. The results are presented in Exhibit 4.20.

**Exhibit 4.20: Projections of Freighter Landings 1997-2001**

| <b>Historical</b> | <b>Time Series<br/>Trend Analysis</b> | <b>ANC Average Annual<br/>Growth Rate</b> |
|-------------------|---------------------------------------|-------------------------------------------|
| 1990              | 18,944                                | 18,944                                    |
| 1991              | 19,960                                | 19,960                                    |
| 1992              | 19,357                                | 19,357                                    |
| 1993              | 20,318                                | 20,318                                    |
| 1994              | 22,711                                | 22,711                                    |
| 1995              | 24,811                                | 24,811                                    |
| 1996              | 28,882                                | 28,882                                    |
| <b>Forecast</b>   |                                       |                                           |
| 1997              | 33,500                                | 33,500                                    |
| 1998              | 31,600                                | 36,300                                    |
| 1999              | 33,300                                | 39,400                                    |
| 2000              | 35,000                                | 42,800                                    |
| 2001              | 36,700                                | 46,400                                    |

Source: Keiser & Associates, Inc.

As can be seen, the time series model resulted in a projection of 36,700 freighter landings in year 2001 with a correlation coefficient of .93. The closer to plus/minus 1, the better the correlation, with .93 representing a good correlation. The average annual growth rate model gave a much higher projection. The 8.4 percent projection resulted in 46,400 landings in year 2001. Based upon the factors reviewed in *Section 3.0 Factors Affecting Industry Growth*, and in particular the new bilateral agreements between the U.S. and Japan, the higher projection was selected as the preferred forecast of freighter landing for Anchorage International Airport.

## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

#### **Total Airport Air Cargo Activity**

Presented in Exhibit 4.21, and shown graphically in Exhibit 4.22, is the preferred preliminary air cargo forecast for Anchorage International Airport for the five year forecast period (an additional year was added for administrative purposes). Overall, air cargo is forecast to increase at an average annual growth rate of 5.5 percent, with international freight increasing at an average annual growth rate of eight percent. Landings by freighter aircraft are forecast to increase at their historical rate of 8.4 percent over the short term forecast period.

**Exhibit 4.21: Forecast of Air Cargo for Anchorage International Airport 1997-2002 (Tons)**

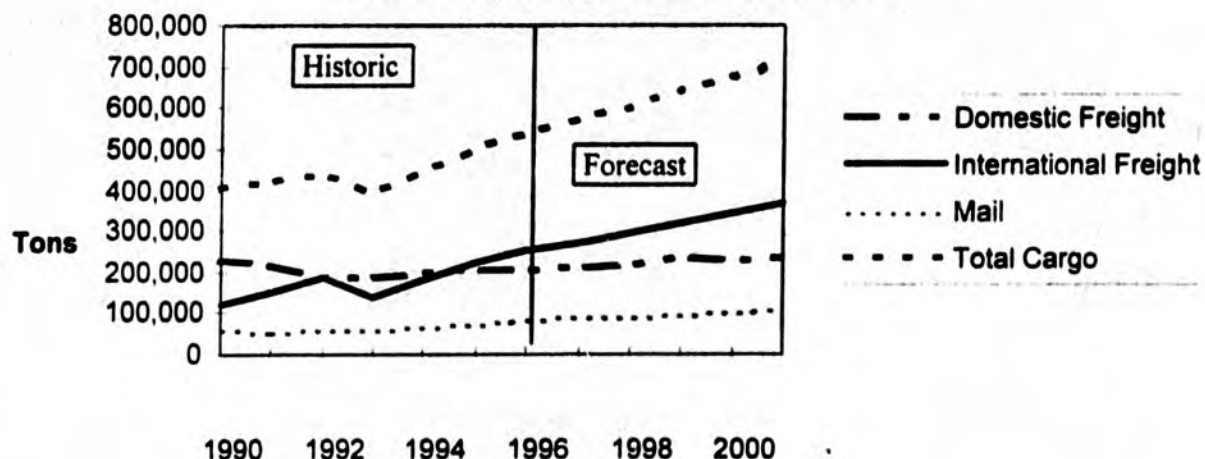
|                 | Domestic Freight | International Freight | Mail    | Total Air Cargo | Freighter Landings |
|-----------------|------------------|-----------------------|---------|-----------------|--------------------|
| 1996 (Actual)   | 206,600          | 251,400               | 85,600  | 543,600         | 28,882             |
| <b>Forecast</b> |                  |                       |         |                 |                    |
| 1997            | 212,000          | 271,500               | 89,100  | 572,600         | 33,500             |
| 1998            | 217,500          | 293,200               | 92,800  | 603,500         | 36,300             |
| 1999            | 223,100          | 316,700               | 96,600  | 636,400         | 39,400             |
| 2000            | 229,000          | 342,000               | 100,600 | 671,600         | 42,800             |
| 2001            | 234,900          | 369,400               | 104,700 | 709,000         | 46,400             |
| 2002            | 241,000          | 389,400               | 109,100 | 739,500         | 50,300             |

Source: Keiser & Associates, Inc.

These forecasts were prepared on the basis of the information given in the text and should be used for planning purposes only. The achievement of any forecast is dependent upon the occurrence of future events that cannot be assured; therefore, actual results may vary from the forecast.

**Exhibit 4.22**

#### **Historical and Forecast Air Cargo Anchorage Int'l. Airport 1990-2001**



## ***Anchorage International Airport***

### ***Preliminary Air Cargo Forecast***

#### **Total Airport Air Cargo Activity**

Presented in Exhibit 4.21 is the preferred preliminary air cargo forecast for Anchorage International Airport for the five year forecast period. The short term five year forecast was extended an additional year for administrative purposes. These forecasts were prepared on the basis of the information given in the text and should be used for planning purposes only.

**Exhibit 4.21: Forecast of Air Cargo for Anchorage International Airport 1997-2002 (Tons)**

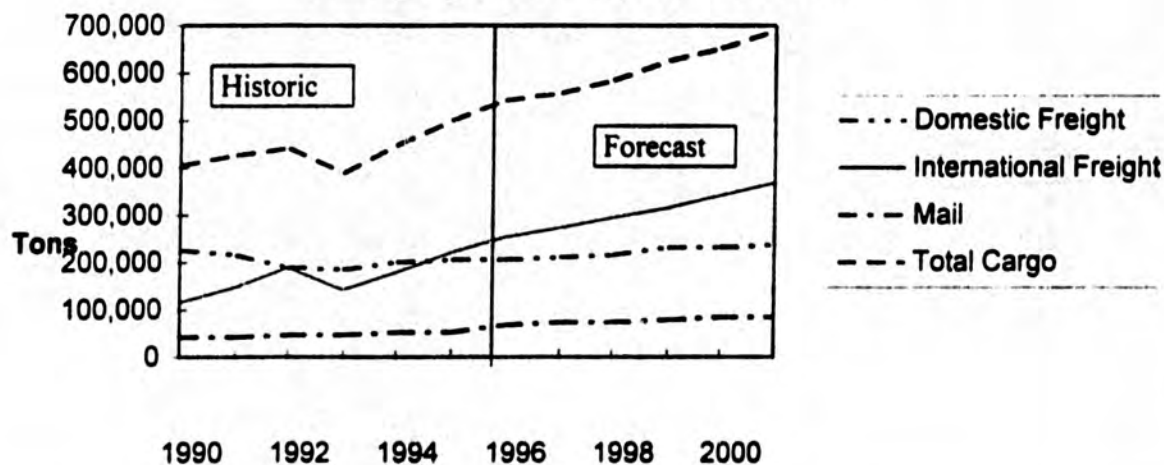
|                 | Domestic Freight | International Freight | Mail   | Total Air Cargo | Freighter Landings |
|-----------------|------------------|-----------------------|--------|-----------------|--------------------|
| 1996 (Actual)   | 206,600          | 267,300               | 69,800 | 543,700         | 28,882             |
| <b>Forecast</b> |                  |                       |        |                 |                    |
| 1997            | 212,000          | 271,500               | 72,700 | 556,200         | 33,500             |
| 1998            | 217,500          | 293,200               | 75,700 | 586,400         | 36,300             |
| 1999            | 233,100          | 316,700               | 78,800 | 628,600         | 39,400             |
| 2000            | 229,000          | 342,000               | 82,000 | 653,000         | 42,800             |
| 2001            | 234,900          | 369,400               | 85,400 | 689,700         | 46,400             |
| 2002            | 241,000          | 389,400               | 88,900 | 719,300         | 50,300             |

Source: Keiser & Associates, Inc.

The achievement of any forecast is dependent upon the occurrence of future events that cannot be assured; therefore, actual results may vary from the forecast.

