Testimony of Bob Montgomery
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Southwest Airlines Co.
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Good morning, Chairman Blunt, Senator Cantwell and members of this Subcommittee. I am Bob Montgomery, and I handle Airport Affairs for Southwest Airlines. I am happy to be here today.

I started working for Southwest in 1977, as a Ramp Agent in Lubbock, Texas, when Southwest was just an intrastate airline. I'm proud to be in my 40^{th} year with Southwest – a company that continues to grow and compete.

Southwest now serves over 120 million Customers annually, employs over 53,000 "Co-Hearts," and operates a fleet of over 700 Boeing 737 airplanes. As a longtime Southwest Employee, I am most proud that Southwest has never had an Employee layoff or furlough during its 46-year history and has provided its Employees with annual profit-sharing for 43 straight years.

Over the past 33 years, I have focused almost exclusively on airports. My task in Airport Affairs is to work with Airport Directors like my fellow panel member, Rhonda Hamm-Niebruegge, to determine how best to meet infrastructure needs in airports all around the Country. In that role, I have overseen billions-upon-billions of dollars in airport capital investments at over 100 airports.

We have been successful in small airports, such as the Country's newest airport, Northwest Florida Beaches Airport in Panama City, Florida. We've been successful in medium, growing airports such as Austin Bergstrom Airport, or Dallas Love Field. We've found a way to meet the needs in airports ravaged by changing airline strategies, such as St. Louis International Airport or Pittsburgh. And, we've found ways to succeed in large, complex airports such as Los Angeles or Las Vegas. We've even found ways to meet the challenge in notorious airports such as New York's LaGuardia.

I can say with confidence that I have NEVER seen an airport with a construction NEED that has not been addressed due to the lack of funding. There may be political reasons for an airport not proceeding with an important project – which I will explain later – or the lack of a proper business case, but the lack of funding is not the reason. Simply put, if there's a capital need, together with the airport, we can and will find a way to fund it.

Now, when I use the word "need," I mean a critical infrastructure improvement related to safety, security, or airport capacity. Airport capacity includes accommodating new airlines or the anticipated growth in flights or passenger traffic. During our 46-year history, it has often been Southwest that has been the new entrant or the fast-growing airline at an airport, and our airport needs have been met one way or another.

"Wants" are insatiable—they can never be fully satisfied. I am sure every government agency wants more money. Airports are no different. I know on the private side, I'd like to have more money!

Normally, however, check and balances are in place to ensure the prudent use of scarce resources. In the landlord-tenant relationship – in which airports are the landlords and airlines are the tenants – sometimes we debate the merits of a "Cadillac solution" over a "Chevy solution" when working to address an infrastructure challenge. Usually, a middle ground is found and the project moves forward.

We have many good tools in the airport development toolbox. The largest tool, and the most important, is the General Airport Revenue Bond. This is our mortgage, if you will. The next most used tool is the PFC, which you are familiar with. Next is airport retained earnings, which come from the car you park, the hot dog you buy, or the magazine you purchase for your flight. Grants are an important tool, as is the Rent Car Facility Charge. Finally, we have the tool of direct airline and third party investment.

Since 2008, at just the large hub airports (generally the top 30 airports in the country), we have built, are in the process of building, or have agreed to build over $100 billion worth of improvements.   Of this amount, about 55% is financed with GARBS, 20% provided for by PFC's, 10% generated locally, and 7% provided by various grants, including AIP. The remaining 8% has been provided by private investment and the CFC.

Before I go any further, let me distinguish between commercial airports and general aviation airports. I am certainly not an expert on the capital funding needs of most general aviation airports. I understand those needs are often addressed through FAA grants under the Airport Improvement Program (AIP).

Southwest has no objection to increasing the annual funding levels for AIP grants, especially considering the Airport and Airways Trust Fund has over a $6 billion surplus. It is important to note that over 90% of those moneys are paid through user fees collected from commercial airline passengers – in particular, the 7.5% excise tax and the $4.10 segment fee. Therefore, we see no reason why AIP funding cannot be increased for both commercial airports and general aviation airports.

