



A TALE OF 3 AIRPORTS

THE EFFECTS OF SEPTEMBER 11TH AND THE REGIONAL RECESSION ON SAN FRANCISCO BAY AREA AIRPORTS

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This article represents the first of a two-part series on the impact of September 11th and the regional recession on San Francisco Bay Area airports. The second article of the series will be published in the June 2002 issue of DEBT LINE.

Monthly airline passenger levels at two of the San Francisco Bay Area's three primary commercial airports are still lower than those before September 11, 2001. The lower-than-average activity levels are the result of reduced demand by domestic and international travelers nationwide, as well as changes in local airline supply and passenger demand that have resulted from the region's general economic decline.

Metropolitan Oakland International Airport, on the other hand, is reporting monthly airport activity levels higher than those for early 2001. Oakland's experience differs from that of its neighbors because it has been affected differently by a set of factors influencing airport demand.

Part 1 of this series discusses the impact that each of these factors has had on airport activity levels. Part 2, which will appear in next month's DEBT LINE, discusses the implications of these impacts on capital improvement programs and the timing of future bond issues.

Historic Passenger Activity Levels

The San Francisco Bay Area is served by three major commercial airports - San Francisco International Airport (SFO), Metropolitan Oakland International Airport (OAK), and Norman Y. Mineta San José International Airport (SJC). As shown in Table 1, these airports experienced higher-than-national-average growth rates during most of the mid- and late-1990s, the result of a robust regional economy.

Table 1
PASSENGER GROWTH RATES
1995 to 2000
Change from Prior Year
Airport

| Fiscal Year | San Francisco (SFO) | Oakland (OAK) | San José (SJC) | U.S. average |
|-------------|------------------------|------------------|-------------------|-----------------|
| 1995 | 4.9% | 20.5% | 16.7% | 3.9% |
| 1996 | 7.5% | 7.1% | 9.3% | 5.1% |
| 1997 | 4.7% | -5.6% | 9.1% | 3.6% |
| 1998 | 1.9% | -2.0% | -0.8% | 2.1% |
| 1999 | -1.6% | 4.0% | 8.4% | 2.2% |
| 2000 | 2.9% | 4.1% | 10.6% | 3.9% |

Source: For SFO: *Report of the Airport Consultant*, February 28, 2002. For OAK and U.S.: *Feasibility Report*, March 15, 2000, and internal Airport sources for FY 2000. For SJC: *Official Statement*, July 26, 2001.

Note: Growth rates are for enplaned passengers.

In early 2001 the growth trend reversed at SFO, as the local economy - driven substantially by the high tech sector based in Silicon Valley and on the San Francisco Peninsula - started to decline. Reduced travel by the region's high-tech workers, both for business and leisure purposes, caused much of this reduced demand.

Impacts of September 11, 2001

In the months following September 11th, only two of the Bay Area's three primary airports experienced lower-than-national-average rates of change, as shown in Table 2:

Table 2
PASSENGER GROWTH RATES
 September 2001 to December 2001
 Change from Prior Year

| Month | Airport | | | |
|----------------|------------------------|------------------|-------------------|-----------------|
| | San Francisco (SFO) | Oakland (OAK) | San José (SJC) | U.S. average |
| September 2001 | -37.9% | -23.3% | -32.2% | -33.7% |
| October 2001 | -32.5% | -5.0% | -23.8% | -23.2% |
| November 2001 | -29.2% | -4.7% | -23.5% | -19.8% |
| December 2001 | -24.5% | -3.3% | -23.2% | -14.2% |

Source: SFO's *Report of the Airport Consultant*, prepared by John F. Brown Company, Inc., February 28, 2002.
 Note: Growth rates reflect total passengers.

Factors That Have Affected Activity Levels

As shown above, OAK has experienced only modest declines in activity levels, the result of several factors:

- Low-fare airline service accounts for a large share of total OAK activity
- Southwest Airlines, OAK's dominant carrier, has a long-term strategy of growth
- Southwest decided to maintain its capacity post-September 11
- OAK has less exposure to downturns in the high-tech sector than do SFO and SJC.

A qualitative assessment of the relative impacts of these factors is presented in Table 3:

Table 3
RELATIVE SENSITIVITY TO SELECT ACTIVITY DRIVERS
 January 2001 – March 2002

| Activity Driver—Passenger Demand | Airport | | |
|----------------------------------|---------------------|---------------|----------------|
| | San Francisco (SFO) | Oakland (OAK) | San José (SJC) |
| Business travel (high-tech) | ↓↓↓ | ↓ | ↓↓↓ |
| Leisure travel | ↓↓ | ↑ | ↓ |
| International travel | ↓↓ | — | — |

| Activity Driver—Airline Supply | Dominant carriers | | | |
|---|-------------------|-----------|-------------------|-----------|
| | United | Southwest | American Airlines | Southwest |
| Percentage of enplaned passengers | 47% | 67% | 36% | 30% |
| Growth of dominant carrier(s) | ↓↓ | ↑↑ | ↓↓ | ↑ |
| Market stimulation by low-fare airlines | — | ↑↑↑ | — | ↑ |

Note: Arrows indicate whether traffic has increased or decreased as a result of recent changes in the activity driver and the number of arrows indicates the level of increase or decrease:

- ↓↓↓ indicates a change in activity driver that has caused a large decrease in traffic
- ↓↓ indicates a change in activity driver that has caused a significant decrease in traffic
- ↓ indicates a change in activity driver that has caused a moderate decrease in traffic
- indicates a change in activity driver that has had no appreciable effect on traffic

Only select drivers have been considered. Population and GNP are not included.

Explaining the Factors' Relative Impacts

- All three airports have experienced reduced demand from business travelers, especially those working in the high-tech industry. On a relative basis, declines in business travel demand have been greater at SJC (↓↓↓) than at OAK (↓).
- Reduced demand for leisure travel has led to traffic decreases at SFO (↓↓) and SJC (↓↓). At OAK leisure travel is recovering quickly (↑) due to low-fare stimulation and new service.
- Reduced demand for international travel following September 11 has had a significant impact on SFO's activity levels (↓↓) - SFO is the Bay Area's primary airport for international flights.
- Service reductions by United at SFO have led to decreases in traffic (↓↓). At SJC - where American had been increasing service prior to September 11 - the airline accounted for most of the post-September 11 flight reductions and enplanement decreases (↓↓). As it did across the country, Southwest maintained its schedule at OAK following September 11 (↑↑), a schedule it actually had increased several months prior.
- Low-fare airline service comprises a greater share of airport activity at OAK than it does at SFO and SJC. Passenger demand has remained strong for Southwest Airlines' low-fare airline service at OAK, where the airline has a 67 percent share of Airport activity. In addition, JetBlue, a New York based low-fare carrier, has stimulated the transcontinental market by introducing nonstop flights to John F. Kennedy International Airport in New York and Washington-Dulles International Airport (↑↑↑).

In the next edition of *DEBT LINE*, we will discuss the impact of these factors on airport capital improvement programs and revenue bond debt issues.

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This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at <http://www.treasurer.ca.gov/cdiac>.

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