**Exhibit 4.22**

#### **Historical and Forecast Air Cargo Anchorage Int'l. Airport 1990-2001**



SCOMM

103:10

- I. Bill / Sponosr / Fiscal / Statutes** **VOLUME I**  
A. CSHB 432 (ITT) \*  
B. Sponsor Statement \*  
C. Committee Chairman Statements  
D. Fiscal Note \*  
E. DOT/PF Amendments not presented  
F. Statutes - AS 37.15.410 – AS 37.15.550 "International Airports Revenue Bonds"

- II. DOT/PF Anchorage International Airport Submittals**  
A. ITT Questions About Project  
B. DOT/PF Answers from 2/24, 2/25 \*  
C. DOT/PF answers from 3/5 \*  
D. Hudson AIPF ( George King ) Financial Consultant Portfolio  
E. Consultant Biographies  
F. Perkins summary of key issues letter \*  
G. Construction Cost Estimate (McCool Carlson Green – HMS Consultants)  
H. Carrier Revenue Reports  
I. AIA letter to Airline Airport Affairs  
J. AIA Administration Chart  
K. FY 1999 Capital Project Request  
L. Notes from meeting with Mort Plumb  
M. Aviation Improvement Program Extract  
N. AIA Terminal Concept Package Report #8 10/1/97  
O. AIA Terminal Redevelopment Project \*  
P. AIA Terminal Redevelopment Project Supplemental Information 2/24/98 \*  
Q. Plan of Finance (Vol I & II) **VOLUME II**  
R. AIA Letter of Intent (LOI) Application

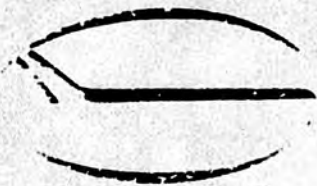


- III. Supporting Testimony** **VOLUME III**  
A. Letters of Support \*\*  
Air Transport Assoc.  
Regal Alaskan Hotel  
Anchorage Economic Development Corp  
Municipality of Anchorage  
Associate General Contractors  
Willis Corroon  
Commonwealth North  
Alaska Airlines  
United Airlines  
**IV. Non Supporting Testimony**  
A. Letters of Opposition \*\*  
B. ERA answers from 2/25 \*  
C. Northern Air Cargo Key Points  
D. File Note: Teleconference with Don Harris  
**V. IT&T Consultant Report (Noonan – Wells)**  
A. Special Review HB 432 \*  
**VI. Public Hearing Transcripts**  
A. Witness List  
B. Contact Sheet  
C. Tape Log Minutes  
D. Draft Minutes  
**VII. Collateral Material & Research**  
A. 1983 – HB 321 – Anchorage International Airport  
B. Letter to Senator Stevens - PFC\*  
C. CFR 158.1 – 158.95 re: PFC's

\* Included in all ITT committee member packets

\*\* A portion of letters included in all ITT committee member packets

A



Air Transport Association

March 17, 1998

Honorable Jerry Ward  
Chairman, Senate Transportation Committee

Honorable Bill Williams  
Chairman, House Transportation Committee

Honorable John Cowdery  
Chairman, Special Committee on International  
Trade and Tourism

Alaska State Legislature  
Juneau, AK 99801-1182

**Re: House Bill 432, Terminal Expansion 2005**

Dear Senator Ward and Representatives Williams and Cowdery:

The Air Transport Association member airlines<sup>1</sup> and the undersigned carriers serving Alaska strongly support the proposed expansion of Anchorage International Airport's (AIA) Domestic Terminal and urge your favorable consideration of House Bill 432.

The AIA and future economic development of Anchorage are critically dependent upon the airport's ability to provide the new facilities needed to meet anticipated growth in passenger and air cargo traffic. Concourse C, built in the 1950s, does not meet today's customer demands and building standards. The airport's main terminal has only 75% of the space necessary to serve today's passengers. By 2000, the existing terminal will

---

**<sup>1</sup> ATA Member Airlines**

Alaska Airlines  
Aloha Airlines  
America West Airlines  
American Airlines  
America Trans Air  
Atlas Air  
Continental Airlines  
Delta Air Lines  
DHL Airways  
Emery Worldwide

Evergreen International Airlines  
Federal Express  
Hawaiian Airlines  
Midwest Express Airlines  
Northwest Airlines  
Polar Air Cargo  
Reeve Aleutian Airways  
Southwest Airlines  
Trans World Airlines  
United Airlines

United Parcel Service  
US Airways

**Associate Members**

Aeromexico  
Air Canada  
Canadian Airlines Int'l.  
KLM Royal Dutch Airlines  
Mexicana Airlines

provide only 60% of the space needed. Public areas of the terminal such as the ticket area and baggage claim currently contain less than half of the space needed to operate efficiently.

Surface transportation within the airport area is also inadequate. Terminal curbside roads need to be 50% longer to relieve congestion. A continuous return loop road is needed for improved safety and convenience.

The proposed project is designed to accommodate the six million passengers who are anticipated by 2005. The project will add: five new jet gates (for a total of 24); seven new positions for aircraft serving regional markets (for a total of 20); associated gate lounges, ticketing areas, baggage claim facilities and an extended curbside road.

The project will also significantly upgrade the existing terminal, roads and parking, including extending the upper level departure curbside bridge and roads; replacing Concourse C; expanding terminal space, adding tour group processing space; and improving air-side facilities. Construction is scheduled to begin by 1999 in order to be completed in time to meet the expected customer demand of 2005.

While it has been suggested that a number of air carriers do not support the project as proposed, the undersigned ATA member carriers -- which are responsible for 85% of the traffic at AIA -- support the project and urge enactment of House Bill 432.

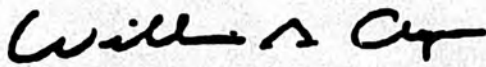
Moreover, we believe the partnership and decision-making process underlying the airport expansion plan has been a model of cooperation between government and airlines. The Department of Transportation has shared information and has sought and utilized airline industry expertise. We wish this same partnership could be replicated at every airport nationwide.

We also understand that concerns have been raised about the cost and scope of the project. As you know, the project will be financed with airport revenue bonds and federal highway funds. Except for the limited state portion necessary to obtain federal highway funds for access road improvements, *no general fund appropriation is needed* from the State of Alaska for the terminal expansion. The airport revenue bonds will be entirely repaid through fees paid by the airport users that will be reasonable and consistent with similar, comparable airports around the country. Given the exceptionally low interest rates, now is the time for the State of Alaska to seize the opportunity and proceed with this project in one package. It is not cost-effective to consider any type of phasing of this work.

In conclusion, we believe this project is needed to cure the existing deficiencies of the airport and to meet future market demands. The project will provide Anchorage -- indeed, the whole State of Alaska with modern airport facilities that will serve as a demonstration, throughout the country, of fiscally prudent expansion and modernization.

We urge your support for HB 432.

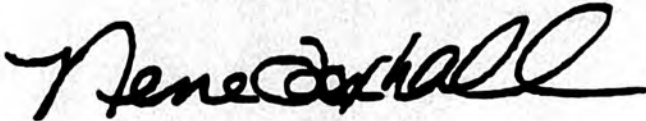
Sincerely,



William S. Ayer  
President  
Alaska Airlines, Inc.



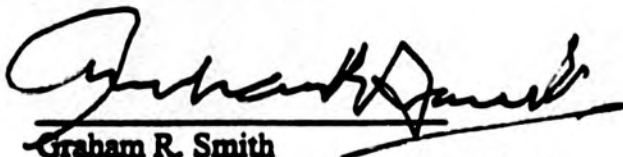
C.A. Howlett  
Vice President, Public Affairs  
America West Airlines



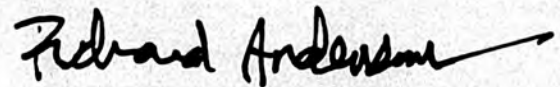
Irene E. (Nene) Foxhall  
Vice President,  
State and Civic Affairs  
Continental Airlines, Inc.



Harold L. Bevis  
Vice President, Public Affairs  
Delta Air Lines, Inc.



Graham R. Smith  
Vice President, Properties & Facilities  
FEDEX Corporation



Richard H. Anderson  
Senior Vice President  
Northwest Airlines, Inc.



Richard D. Reeve  
President  
Reeve Aleutian Airways, Inc.



Larry D. Clark  
Vice President,  
Properties & Facilities  
United Airlines, Inc.



Joseph E. Richardson  
Airport Properties Manager  
United Parcel Service



## REGAL ALASKAN HOTEL

AB 432

March 18, 1998

The Honorable John Cowdery  
State Capitol  
Juneau, AK 99801-1182

Dear Representative Cowdery,

I am writing to express my support for the Anchorage International Airport's redevelopment plan. Alaska deserves a modern international airport facility. Anchorage International Airport has already proven its worth as an economic engine to grow and develop our state. Most Alaskans use the Anchorage airport every year. Some repeatedly.

Since the project is expected to be entirely funded through airport revenue bonds and federal funds, we would not have to overlook other worthwhile projects in favor of this necessary expenditure. As a member of the tourism community, concerned about Alaska's economic future, I can tell you that this is the right time for the Anchorage International Airport redevelopment project to go forward.

Sincerely,

Max J. Lowe, CHA  
General Manager

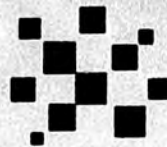
MJL:ta

Cc: Bill Elander  
ACVB Executive Board

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### A REGAL INTERNATIONAL HOTEL

4800 SPENARD ROAD • ANCHORAGE, ALASKA 99517-3236  
PHONE 907.243.2300 • FAX 907.243.8815 • WORLDWIDE RESERVATIONS 800.222.8888  
<http://www.regal-hotels.com/anchorage> • e-mail: [regal@alaska.net](mailto:regal@alaska.net)



Anchorage Economic Development Corporation  
The Center of Opportunity

February 20, 1998

Honorable John Cowdery  
Alaska House of Representatives  
State Capitol (MS 3101)  
Juneau, AK 99801-1182

Dear John:

At the full meeting of the Board of Directors on February 4, 1998, The Anchorage Economic Development Corporation adopted the enclosed position of support for the improvement of the Anchorage International Airport.

The AEDC recognizes the need to improve the passenger terminal and to provide appropriate amenities supporting travelers. The AEDC also recognizes the importance of cargo traffic to the economic viability of the Anchorage International Airport. The transportation and access corridors play an important part in the future growth of the cargo business in Anchorage. It is important for these elements to be included in the planned improvements to AIA. The AEDC supports a financing approach that maintains the cost competitiveness of carrier operations at AIA.

Please keep us advised of the progress of this project. We will provide appropriate comment and documentation during the process of moving this complex undertaking forward.