We object, however, to raising the Passenger Facility Charge above the current cap of $4.50 per segment. There is simply no good justification to raise our Customer's tax and fee burden.

With apologies to David Letterman, attached to my testimony is a "Top 10" list explaining the reasons why a PFC increase is not needed. I respectfully ask you to review that list.

I would like to flag a few points. First, our Customers are over-taxed. Southwest's average airfare has decreased by 8% over the past two years. However, our Customers' tax burden continues to grow relative to the ticket price.

Second, airline consumers are very sensitive to price. Any increase in the PFC means a fare increase for our Customers. This distinguishes a PFC from a bag-fee, for instance. Thanks to a 2012 regulation by the U.S. DOT, all government-imposed fees – including the PFC – must be included in the advertised price of an airline ticket.

Third, a PFC increase will hurt smaller markets disproportionately. At Southwest, we fly exclusively Boeing 737s. To be successful, at a minimum, we need to fill a 737 with paying Customers a few times a day at any airport we serve. This can be challenging in smaller markets. So, for example, say St. Louis doubles its PFC. Then that's a fare increase in Wichita, Kansas, or in Panama City, Florida, or in Omaha, Nebraska – all cities with nonstop flights to St. Louis. We do not want to raise ticket prices, especially in those smaller markets where large-plane service is harder to sustain.

Moreover, if those Customers aren't going to St. Louis, but are simply connecting due to the greater number of flights and destinations we are able to offer in St. Louis, then the tax increase doubles for those passengers, as they must pay PFC's on up to 4 legs of their travel itinerary.

Finally, commercial airports have many sources of revenues. That includes existing PFC revenues, which have grown as passenger levels have grown over the past several years. Overall, airport revenues have increased each and every year since 2010—and well above the rate of inflation.

Beyond PFCs and AIP grants, revenue sources at airports include: airline-paid landing fees and terminal rents; passenger-paid parking revenues; rental car revenues; advertising revenues; limo-taxi-ride-share revenues; and concessions revenues.

One airport has a new gym, where Customers can pay a fee to exercise. Another airport this week has announced a new in-terminal hotel. All these revenue sources rely on one thing – passengers. That's why we must not raise airfares through a PFC increase, which will discourage air travel and curb the growth of these other revenue streams.

From an airline perspective, and I believe from a common sense perspective, we are faced with a dilemma. One truth pervades our American system of airports, that is, the user pays. That user is the Customer. Whether it is through the fare they purchase, the ancillary services they choose, or the taxes and fees assessed by our governmental entities, the passenger pays it all.

We have two ways to grow our Customer based resources. We can grow the number of Customers using our systems. Or, we can increase the fee burden upon them. It requires a very optimistic person to think we can both grow Customers and saddle them with additional costs. I'm not of that camp, nor is Southwest Airlines. We want to spend our energies focusing on the tide that floats all boats, and that is growing our Customer base. We do not want to increase fees, thereby killing or maiming the "golden goose".

Allow me to address the role of political decisions when it comes to airport investments. In many cases, politics has hindered progress. For instance, local opposition in Kansas City – which desperately needs a new terminal for connecting traffic – has prevented the construction of a new terminal building, which we are willing to pay for. And, several cities have diverted airport revenues for decades, including St. Louis, which every year siphons off millions-of-dollars in airport funds to support non-aviation programs off-airport. Both examples show that the money is there for increased airport spending.

In conclusion, we have a wonderful bag of tools to apply to the airport infrastructure challenge in this country. The most important tool, however, is a willing and strong hand to hold and make use of the tool. In partnership with great airport operators like my friend Rhonda, we will succeed.

Thank you for inviting me to testify today. I am happy to answer any questions you might have.

With apologies to David Letterman….

