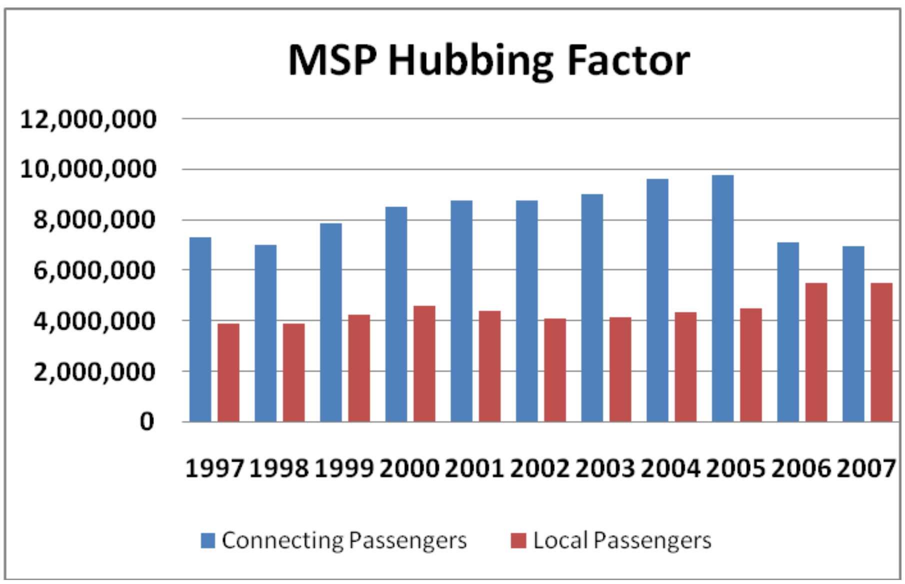
MSP Traffic History: 1997 to 2007 **APPENDIX A to LTCP Analysis**
By Jim Spensley -- January 2008

We traditionally graph MSP use by total operations per year as reported by MAC, and predict use for the next 1-2 years. Our predictions differ from the Commission's for two reasons: first, their primary source is the incumbent airlines; second, the commission has a rolling 5-year capital improvements plan to implement based on past predictions. This year, airline predictions for 2009 to 2014 will depend on merger plans, fuel prices, and government policies enacted after the 2008 elections. No projections make sense now.

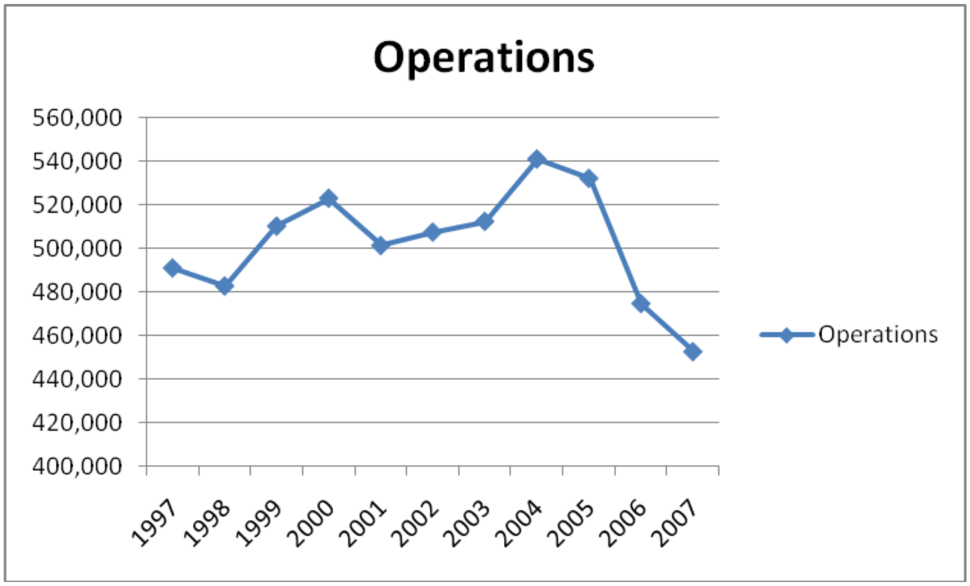
The airlines also report "Originating Passenger" based on reservation and ticketing data. "Enplanements," or departures by air, are doubled to account for "Destination" passengers. When MSP was authorized to expand in 1996, the Legislature intended that there would be enough flight capacity at MSP to support local demand in 2020 with a "Hubbing Factor" of 50%. The hubbing factor is the ratio of connecting passengers to local passengers. Although the airlines and the Commission always reported *a nearly equal number of "connecting" and "local" passengers* over the last decade, we believe the chart below is more accurate.

A passenger facility charge (PFC) of $4.50 is collected for each MSP departure if the trip starts here *or is the second leg of a trip originating elsewhere*. Unless 2006 and 2007 PFC revenue was under-reported, about 45% of the originating passengers paid only $4.50 to MSP and 55% paid $9.00. With that correction, the chart shows the same trend as MAC reports but a higher ratio of hub travelers to local travelers.



Sources: Passenger enplanements by year are from the most recent MAC Audit Report.
SMAAC adjusted l*ocal passengers* to 55% of o*riginating passengers*.

A million or so fewer local enplanements annually was significant, perhaps more so in 2001 and 2002 with a downward trend in air traffic. During the months after 9/11/2001, the seat supply for local travelers was reduced by fewer flights, smaller planes and a higher hubbing factor. There is no reason to believe local travel demand was lower than national demand at any time. Economically, the combination explains the local fare premiums: *demand* exceeded *supply*. The only 3 years that overall passenger enplanements at MSP were less than the year before were 1998 (2%), 2001 (0.8%), and 2006 (4.5%).



Source: 1997-2007, MAC Audit Report; 2008-2012, airline speculation

The most precipitous decline in operations (flights), during Northwest's bankruptcy, shows through the 2005-2006 data but less so for total passengers. The simplest explanation is *load factor,* or percent of available seats filled. Flights were added at peak hours as 2 or 3 smaller regional jets flights replaced a single flight by a larger aircraft, and the smaller planes served connecting passengers' needs. Large airliners departing the hub were as full as ever, but off-peak flights were canceled.

Hub airlines have computers that model demand from historical data, such as days of the week, days that fall within a week of a holiday, or school terms. The airlines "block" – do not offer advance reservations for economy fares – on days they predict extra demand. As the national economy slowed because of oil prices, sub-prime mortgage writedowns, and war costs, the models lagged. As the trends persisted, hub airlines "unblocked" flights departing hubs and more local travel, at economy fares, resulted. Although business demand faltered, small and large businesses and public agencies also stopped buying business class tickets if economy class seats were available.

The MAC is keeping terminal expansions in its plans , believing the Delta-NWA merger will go through, and oil prices may not decrease, but business travel is a necessity and many travelers will pay higher fares and fees anyway. In an optimistic scenario, passenger and operations at MSP could recover because of reductions at other Delta hubs. If so, more gates and higher rates at MSP correspond with MAC projects mothballed in 2009 to 2013 plans. MAC may go there. But the hubbing factor would increase with increasing hub operations, restoring high fares for local business travel, SMAAC believes.

We doubt that mergers and cost-cutting will allow the legacy airlines to fly longer routes, offer less service, and charge higher fares as long as oil prices are high for all their competitors, including ground transportation and more efficient air carriers. As SMAAC testified to the Minnesota House Commerce Committee in May, these beliefs are less than estimates and projections; more like hope or faith in Delta and Northwest executives.