Sincerely,

Ernest E. Hall  
Chairman of the Board

cc: Tony Knowles, Governor, State of Alaska  
Joseph Perkins, Commissioner, Dept. of Transportation & Public Facilities  
Mort Plumb, Director, Anchorage International Airport  
Randy Simmons, Director, AIDEA

**Anchorage Economic Development Corporation  
Statement of Position on  
Anchorage International Terminal Expansion  
February 4, 1998**

**I. Introduction**

The Anchorage Economic Development Corporation (AEDC) has identified the Anchorage International Airport (AIA) as one of the most important economic engines of the metropolitan area of Anchorage. With over 11,000 employees and \$319 million in payroll, the AIA accounts for almost one job in 10 in Anchorage. In 1997, 34 air carriers have landing rights at AIA. The airport currently serves over five million passengers annually, over half are Alaskans, with 25% domestic visitors, and 15% international travelers. Based on current trends, six million passengers are expected by the year 2005. The Anchorage International Airport is the top U.S. cargo airport based on landed weight of all-cargo aircraft. Over 95% of the cargo between the U.S. and Asia stops in Anchorage. The expanded cargo transfer capability ruling approved by the U.S. Department of Transportation has enhanced the ability of cargo carriers to transfer cargo in Anchorage. This makes AIA even more attractive for cargo hub operations and inter-airline cargo transfers.

**II. Three Reasons to Support the Terminal Expansion**

Anchorage International Airport has proposed a terminal expansion project based on forecasts of need to the year 2005. A number of scenarios were reviewed and evaluated, and the program is designed for implementation over a period of years. AIA proposed financing of the project projects results in fees for doing business at the airport which are competitive with those of medium and large hub airports in the United States.

**A. Anchorage is the passenger gateway to Alaska. Based on national industry standards, current terminal facilities are inadequate for today's needs and insufficient to accommodate growth.**

- Main terminal provides only 75% of space needed today.
- Ticket lobby is only 40% of the space needed today.
- Baggage claim lobby is only 43% of the space needed today.
- Concourse "C" is functionally obsolete. Built in 1952.

**B. Cargo activity provides a business-based reason for aircraft to land in Anchorage.**

- Of the \$191 million in the terminal expansion project, \$18 million is earmarked for hard stand development for cargo carrier refueling
- Facility and transportation infrastructure is required to support growth of cargo operations at AIA. Efficient road access for cargo and freight movement between industrial parts of the city and the airport need to be addressed.
- The AIA improvement plan includes the road access and taxiway development requirements to support cargo movement into and within the airport.

**C. Through its airport, Anchorage can make a good first impression. Vacationers and business travelers first exposure to Alaska is the Anchorage International Airport. The current terminal would benefit from amenities found at most major airports. The terminal expansion includes the following major elements:**

- Five new jet aircraft gates.
- Seven new regional aircraft parking positions.
- Expanded and new ticket lobby and baggage claim.
- Expanded curbside and road system.
- New tour group processing facilities.
- Expanded and new retail space.

### **III. AEDC Supports Revitalization of the Anchorage International Airport**

The AEDC supports essential improvements to the passenger terminal at AIA as well as the improvements to cargo carrier service. The AEDC also supports the upgrading of roads to expedite movement of passengers and cargo between the AIA and destinations within Anchorage. The financing of these improvements should be phased to provide a continuation of competitive costs for use of the airport for both passenger and cargo carriers. The revitalization of AIA will enhance its role as a major economic engine of Anchorage and will provide a facility commensurate with its world class status in global travel and trade.

**TONY KNOWLES**  
GOVERNOR



**STATE OF ALASKA**  
OFFICE OF THE GOVERNOR  
JUNEAU

P.O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3600  
Fax (907) 465-3532

February 19, 1998

**Dear Alaska Businessperson:**

The Anchorage International Airport is a vital business center and major force in Alaska's economy. As our economy grows, Alaska's largest airport must be poised to accommodate and assist this growth.

I have introduced Senate Bill 277 and House Bill 382 to issue \$204 million in revenue bonds for a much needed redevelopment of the Anchorage International Airport. This program will ensure the airport is positioned to meet the needs of the traveling public today and service the private sector industries which rely on it.

A record number of passengers--more than 5 million--used Anchorage International Airport last year. Analysts expect a 4 percent annual passenger growth rate to continue through the year 2005. The airport generates 7,000 direct jobs and another 4,000 indirect jobs, and that job growth also is expected to increase by about 5 percent per year in the near future. The air cargo industry at the airport is one of the most dynamic industries in the region, growing annually at a double-digit rate for several years.

In spite of this demand and growth, Anchorage's passenger terminal suffers from major deficiencies. The terminal area is only 75 percent of the space needed for current traffic, while the baggage claim and ticket lobby areas are only 40 percent of necessary space. Curbside space is insufficient for the number of people trying to get into and out of the airport. Concourse "C," built in the 1950s, is functionally obsolete and code deficient.

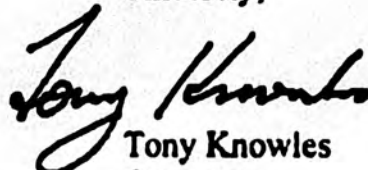
In addition to the \$204 million in revenue bonds, we will utilize at least \$26 million in federal funds to complete this project over the next five years. My plan will expand the existing ticket lobby, baggage claim, and retail areas by 350,000 square feet; rebuild the "C" concourse, add five new aircraft jetways, seven aircraft parking spaces for regional carriers, a tourgroup handling facility; and expand curbside loading and unloading space for vehicles.

February 19, 1998  
Page 2

The revenue bonds will be financed through fees paid by the passenger and cargo airlines that use the airport system. Airlines carrying 84 percent of the passengers using Anchorage International Airport support these bonds. I hope you will, too.

It is vital to the state's economy that we improve and expand the Anchorage International Airport to keep pace with public and business demand. Please help me support this project by supporting SB 277 and HB 382 in the Legislature. There's no question this project is needed and needed now. It's time for Anchorage to again be called the "Air Crossroads of the World."

Sincerely,



Tony Knowles  
Governor

**Municipality  
of  
Anchorage**



P.O. Box 196650  
Anchorage, Alaska 99519-6650  
Telephone: (907) 343-4431  
Fax: (907) 343-4499  
<http://www.ci.anchorage.ak.us>

*Rick Mystrom, Mayor*

OFFICE OF THE MAYOR

February 23, 1998

**Anchorage Caucus Members  
State Capitol  
Juneau, Alaska 99801**

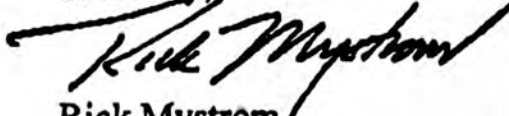
Dear Caucus Member,

Economic development has been and continues to be one of my administration's top priorities. We are all working to develop and grow our economy so that our city's prosperity is based on a more diversified economic portfolio. Oil, tourism, and resource harvesting remain the centerpieces to our economy, however, there are many new exciting and rapidly developing economic opportunities for Anchorage.

Fostering economic development for a city so geographically removed from the rest of the United States really begins at our airport. The Anchorage International Airport is the top transportation hub in Alaska serving over 5 million passengers per year and employing 1 out of every 10 workers in Anchorage. The problem for Anchorage and all of Alaska is that the airport is becoming functionally obsolete. Concourse C, built in 1952, is not up to code, current ticket counters are 60% too small for the current usage, the baggage claim area is less than half of the size needed, and vehicle access is limited.

I support the Airport's plan for expansion. Without future airport expansion, economic growth in our State will be stifled. I urge your prompt consideration of this plan.

Sincerely,

  
Rick Mystrom  
Mayor

cc Mort Plumb, Airport Director  
Kurt Parkan, Deputy Commissioner DOT

*"City of Lights and Flowers"*

HB 432 001



Support  
HB 432

## ASSOCIATED GENERAL CONTRACTORS of ALASKA

4041 S STREET • ANCHORAGE, ALASKA 99503  
P.O. BOX 240609 • ANCHORAGE, ALASKA 99524-0609  
TELEPHONE (907) 561-5354 • FAX (907) 562-6118

3/3/98

To  
Representative  
John Cowdery  
State House of Representatives

Fax 465-2069

Subject: HB 432, "An Act relating to international airports revenue bonds;"..

Dear John:

AGC of Alaska supports meaningful and necessary development of our transportation infra-structure. Since the International Airports are a major part of Alaska's transportation system, capital development based on revenue bonds is a positive step and supported by our members.

There are some details we are concerned about:

- 1) The size of the program may attract out-of-State or foreign competitors. The Alaska construction industry is competitive, however, bonding capabilities need to be considered. If the program is structured in such a manner that the individual projects pertain to various modes (buildings, earthwork, roads, runways, utilities, specialty work) then the Alaska construction industry will be able to compete and participate without restricting the open competitive process. We should avoid, however, one or two large "project management" type contracts in which one large firm becomes a "project broker".
- 2) Access roads/highways: This project is not identified in the present STIP. It is our understanding that DOT/PF wants to shift major funding based on Federal participation to this program. We are concerned that other projects which are presently planned will be adversely effected or will be dropped.

We support this bill in principle.

Sincerely,

*Henry Springer*  
Exec Director

WILLIS CORROON



Willis Corroon  
Corporation of  
Anchorage  
4220 B Street  
Anchorage, AK 99503  
Telephone 907-562-2266  
Fax 907-563-6483

Representative John Cowdery  
Alaska State Legislature  
Juneau, Alaska

Fax 907 465-2069

Re: Airport Capital improvements

Dear Representative Cowdery,

As a bond broker in the State of Alaska and as Legislative Chair for the Associated General Contractors Association, I am delighted a pool of dollars in excess of \$150,000,000 is being considered for capital improvements to the Anchorage International Airport. This provides great opportunity for Alaskans in many different industries, particularly the construction industry.