THE TOP TEN LIST

Southwest

Here are the Top 10 Reasons Why Southwest Airlines Opposes An Increase in the $4.50 Passenger Facility Charge (PFC)

1. **Our Customers are over-taxed.** At Southwest, our average one-way fare is $144.75 (4Q 2016). Roughly 15-25% of the ticket price consists of as many as 11 government-imposed taxes and fees, including the PFC. Average airfares have fallen significantly over the past two years, while our Customers' tax and fee burden has increased.

2. **Any increase in the PFC will increase our fares.** Unlike a bag fee – Bags Fly Free at Southwest – a government-imposed fee (like the PFC) is not optional and must be incorporated into the advertised ticket price per DOT regulations. Any increase in the ticket price has a negative impact on consumer demand, which leads to more travelers choosing their automobiles over our Boeing 737s.

3. **A PFC increase would disproportionately harm smaller communities.** Customers from small markets tend to connect through large airports and are forced to pay the PFC four times (once at the originating airport, again at the connecting airport, and the same on the return home).

4. **Commercial airports have numerous funding sources.** Airport revenues are derived from: a) rent and landing fees paid by airline tenants (often the largest source of revenue), b) existing PFC collections, c) government grants, and d) monies collected from parking, concessions, rental car fees, taxi/limo fees, advertising fees, etc. Cumulative airport revenues have grown every year since 2010 – and well above the rate of inflation.

5. **Commercial Airports have $12.7 BILLION of cash on hand.** Airports' unrestricted cash and investments on hand have grown substantially since 2010 – from $8.5 billion in 2010 to $12.7 billion in 2015.

6. **PFC revenues are the highest ever at over $3 billion annually.** Unlike gas tax revenues, PFC revenues have increased nationwide since 2008 and will continue to grow as passenger levels increase. See chart below.

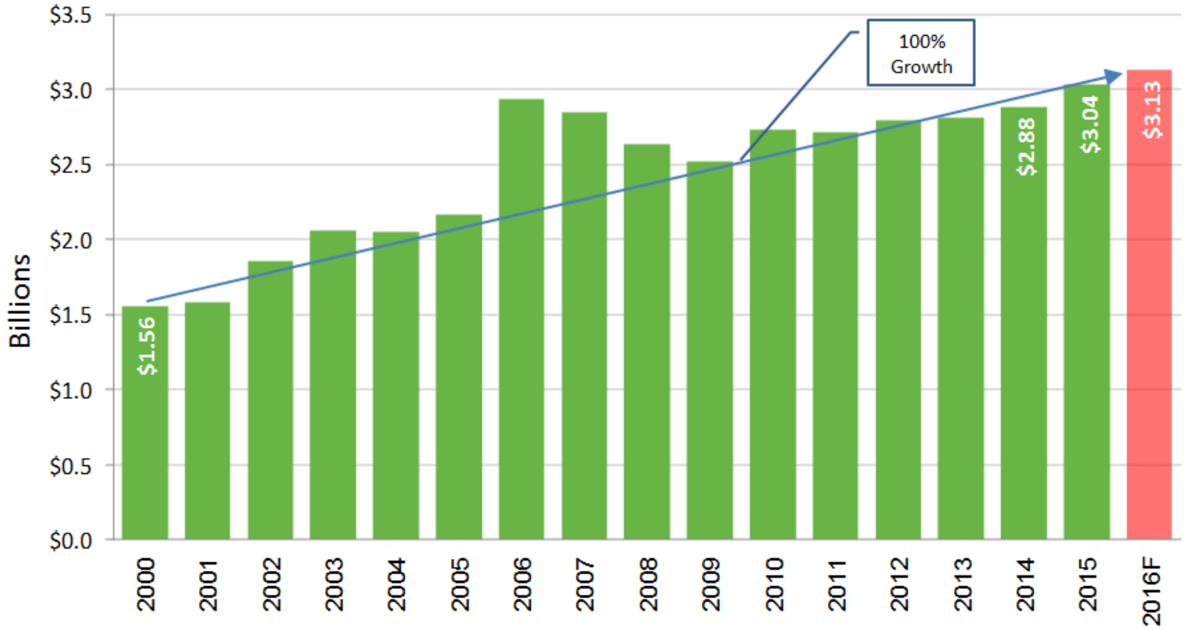
7. **Over 90% of PFC revenues are collected at the 30 largest airports.** PFCs disproportionately benefit the largest commercial airports due to their high passenger traffic. These airports are government-owned, have investment-grade bond ratings, and can leverage their bonding authority at preferred rates to fund necessary capital projects.