While the surety bond market is as liberal as it has ever been, there are still concerns that if contracts for this work are let in excess of \$10,000,000 to \$15,000,000 we will limit the number of Alaskan contractors who could bid on that work. I would support making as much of that work available to Alaskan contractors as possible, therefore keeping the projects to a manageable size.

Sincerely,

John Wheatley  
Executive Vice President

TESTIMONY  
OF  
CLIFFORD T. ARGUE  
BEFORE  
ALASKA STATE LEGISLATURE  
HOUSE COMMITTEE ON INTERNATIONAL TRADE AND TOURISM  
FEBRUARY 24, 1998

Mr. Chairman and Members of the Committee:

My name is Clifford Argue. I am Staff Vice President-Properties and Facilities for Alaska Airlines, Inc., and also serve as Chairman of the Anchorage/Fairbanks Airlines Airport Affairs Committee, an organization comprised of some 25 airlines who have signed Lease and Operating Agreements with one or both of the international airports.

Last November, the airlines voted, in accordance with the agreements each has executed and long-standing past practice, to approve the financing and construction of the proposed Terminal Redevelopment Project at Anchorage International Airport with a total estimated cost of \$191 million. During the voting process, the Department of Transportation and Public Facilities pledged \$26.5 million in Federal Highway funds to the project, leaving a net total of \$164.5. The vote also approved the Alaska International Airport System (AIAS) to issue airport revenue bonds in an amount necessary to cover this new net project cost, financing, and escalation, with the understanding that AIAS would continue to "use its best efforts to obtain alternate sources of funding/financing to reduce airline cost exposure." We hope, but are not certain at this time that there will also be Federal Airport Improvement funds available to help in this regard.

I believe you have already been provided details of the actual votes, so I will not restate them here.

|                   |                     |       |                 |      |   |
|-------------------|---------------------|-------|-----------------|------|---|
| Post-It® Fax Note | 7671                | Date  | 2/24/98         | Page | 3 |
| To                | Annette Deal        | From  | Cliff Argue     |      |   |
| Co. Dept.         | Rep. Cowdery Office | Co.   | Alaska Airlines |      |   |
| Phone             | (907) 465-3879      | Phone | (206) 433-3184  |      |   |
| Fax               | (907) 465-2069      | Fax   | (206) 431-7031  |      |   |

Based on this approval by the signatory airlines, I appear before you today to speak in favor of House Bill 432, representing those carriers who voted for the project.

Having been involved for nearly 30 years in the planning and development of airport terminal facilities, I can tell you that the work to date on the Anchorage project is among the most thorough and professional such effort I have seen. The needs assessment, conceptual solutions, and financing plan were carefully developed by an expert team of airport staff and consultants. There was excellent coordination with the airlines at every step in the process as we participated in numerous meetings and reviews. My colleagues from a number of other airlines including Reeve, Lynden, Northwest, United, Delta, Reno, America West, Federal Express and U.P.S. share this feeling on the quality of the process.

The serious deficiencies in the existing Anchorage domestic terminal are well-known, both as documented in the studies and certainly experienced at one time or another by each of you when traveling or meeting someone who is. The plan to remedy these shortcomings between now and 2005 is sound and conservative. It will provide the citizens of Alaska and the many visitors from outside a modern, efficient, and functional airport terminal serving the largest city and air transportation hub of the state. It will also allow passengers flying out of Anchorage to use the newest technologies to speed their progress through the terminal. We at Alaska Airlines are especially excited about the opportunities this project presents for offering better customer service as quickly as possible.

As you consider this legislation, we urge you to give AIAS the maximum flexibility to issue the bonds necessary for the project all at one time. This is the most cost-effective way to proceed rather than try to phase it. These bonds will be backed by airport revenues generated from rates, fees, and charges to the airlines, and in no way impact the state's general fund. The additional cost to the airlines, when considered on a cost per enplaned passenger basis is modest. The AIAS proposal is a prudent and reasonable approach to funding

much-needed improvements to one of the major economic engines of the state.

I request your favorable action to allow this important project to move ahead in a timely and complete fashion. Thank you for the opportunity to comment.



February 13, 1998

Mr. Joseph Perkins  
Commissioner  
Department of Transportation  
State of Alaska  
3132 Channel Drive  
Juneau, Alaska 99801

Dear Mr. Perkins:

I appreciated the opportunity last month in Juneau to join with other airline industry representatives to express the support of United Airlines for both the Capital Improvement Program for Anchorage International Airport and the critical need to achieve approval of a new fuel pipeline to serve that growing airport.

As I mentioned, United has been providing passenger service at ANC for several years, linking it at different times to our hubs in Chicago, Denver and San Francisco, and also to Seattle/Tacoma International Airport. In the spring of 1996, with the strong support of Governor Tony Knowles, your office and the airport administration, United took the first steps to establish what has now become its international cargo hub, the focal point for our freighter service linking Chicago, San Francisco and Los Angeles with Tokyo, Osaka, Seoul, Taipei and Manila.

The continued development of Anchorage International Airport is critical, in particular, to our cargo operation, to the one-hundred-plus flight officers who are based in Anchorage, and other planned expansion in the years ahead.

I should note that in 1997, United's worldwide cargo division reported a record \$892 million in revenue, and the launch of our DC-30 freighter service was very instrumental in that accomplishment.

Sincerely

A handwritten signature in black ink that reads "Alan B. Wayne".

Alan B. Wayne  
Regional Director  
Governmental & Public Affairs

abw:cb

Via Fax / Original follows by Fedex

## **Resolution in support of revitalizing Anchorage International Airport**

This resolution is consistent with the Commonwealth North study focusing on economic development, quality of life, education, and the role of state government entitled Agenda 2000, Alaska's Future in a New World.

### **Commonwealth North:**

Endorses the Anchorage International Airport revitalization project as approved by the airlines; and

Requests all state legislators to approve the authorizing legislation to revitalize the Anchorage International Airport; and

Forwards this resolution to all members of the Alaska State Legislature, Governor Tony Knowles, and Alaska's congressional delegation.

### **Resolved for the following reasons:**

1. This airport is the state's largest transportation hub with more than five million passengers per year and an annual increase exceeding three percent forecast through the year 2005; and

2. Air transportation is extremely important to Alaskans, who travel by air at more than three times the national average; and

3. The future expansion of Alaska's economy is tied to AIA's ability to serve an increase in passenger and cargo service; and

4. More than 11,000 jobs are already directly related to AIA's activities and further increases in airport activities will create new employment opportunities; and

5. A recent six month study pinpointed the many deficiencies at AIA's terminal and documented the need for expansion and improvement to meet the needs of the traveling public for the year 2005; and

6. The majority of the \$191 million related to the terminal revitalization will be financed through revenue bonds which will be repaid through rates and fees collected from air carriers; and

The remaining costs will be paid by the federal government; and

Project financing has been approved by airlines in accordance with the terms of the Airport Operating Agreement. Airlines that carry 84 percent of the passenger traffic and produce nearly 90 percent of passenger revenue have approved the proposed AIA terminal revitalization.

Unanimously resolved by the Board on February 10, 1998



Anchorage Economic Development Corporation  
The Center of Opportunity

February 9, 1998

Governor Tony Knowles  
Office of the Governor  
State Capitol  
Juneau, Alaska

Dear Governor Knowles:

At the full meeting of the Board of Directors on February 4, 1998, The Anchorage Economic Development Corporation adopted the enclosed position of support for the improvement of the Anchorage International Airport.

The AEDC recognizes the need to improve the passenger terminal and to provide appropriate amenities supporting travelers. The AEDC also recognizes the importance of cargo traffic to the economic viability of the Anchorage International Airport. The transportation and access corridors play an important part in the future growth of the cargo business in Anchorage. It is important for these elements to be included in the planned improvements to AIA. The AEDC supports a financing approach that maintains the cost competitiveness of carrier operations at AIA.

Please keep us advised of the progress of this project. We will provide appropriate comment and documentation during the process of moving this complex undertaking forward.

Sincerely,

Ernest E. Hall  
Chairman of the Board

cc: Joseph Perkins, Commissioner, Dept. of Transportation & Public Facilities  
Mort Plumb, Director, Anchorage International Airport  
Randy Simmons, Director, AIDEA

**TONY KNOWLES**  
GOVERNOR



**STATE OF ALASKA**  
OFFICE OF THE GOVERNOR  
JUNEAU

P O Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500  
Fax (907) 465-3532

February 4, 1998

**The Honorable Mike Miller**  
Senate President  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

**Dear President Miller:**

The Anchorage International Airport is a vital business center and major force in Alaska's economy. As our economy grows, Alaska's largest airport must be poised to accommodate and assist that growth. This bill I transmit today authorizes the issuance of \$204 million in revenue bonds to pay for a much-needed redevelopment of the Anchorage International Airport to better meet airport user needs today and into the next millenium.

A record number of passengers - more than 5 million - used Anchorage International Airport last year. Analysts expect a 4 percent annual domestic growth rate to continue through the year 2005. The airport generates 7,000 direct jobs and another 4,000 indirect jobs, and that job growth also is expected to increase by about 5 percent in coming years.

Along with this demand and growth, Anchorage's domestic terminal suffers from major deficiencies. The terminal area is only 75 percent of the space needed, while the baggage claim and ticket lobby areas are only 40 percent of necessary space. Concourse C, built in the 1950s, is functionally obsolete and code deficient.

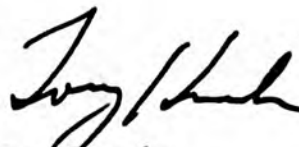
The airport redevelopment plan is projected to cost about \$191 million with \$26 million coming from federal funds. The plan will expand the existing ticket lobby, baggage claim, and retail areas by 350,000 square feet; add five new aircraft jetways, seven aircraft parking spaces for regional carriers, and a tour-group handling facility; and extend curbside space for vehicles.

The Honorable Mike M.  
February 4, 1998  
Page 2

The airport redevelopment plan is the product of a comprehensive needs assessment that examined existing terminal facilities and forecast passenger demand. Based on international aviation standards, the assessment identified major deficiencies for both passengers and aircraft. Airport officials and airlines spent six months carefully examining 14 different terminal master plan concepts. This effort resulted in a generally agreed upon concept for terminal redevelopment and expansion for the year 2005. The plan accommodates a variety of future development options for the next 20 years. Airlines that have signed the airport's five-year operating agreement recently committed to provide the revenue necessary to pay the debt service on these bonds through user fees, as provided in the operating agreement.

It is vital to the state's economy that we improve and expand the Anchorage International Airport to keep pace with public and business demand. This bill is a necessary element to permit financing of the airport expansion project.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Knowles", written in a cursive style.

Tony Knowles  
Governor

IV

A

Written Testimony  
of Joseph Sprague  
Director of Marketing  
Era Aviation

before the  
House Special Committee on International Trade & Tourism  
John Cowdery, Chair

February 25, 1998

The Anchorage "Terminal Expansion 2005" Project

Good evening Mr. Chairman and members of the Committee. My name is Joseph Sprague. I am with Era Aviation and am representing tonight Era's president, Charles Johnson. I am here to testify on behalf of Era about our views on the Administration's Anchorage Airport "Terminal Expansion 2005" Project.

First and foremost, allow me to make one point very clear: Era supports terminal renovation and expansion at Anchorage. We always have and we believe the time has come to embark on a businesslike plan for renovation and expansion that is appropriate to legitimate needs. We believe that the Administration's proposed project could serve as broad concept for long range planning for future needs -- if and when they arise.

From what position does Era share its views? Era enplanes approximately 10% of the domestic passengers using Anchorage International Airport. We spend much of the year as the second busiest carrier at the airport, behind only Alaska Airlines in terms of enplanements. Many of the nearly 450,000 passengers carried annually by Era are not visitors, but residents of the state. Additionally, we employ over 250 Alaskans at Anchorage International Airport.

On November 17th, 1997, we voted against the Terminal Expansion 2005 project, as presented by the Administration on the Signatory Airline Ballot. A copy of our cover letter and Ballot have been distributed to you (attached). In our letter we stated, "[T]he ballot does not include alternatives to the massive and costly project that we can be comfortable with. ... [W]e are limited to one source of funds and a minimum size and price for the project."

A total of **twelve** Signatory Airlines voted against the project; **only ten** voted for it; three did not vote.

Today, as then, the Administration freely admits that the project as proposed still remains "only a concept". This concept is still in its infancy; and the estimated costs can only be "best guesses", to be changed later by yet-emerging design concepts. Therefore, in view of our commitments to our customers, our fellow citizens, our employees and our shareholders, we have no choice but to continue opposing the project as presented by the Administration.

In the letter accompanying our vote, we also encouraged, and offered to participate in, a cooperative effort involving representatives from all the Terminal users, to establish terminal renovation and expansion plans that might better meet the needs of all concerned. We stand by that offer.

We agree that the Airport is a tremendous economic benefit to the citizens of Anchorage and the entire state. We also agree we should plan and build for the future. We must all keep in mind, however, that the costs of these improvements will be borne in large measure by the citizens of our state. These costs should be thoroughly and rigorously justified.

How good are the analyses offered in support of this project? For example, although passenger traffic at Anchorage has increased over the last 10 years, it has remained essentially flat since May of 1997. What will continued failure to meet growth projections do to the costs that all of us must bear? There are abundant examples, both within Alaska and across the nation, of how quickly airline passenger traffic levels can change -- and what happens to business at airports when costs skyrocket due to over-building. Additionally, the Administration's plan proposes to increase airline lease space by 75% and concession space by 100%, but has gathered NO commitments for any of this additional space.

As I mentioned earlier, we do believe the concept being presented by the Administration has some merit as a potential long term master plan. Last June, all participating airlines, including United, Delta, Alaska Airlines, Northwest, Era, PenAir and Northern Air Cargo, among others, favored an incremental approach to terminal renovation and expansion. We were on a course to establish priorities and do the most important things first. In July the airport administration proposed a \$33 million incremental approach. However, by October the number was \$191 million; in November it was reduced to \$164.5 million; last month it was \$235 million; and now the legislature is asked to authorize bonding for \$204 million.

Whatever the final cost, this is a major investment; one that merits careful consideration and reasoned discussion among airport users, airport staff, legislators, and other community leaders.

We all want a modern efficient airport terminal. The needs at our present facility are readily apparent. "C" Concourse was built in the early 1950's, and renovation studies have been ongoing for at least the last ten years. There are legitimate needs in the main terminal baggage handling areas and ticket lobby areas. Before rushing forward, however, we must develop a sound business plan that prioritizes problem areas and identifies cost effective solutions.

We must learn from the experiences of others also. There are examples around the country of airports that over-expanded -- places like San Jose and Denver where high terminal costs resulted in downturns in airline activity. We must consider this possibility at Anchorage. The Administration has done a good job attracting cargo carriers to Anchorage. These carriers employ many hundreds of Alaskans, and there are good prospects for more cargo carriers to come. Cargo carriers will, however, pay a substantial portion of the Terminal Expansion costs, perhaps as much as 30-40% -- for the next twenty-five years. How will this affect the decisions of potential new cargo carriers; or for that matter, existing ones?

In closing, we believe the Administration's Terminal Expansion 2005 concept merits serious and careful consideration. We have the expertise right here in Alaska to evaluate and prioritize the legitimate needs at the Anchorage International Airport -- and to come up with sound, fiscally responsible, plans to meet those needs. This is an opportunity that we cannot afford to miss; and we should do it right.

\* \* \*



# Era Aviation, Inc.

VIA FACSIMILE TO 1-206-431-7031

November 14, 1997

Mr. Cliff Argue  
Alaska Airlines, Inc.  
P.O. Box 68900  
Seattle, WA 98168

RE: Signatory Airline Ballot Due November 17, 1997  
Anchorage Airport Terminal Expansion

Dear Mr. Argue:

Attached is Era Aviation's Ballot for the above project. Unfortunately, we are compelled to vote "Disapprove" on the proposed Anchorage Terminal Expansion 2005 project.

I say "unfortunately", as we are convinced that improvements and expansion plans are necessary for the Anchorage Domestic Terminal. It is mandatory that we plan for and meet the needs of the future at Alaska's gateway airport. However, the Ballot does not include alternatives to the massive and costly project that we can feel comfortable with.

In the Ballot we are limited to one source of funds and a minimum size and price for the project. The design concept is in its infancy, and the estimated cost is only a best guess based on the emerging design. In view of this, and the corporate commitment we have to our customers, employees and shareholders, we have no alternative but to vote for disapproval on this ballot wording.

We encourage, and will readily participate in a cooperative effort involving representatives from all Terminal users, to establish Terminal renovation and expansion plans that might better meet the needs of all concerned.

Sincerely yours,

Charles W. Johnson  
President

cc: The Honorable Tony Knowles, Governor  
Mr. Morton Plumb, Director, AIA  
Mr. John J. Ungar, Controller, AIA  
All Signatory Airlines

OCT-16-97 THU 06:21 PM

AIA DIRECTORS OFFICE

FAX NO. 9072662676

P. 03701

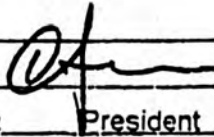
## BALLOT

ALASKA INTERNATIONAL AIRPORT SYSTEM  
FY99-2004 AIRLINE CAPITAL IMPROVEMENT REQUEST

In accordance with Article 4, Section 4.02 A&U Anchorage and Fairbanks International Airports Airline Operating Agreement and Terminal Building leases dated November, 1990 and extended in June, 1993, the Signatory Airline identified below approves or disapproves the Capital Improvement listed below as indicated. The Signatory Airline's vote takes into consideration, among other things, the Terminal Concept Package Report #8 dated 10/1/97, Plan of Finance (Volume I & II) dated 10/2/97, and previous reports, the discussions at the October 15, 1997 Airlines Airport Affairs Committee meeting in Anchorage and preceding Airline Executive Committee and Technical Committee meetings.

| FY 99   |                         | FUNDING X \$1,000 |          |          |         |            |
|---------|-------------------------|-------------------|----------|----------|---------|------------|
| AIRPORT | PROJECT                 | AIP               | IARF     | TOTAL    | APPROVE | DISAPPROVE |
| ANC     | TERMINAL EXPANSION 2005 |                   | 191,000* | 191,000* |         | X          |

\* Project costs identified in 1997 dollars. Approval authorizes AIAS to issue up to \$235 million in airport revenue bonds, which includes escalation and financing costs. AIAS pledges to use its best efforts to obtain alternate sources of funding/financing to reduce airline cost exposure.

SIGNATORY AIRLINE NAME Era Aviation, Inc.SIGNATURE OF AUTHORIZED REPRESENTATIVE DATE November 17, 1997TITLE President

Cliff Argue has agreed to serve as designated representative and collect and tally votes and provide the requisite written certification within the required time. He requests Ballots sent to him arrive by 12:00 noon, PST, November 17, 1997 at Alaska Airlines, P.O. Box 68900, Seattle WA 98169, FAX (206)431-7031 or TTY SEAPZAS.

21-1

TERMINAL EXPANSION 2005 PROJECT  
ANCHORAGE AIRPORT

Summary Key Points

*We do not know what it is. We do not know what it will cost. We do not know who will pay for it. The Administration has not defined or prioritized legitimate needs, much less justified this Project.*

**1. We do not know what it is.**

There is a TERMINAL EXPANSION 2005 *Project*, but there is no *Plan*. To this day, the Project still remains "only a concept". This "concept" includes among the Administration's priorities: (a) a Hotel in the new Terminal; (b) a Railroad Station in the new Terminal; (c) a Shopping Mall in the new Terminal; and (d) an administration Office Tower in the new Terminal. The Administration is asking the Legislature for a \$204 million blank check, for a "concept" - a concept that the Administration will later perhaps define, or change, or expand.