8. **Airports and airlines continue to invest in facilities.** Since 2008, over $100 billion in capital projects have been completed, underway, or approved at the 30 largest airports alone. Recently, Southwest has financed large-scale capital programs at Los Angeles (LAX), Dallas (DAL), Fort Lauderdale (FLL), Baltimore-Washington (BWI), and Houston-Hobby (HOU), to name a few.

9. **Airlines and airline passengers have no control (no "seat at the table") over how PFC revenues are spent.** So long as federal eligibility requirements are met, airports can spend PFCs – monies collected from our Customers – any way they want. There needs to be a balance between financial prudency and capital "wish lists." Such checks and balances lead to cost-effective capital planning.

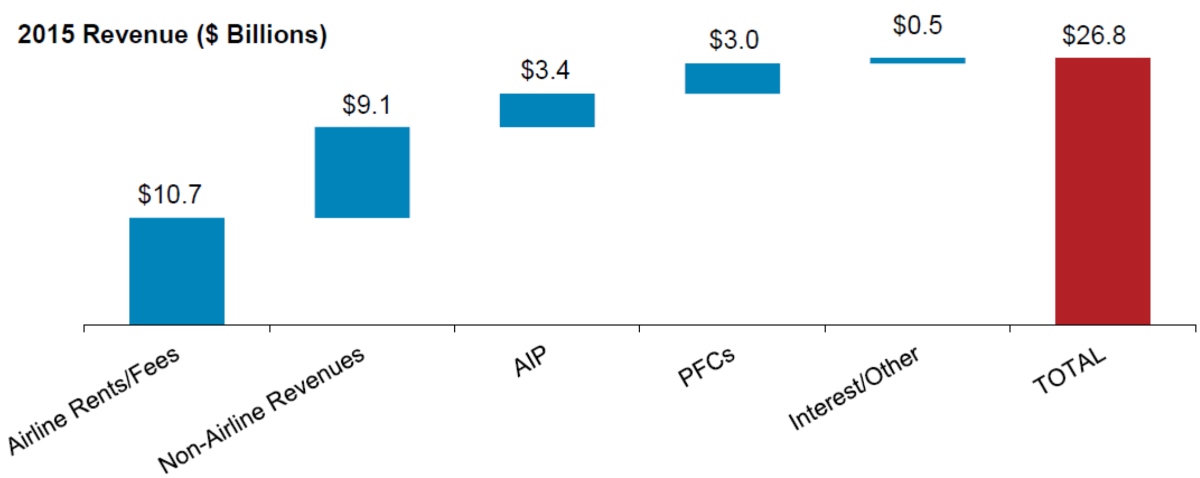
10. **Uncapped and uncheck PFC spending would lead to additional costs.** PFC revenues can only be used for construction projects. Greater PFC funds open the door for new projects beyond actual needs. Once built, the airport's tenants will pay for the operating and maintenance (O&M) costs of these facilities, forever.

PFC revenues are expected to reach a record high in 2016
Total PFC collections have doubled since 2000, by contrast, CPI only grew 39%



Source: Federal Aviation Administration

U.S. Airports Collected Nearly $27.0 Billion in Revenues in 2015 – a Record High



- AIP is allocated based on rules and regulations established by FAA and Congress
- PFCs are allocated to each airport on a basis proportional to passenger traffic

Source: FAA Operating and Financial Summary (Form 127)