**2. We do not know what it will cost.**

The numbers have jumped all over since last June:

- \$33 million in July
- \$191 million in October
- \$164.5 million in November
- \$235 million in January
- \$204 million on February 4<sup>th</sup>
- All of these changes have been with little rhyme or reason.

This all has happened after the last Technical Committee Meeting was held with the airlines on June 11, 1997. Substantial and critical portions of the Project remain dependent upon "federal dollars", which have yet to be applied for, and for which the Project may not qualify in any event. The Administration's "Preliminary Construction Cost Estimate" includes **over 50%** of construction costs for "Contingencies", "Admin/Management", "Other", "Planning", "Design", and "Project Administration". With the **current disarray** in the Project's budget, we could only expect massive cost overruns if the Project were approved - **not unlike the Anchorage Performing Arts Center.**

### **3. We do not know who will pay for it (for the next 25 years).**

"The Airlines will pay for it." That is largely true, under the current Operating Agreement with 25 Signatory Airlines. Duty Free and other concessions would also pay a significant portion, and cargo airlines would pay about 30% through higher landing fees. But the Operating Agreement expires in two years - just as the first Bond payments would come due. The Administration has ignored all efforts to negotiate a renewal or extension of the Operating Agreement before embarking on this historic Bond quest. The simple fact is, when the Operating Agreement expires, all airline fees - land rents, terminal rents, fuel flowage fees, docking fees, FIS charges, landing fees - are on the table. No airport user - passenger, shipper, airline, car rental, gift shop, or community resident - can have any idea what his share of the TERMINAL EXPANSION 2005 costs will be.

The Administration's much vaunted (and expensive) "Plan of Finance" is based upon the Operating Agreement continuing past the year 2000. For this reason alone, it is valueless. Even worse, the Plan of Finance deliberately understates costs and overstates the benefits of projected growth. As examples: (a) It factors in but a small fraction of the increased costs of other capital improvements necessary to meet present and future demands; (b) It factors in but a small fraction of increased maintenance and operations costs that would result from nearly doubling the size of the Terminal; and (c) It factors in wholly unrealistic assumptions for increased concession revenues. Further, this "Plan of Finance" does not address the more than \$36 million in excess, unspent and unencumbered, capital improvement funds the airport administration has already collected from the airlines in past years. Nor does this "Plan of Finance" address Passenger Facility Charges (new passenger head taxes), which the airport administration and most airlines fully expect to be proposed shortly after the 1998 election.

**4. The Administration has not defined or prioritized legitimate needs, or justified this Project.**

There are areas in the existing Terminal that need serious attention, but the Administration has not taken responsible steps to address them. Instead, the Administration resorts to slight-of-hand:

- It reduces the square footage of the Terminal by 20%, by eliminating the old C Concourse, and then offers a conclusory, "The airport's main terminal has only 75 percent of the space necessary to serve today's passengers."
- It predicts passenger growth at 4-5% each year; but neglects to tell us that passenger traffic has been flat for the past seven months, since May of 1997.
- It proposes to increase airline lease space by 75%, but it has gathered no commitment from any airline to lease any additional space.
- It proposes to increase concession space by 100%, but it has no commitments from any additional renters.
- The Administration has made no effort to see what improvements could be made with better management, increased efficiencies, sharing of current empty spaces, or perhaps increased manpower by the airlines to meet seasonal needs.
- No thorough cost-benefit analysis has been done for this Project.

Any public works project deserves better justification than this. This would be by far the largest aviation capital improvement project in the history of our State. It, especially, demands credible justification.

Twelve Signatory Airlines - substantial contributors to Alaska's economy - voted against this Project. Their reasons are clear. The Project as presented defies common sense. It is far too much, far too soon; the numbers do not add up; and no credible justifications have been presented by the proponents. Ten airlines voted in favor. Ask them, Why?

\*\*\*

# **CORRECTION**

**THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION**



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

**4. The Administration has not defined or prioritized legitimate needs, or justified this Project.**

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\*\*\*

## **FY 1999 CAPITAL PROJECT REQUEST**

**PROJECT TITLE:** ANC: Terminal 2005 Design/Construction Phase 1

**FUNDING:**

FEDERAL AIP: \$4,800,000

IARF: \$28,200,000

TOTAL: \$33,000,000

**PROJECT DESCRIPTION:**

Plan, design and construct stage one of a multi-staged terminal development program to be completed by 2005. The 2005 Terminal Development Plan includes replacement and expansion of C Concourse, renovation and expansion of the main terminal building, expansion of the terminal curbside and landside road and parking system, and expanded aircraft parking aprons. Detailed information about the stage one elements will be provided in a separate mailout and at the July 15 meeting.

**PROJECT JUSTIFICATION:**

The domestic terminal is significantly undersized to meet the existing and year 2005 needs. Once the old, existing C Concourse is demolished, the domestic terminal will provide only 75% of the total area needed to meet 1996 traffic levels. By the year 2005 the existing terminal will provide only 53% of the required square footage. Primary deficiencies include inadequate sized baggage claim and ticketing areas, curbside, and need for additional gates. Furthermore, the existing C Concourse must be demolished and replaced because of code, maintenance and functional problems.



# Era Aviation, Inc.

VIA FACSIMILE TO 1-206-431-7031

November 14, 1997

Mr. Cliff Argue  
Alaska Airlines, Inc.  
P.O. Box 68900  
Seattle, WA 98168

RE: Signatory Airline Ballot Due November 17, 1997  
Anchorage Airport Terminal Expansion

Dear Mr. Argue:

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I say "unfortunately", as we are convinced that improvements and expansion plans are necessary for the Anchorage Domestic Terminal. It is mandatory that we plan for and meet the needs of the future at Alaska's gateway airport. However, the Ballot does not include alternatives to the massive and costly project that we can feel comfortable with.

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We encourage, and will readily participate in a cooperative effort involving representatives from all Terminal users, to establish Terminal renovation and expansion plans that might better meet the needs of all concerned.

Sincerely yours,

Charles W. Johnson  
President

cc: The Honorable Tony Knowles, Governor  
Mr. Morton Plumb, Director, AJA  
Mr. John J. Ungar, Controller, AJA  
All Signatory Airlines



November 14, 1997

Governor Tony Knowles  
State of Alaska  
Office of the Governor  
P.O. Box 110001  
Juneau, AK 99811-0001

RE: Anchorage International Airport Terminal Expansion Project

Dear Governor Knowles:

*If* the forecast obligation of airline fees and terminal rents were accurate, and *if* the final cost came in at \$191 million, we still could not afford the airport expansion project. I think the concept of the plan more appropriately resembles a Master Plan and should be phased with six or eight individual projects, individually voted on, funded and built separately.

During the oil boom in Alaska, we built a new terminal in Fairbanks with the promise it would be paid through rental and landing fees. Immediately upon completion, the small local carriers felt they could not afford the rent and opted to continue their operations on the other side of the field. They are still there today. In Anchorage, carriers presently using the terminal do not have the option to move out.

The Fairbanks terminal has the luxury of sharing an operating agreement with their partner, Anchorage International Airport. The Fairbanks Airport has lost money since the terminal was built, and Anchorage is picking up the losses through their landing fees, flowage fees and rentals. Anchorage does not have an agreement with a "Big Brother" airport and, therefore, does not have that option. If we vote for this project, we have to pay for it.

We built the north terminal in Anchorage only to see it turn into a ghost town a few years later. It is just starting to become occupied again, but if the Anchorage landing fees and flowage fees are increased to pay for the new terminal, Anchorage may become less attractive to foreign cargo and passenger carriers.

At the Chamber of Commerce meeting, you stated that the airport is an economic engine for the state. Mayor Mystrom said basically the same thing concerning the City of Anchorage. If the terminal is a financial engine for the city and state, then those two entities should share the expense, and that share should be declared as a funding liability before we are expected to vote on the project.

November 14, 1997  
Governor Tony Knowles  
Page 2

As a suggestion for creative financing, the City could subsidize the project by eliminating or deferring taxes on airport property as they are currently doing with the Alaska Seafood Center. The State could contribute with a guarantee covering any cost overruns. So far, the airlines are the only ones required to provide any guarantees.

The terminal expansion does not generate any revenue for our company, yet we are expected to shoulder the financial burden. The cost to PenAir, per year, for the terminal expansion, based on the airport's revenue projections, can be equated to the cost of bringing a new aircraft on line. Or to put it another way, the increase in rent and fees would be more than the entire annual profits generated by one Saab aircraft. If the cost estimate is off by 20%, the financial damage could be devastating.

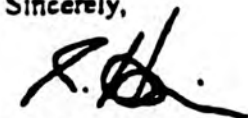
Airport revenue projections provided by the airport are based on increased traffic and airlines leasing more space. Airport traffic has been decreasing for the last six months, and most carriers state they would like less space, not more. While passenger traffic is declining, cargo is increasing at 12% per year. This passenger terminal project will increase fees to cargo carriers and create a substantial deterrent to cargo operations.

We fly the same passengers to the same locations every year. Our only potential for passenger growth is through tourism. Increasing ticket prices will make travel to Alaska less affordable and our current customers will be discouraged to fly as often.

I believe Mr. Plumb's plan can provide long-term direction as a 20-year Master Plan. However, I can't support the proposition the way it's written on the ballot. It's ambitious, expensive, and based on "best case" forecasting.

PenAir cannot afford this project with or without PFC's.

Sincerely,



Richard E. Harding  
General Manager/  
VP Operations

cc: Mort Plumb  
Doyle Ruff  
Signatory Airlines



Mort Plumb  
Airport Director  
Anchorage Int'l Airport

October 18, 1997

Dear Mort:

VIA FACSIMILE

The question as stated on the ballot received yesterday says that the AIAS pledges to make its best efforts to secure alternative means of financing in order to reduce the impact on rates and fees. What specific means of financing are to be considered are not described. Yet the question shown on the ballot and the one which we are being asked to vote on, states that the entire amount is to be paid through the IARF. While I do not doubt the veracity of the pledge nor its intent, it is an unenforceable promise not binding upon either the current airport management nor any subsequent airport management and is therefore meaningless.

I assume that included in these unnamed funding sources are federal funds of one sort or another, including your previous statement that it is the airports intention to pursue multi-year forward funding. You made the statement at the October 15th meeting that before even the application for any federal funding can be made, all necessary approvals must be secured. Among the other possible sources of funding mentioned at the October 15th meeting were the Permanent Fund, the General Fund, PFC's, AIP funding and a couple more. None of these possible sources of funding are shown or even referred to, other than the promise to "try" to secure funding from some non-specific source.

Many carriers have indicated they could support the terminal project, but only if some additional source of funding, (such as PFC's), were included as part of the financing. As you said, application for these types of funding cannot be made without prior "approval". If they are not even included in the ballot question, how can these funding sources ever hope to achieve the approvals required to begin the application process?

I therefore respectfully request that, in keeping with your pledge, the ballot question be re-worded in unambiguous language to include the specific funding sources besides the IARF that are included in the actual current financing plan and the "pledge."

Sincerely,

A handwritten signature in cursive script, appearing to read "Butch Hallford".

Butch Hallford  
Vice President,  
Northern Air Cargo Inc

cc: attached list

## Carriers question Anchorage airport project funds

By Rob Stapleton © 1997  
For the Journal of Commerce

**A** letter offering \$41.3 million in federal highway funds to partially finance a terminal expansion project at Anchorage International Airport is raising eyebrows among some of the carriers that use Alaska's largest airport.

The carriers say funding for the \$191 million project should include passenger facility charges, or PFCs.

The letter, written by Alaska Department of Transportation and Public Facilities Commissioner Joe Perkins to Cliff Argue, chairman of the airport's Airlines Airport Affairs Commu-

tee and also a staff vice president at Alaska Airlines, was distributed recently to carriers that are signatories currently considering the state's plan for the terminal project.

"Any prioritized project of this nature is going to have an effect on other smaller projects. It happens all the time," said Perkins, in explaining his offer.

Perkins responded to questions about the priority list for state construction projects, about whether the terminal project was listed and where on Nov. 3, following an announcement from Gov. Tony Knowles that the state aims to upgrade the airport's transportation arteries with improvements of roads, inter-sections, and recreation trails that will cost more than \$350 million.

Anchorage is in a unique position to use federal money due to the status and nature of the road system in the Anchorage area, Perkins said.

"Many of the access roads and streets are on the National Highway System, which make them eligible for some federal monies," he said. The consensus among the air carriers that pay fees to use the airport is unanimous about the need for the terminal renovation, but regional airlines such as Era Aviation, Reeve Aleutian Airways, PenAir and Northern Air Cargo say the price is too high and no guarantees of funding have been given by state officials, just political promises.

Regional carriers are split, and cargo sig-

**Continued on Page 18**

# Some carriers bristle at proposal for Anchorage airport construction

Continued from Page 1

namer favor PFCs to help defray the cost of the expansion and hold down their terminal lease expenses and landing fees. Several of the carriers have written letters to the committee and to airport director Mort Plumb making a case for the PFC money.

Word of the dissension found its way into the letter to Argue in which Perkins expresses his support for additional funding.

"I will consider other funding alternatives including a Passenger Facility Charge program that is acceptable to the public and reflects the unique nature of Alaska," he said in the letter.

PFCs are considered a political hot potato that the governor may not want addressed during the next legislative session, and the airlines say a bill authorizing such charges will never pass the Legislature in an election year.

The \$3 PFC adds \$3 to \$12 to a roundtrip ticket. This addition to airfares, coupled with higher landing fees and terminal leases, may be perceived as a tax.

The carriers say many state politicians fear that frequent Bush travelers, along with their legislators, will use the PFC issue to sandbag re-election campaigns. Currently Ketchikan and Seattle airports are charging a PFC to help defray their debts.

Perkins said the public and Alaska, as a whole, are not ready for PFCs to fund the Anchorage airport.

When asked about PFCs, Knowles said the issue needs to be addressed but not right away. "The (Federal Aviation Administration) is looking at Anchorage and encouraging the PFC program," he said.

According to Ron Simpson, a spokesman for the FAA, several airports in the Northwest, including Anchorage International, are on a list for federal de-funding.

Only 7 percent of current Anchorage International funding that comes from the FAA is scheduled to be cut, according to Perkins.

"This project has taken on a life of its own," said Butch Halford of Northern Air Cargo, one of the airport's 26 signatories. "The dollar signs on this project continually

grow. They are not going to give me a bill for \$230 million without any guarantees and shove it down my throat."

The terminal project, coined the "Taj Mahal" by some airport and airline officials, once contained plans for a shopping center and a multi-story tower for the airport director's offices.

According to sources close to the airport's administration, the carriers objected to the shopping center and it was cut from the final plan.

At the Anchorage Chamber of Commerce forum Nov. 3, Knowles referred to the airport as the "economic engine of Anchorage and Alaska," citing increased cargo activity and 10,000 jobs related to the airport.

Dick Harding, director of operations for PenAir shares Halford's concerns. "If the airport is the engine driving this project, it looks like a runaway train to me. I'm not sure we want to get on it," he said.

Adding to what some airline industry officials are calling a "crime of omission" in the governor's presentation, was that the airlines have not yet officially endorsed the \$191 million terminal project.

Pressure to see the completion of the project's funding is evident in airport presentations that include photographs of a tar plywood roof on the "C" terminal and stories of trash cans positioned in the C terminal to catch melt water from the leaky ceiling.

Despite their objections, the carriers are aware that the expansion plan is likely to be approved. It only takes about a third, or nine of their votes to pass the proposal. Not voting in the ballot tally counts as a "yes" vote.

If the plan does not pass this year and is brought in front of the committee for a vote again next year, it is automatically passed. Only a petition directly to the Legislature will stop the project from Senate and House scrutiny.

"Our fees and leases are going to go up with little benefit to us. What do we care if Alaska Airlines wants a new terminal in Anchorage?" asked Bob Rajchukovich of Frontier Flying Service in Fairbanks.

Carriers that are signatories at Fairbanks International Airport also are obligated to fund the Anchorage terminal expansion through the Alaska International Airport System.

# Expansion of airport is suspect

The \$350 million in Anchorage airport and airport-access improvements pitched by Gov. Tony Knowles to the Anchorage Chamber of Commerce last Monday is ambitious indeed.

The plan is for a sorely-needed upgrade of the airport's domestic passenger terminal, as well as other, cargo-related improvements.

About a third of the \$350 million would be spent on improved street access to the airport. The governor threw some of his beloved bike trails into the package, too.

Monday's pitch was part of an intensive effort under way to sell the package to airlines using the airport and state legislators, who must approve the plan. The air carriers are being asked to endorse the plan in a Nov. 17 vote.

There's no denying the airport needs improvements, but some airlines have decidedly mixed opinions about all this.

One carrier, Alaska Airlines, is an enthusiastic supporter. Others are reported to be more ambivalent, and a few are opposed.

What worries some carriers, particularly the smaller, regional operators, is how fast the terminal part of the package has grown to \$191 million. This created questions about precisely what is proposed, whether it really



**TIM  
BRADNER**

*There's no denying the airport needs improvements, but some airlines have decidedly mixed opinions about all this.*

## BRADNER: Airport expansion suspect

Continued from Page C-1

ger growth really requires it and whether some things could be done for less money.

Last Monday the governor announced the roads part of the package, which brings the total to \$350 million. Federal highway money will be used to finance the street improvements as well as some access ramps in the terminal reconstruction.

I'm an ardent airport supporter, but I also have questions about this expansion.

Is the growth to justify it really there? Experts hired by the airport project a 4 percent annual growth in passengers. But I worry about this when I saw domestic air passenger growth level off in both Anchorage and Fairbanks this summer.

Passenger traffic even declined in July and August compared with the same months of 1996.

This isn't surprising considering that what mainly drives air travel here — tourism and the state's resource industries — are level or in very slow growth.

Are the planners being realistic? I remember the early 1980s when the experts predicted oil prices would keep rising and expectations of \$50 per barrel oil were used to justify all sorts of projects.

Like oil, aviation can be affected by unforeseen events, and it has happened before here, too. We completed the international terminal just as most international airlines started overflying, leaving a virtually empty building.

Second, I'd like to be sure several air carriers, not just Alaska Airlines, really want more space. I'm told the demand isn't there, and that some even want to decrease the space they rent in the main passenger terminal.

The airport's managers say their studies show the demand growth will be there. I hope so.

Third, the road parts of the package paid for with federal highway money are worthy, even the bike trails. But I'd like to know where these projects were on the state's long range highways priority list before the airport package was as-

sembled. If they were moved up the ladder, which other projects are being delayed?

Finally, who pays for all this? It's us, not the airlines. They pay higher landing fees and terminal rents to pay for the improvements, but the costs are passed on in ticket prices we pay.

And because the Anchorage and Fairbanks airports are administratively joined, landing fees and rents at both airports will go up. Intra-Alaska travelers, such as those who fly from northern Alaska or the Interior

through Anchorage, get hit twice because the higher fares at both airports will be part of their ticket price.

The airport is a huge economic engine for our community. That's all the more reason to be cautious. Big public works projects look great particularly leading up to an election year. But let's be careful with this one.

Tim Bradner writes for an Alaska economic reporting service. His private clients include petroleum companies. His opinion column appears every fourth Sunday.

**B**



# Era Aviation, Inc.

March 4, 1998

The Honorable John Cowdery  
Chairman,  
Special Committee on International Trade and Tourism  
House of Representatives  
State Capitol, Room 416  
Juneau, Alaska 99801-1182

**Ref: HB 432; Terminal Expansion 2005**

Dear Chairman Cowdery,

Thank you for the opportunity to testify before your committee last week on the Anchorage Airport terminal expansion project. As you recall, Speaker Phillips had questions regarding the use of Passenger Facilities Charges (PFCs or Head Taxes) as one source of funding for this project. The following is offered to clarify my answer to her questions on this subject and to provide additional information on the role PFCs have played in this project and the airline voting process.

In the cover letter for its ballot (attached, November 7, 1997), Federal Express stated, "We also hope to see PFC implementation next year."

In his letter to all airlines encouraging a vote for the project (attached, October 24, 1997), Commissioner Perkins stated, "To further achieve this goal I will consider other funding alternatives including a Passenger Facility Charge program that is acceptable to the public and reflects the unique nature of Alaska."

In his letter transmitting the ballots to Director Plumb (attached, November 17, 1997), Mr. Cliff Argue stated, "[T]he airlines expect the airport and the State of Alaska to aggressively pursue and obtain additional sources of non-airline revenue as promised in Commissioner Perkins' letter."

Mr. Argue made special mention that, "With PFC's included in financing, Reeve Aleutian will change to approve project."

In a meeting on October 2, 1997, Director Plumb publicly encouraged the airlines to contact their legislators and the governor's office supporting implementation of

Chairman Cowdery  
March 4, 1998  
page 2

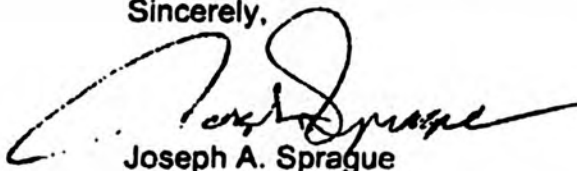
PFC's. Mr. Leif Selkregg stated there would be "retroactive opportunities" for the use of PFC's in connection with this project.

Over the past several years, virtually every airline voting in favor of the project has indicated its strong support for PFC funding. This was evidenced in the Legislative Budget and Audit Committee hearings in the Summer of 1996, and more recently at the July 15, 1997, Airline Airport Affairs Committee, when the Chairman conducted a "straw poll" on PFC's.

In a related matter, Delta's ballot was expressly made "Subject to the State of Alaska capital contribution of \$26.3M resulting in a net funding approval of \$165M." Copies of Delta's cover letter and ballot are also attached.

If we can provide additional information, please do not hesitate to contact either myself or Jack Birmingham at 248-4422.

Sincerely,

A handwritten signature in dark ink, appearing to read "Joe Sprague", with a large, sweeping flourish extending from the end of the signature.

Joseph A. Sprague  
Director of Marketing

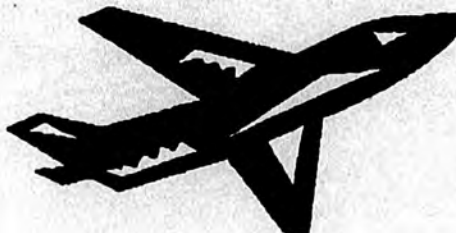
PROPERTIES/FACILITIES

**FEDERAL EXPRESS  
CORPORATION**

NOV 07 1997

RECEIVED

Properties & Facilities Department  
2003 Corporate Avenue, 2<sup>nd</sup> floor  
Memphis, TN 38132

**FAX**

To: Cliff ARGUE Fax: (206) 431-7031  
cc: Mart Plumb ~~Tele:~~ (907) 243-0663  
From: Teri Kervinen Fax: (901) 395-4873  
Tele: (901) 395-3652

Number of pages, this sheet included: 2

Enclosed please find Federal Express  
ballot on the Terminal Expansion. We  
appreciate the Airport's commitment to  
seek additional sources of revenue/financing  
(as evidenced by the \$26.3 million in Fed. Highway  
Funds for terminal access roads). We also  
hope to see PFC implementation next year.

Have a fantastic day!!

# STATE OF ALASKA

## DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

3132 CHANNEL DRIVE  
JUNEAU, ALASKA 99801-7898

TEXT: (907) 465-3658

FAX: (907) 580-8388

PHONE: (907) 465-3900

October 24, 1997

Cliff Argue  
Chairman, Airline Airport Affairs Committee  
Alaska Airlines Properties and Facilities  
PO Box 68900  
Seattle WA 98168

Dear Mr. Argue: *Cliff*

The ballot for the Anchorage Terminal expansion presented to the Airline Affairs Committee on October 15 included a pledge by AIAS to seek alternate sources of funding to reduce airline cost exposure.

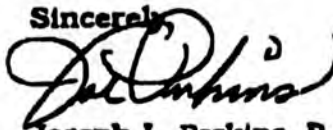
Governor Knowles noted the vital importance of the airport and its terminal as the gateway to Alaska when he addressed the Committee. In keeping with the Governor's desire to work with the Airlines to achieve the needed expansion at Anchorage International Airport, I have directed the Department to reserve and commit \$26.3 million in federal highway funds for the terminal access roads. This will reduce the construction amount being financed through Airport Revenue Bonds from \$190.8 million to \$164.5 million. The benefit to the airlines rates and charges of this State investment will be set forth in an addendum to the October 15 presentation, which will be distributed to all members of the Airline Affairs Committee no later than Wednesday, October 29.

The State has also identified a minimum of \$15 million in airside development which is eligible for FAA Discretionary Funds. We commit to aggressively pursue these funds to further reduce the airline share of the project costs.

As we discussed on October 15, the State and the airlines will have an ongoing opportunity to further reduce the bond amount and annual debt service, both before and after the issuance date of the bonds. The State joins with the airlines in recognizing that lower rates and charges makes Anchorage International Airport more competitive in the aviation market. To further achieve this goal I will consider other funding alternatives including a Passenger Facility Charge program that is acceptable to the public and reflects the unique nature of Alaska.

The financial commitments outlined above clearly demonstrate the State's good faith in committing non-airline funding sources. We look forward to continuing this partnership through the design, funding, and construction of the Terminal Expansion 2005 project. I request the support of the signatory airlines for this project.

Sincerely,



Joseph L. Perkins, P.E.  
Commissioner

cc: Airline Affairs Committee

**ANCHORAGE/FAIRBANKS  
AIRLINES AIRPORT AFFAIRS COMMITTEE  
P. O. Box 68900  
Seattle, WA 98168**

**November 17, 1997**

**VIA FAX 907 243-0853**

**Mr. Morton Plumb  
Airport Director  
Anchorage International Airport  
P.O. Box 196960  
Anchorage, AK 99519-6960**

**Re: FY99 Capital Improvement Request - ANC Terminal Expansion 2005**

**Dear Mort:**

**This letter will serve to provide certification of certain signatory airline votes on the above captioned project. In accordance with your request at our October 15, 1997 Airlines Airport Affairs Committee in Anchorage, a vote was taken among the signatory carriers on adding the proposed expansion and renovation of the Domestic Terminal at Anchorage to the previously approved FY99 International Airports Revenue Fund Capital Improvement Program.**

**Ballots were received from 22 of the 25 signatory airlines at Anchorage and Fairbanks International Airports. A ballot showing approval was received from Polar Air Cargo shortly after the deadline. The individual votes received by me are listed on the attached report. According to the Airline Lease and Operating Agreement, a project must receive 67 percent disapproval votes (17 or more) to be deleted from the airport's capital program. You will note that 12 disapproval votes were submitted, but 10 airlines voted to approve the project. Therefore, the terminal expansion is approved by the signatory airlines.**

**Although the ballot listed the project cost at \$191 million, the airline approval is based on the revised cost of \$164.5 million as set forth in Commissioner Perkins' letter to the airlines dated October 24, 1997. Further, the approval is based on the financial plan and revenue bond analysis presented at the October 15 meeting and as amended November 5.**

**However, given the size and financial impact of this project, the airlines expect the airport and the State of Alaska to aggressively pursue and obtain additional sources of non-airline revenue as promised in Commissioner Perkins' letter. We hereby request periodic reports on these efforts.**

Mr. Morton Plumb  
November 17, 1997  
Page 2 of 2

The expansion of the Domestic Terminal is an important project for Anchorage and the entire state, and the airlines serving the airport. We look forward to working closely with you, your staff, and the consultant team throughout the design, construction, and financing process, in the same spirit of cooperation and partnership that was evident in the studies and concept development to date.

Copies of each ballot as received from the signatory airlines are being sent to you with the mailed original of this letter. If you have any questions, please contact me.

Sincerely,

*Cliff Argue /ms*

Clifford T. Argue  
Chairman, ANC/FAI AAAC

c: J. Perkins, Commissioner DOTPF  
K. Parkan, Deputy Commissioner DOTPF  
J. Ungar, Controller, IARF  
ANC/FAI AAAC

Delta Air Lines, Inc.  
Post Office Box 20706  
Atlanta, Georgia 30320-6001

November 11, 1997

Sent by FAX: 206-431-7031

Mr. Cliff Argue  
Chairman, ANC AAAC  
Alaska Airlines  
Properties and Facilities  
P.O. Box 68900  
Seattle, WA 98168

Dear Cliff,

Attached is Delta's approval of the ANC MII ballot for FY99-04 Capital Improvement Projects. As we discussed, our approval of this project is predicated upon the incorporation by the State of Alaska a capital contribution of \$26.3M into the project which would result in a net funding approval of \$165M.

Thank you for your assistance on this matter.

Sincerely,



Rodger Holman  
Regional Director - Properties & Facilities

Attachment