Testimony of Paul Cullen
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Good afternoon Chair Sinema, Senator Cruz, and members of the Aviation Subcommittee. My name is Paul Cullen, and I have the privilege of serving as the Vice President of Real Estate at Southwest Airlines. My Team's responsibility includes activities such as long-term planning and development, facility design and construction, and lease and contract negotiations. I'm excited for the opportunity to share how Southwest is partnering with our airports to invest scores of billions into airport and aviation infrastructure, as we collectively work to keep costs low while we recover from the pandemic.

PRE-PANDEMIC

Before the pandemic, from a real estate perspective, the wind was at our back. We had just launched our inaugural service to Hawaii – a major milestone for us. And we had recently moved into brand new facilities in LaGuardia Airport and Louis Armstrong New Orleans International Airport. Furthermore, we were excited about our upcoming moves into new facilities that were being constructed in airports such as Nashville, Salt Lake City, Los Angeles, and Portland, Oregon.

Putting aside those projects that were already under construction, we were also actively engaged with our airport partners on future terminal projects – projects that were still in the planning or conceptual stage. In aggregate, those projects totaled a pipeline of well over $50 Billion – and that's just at airports served by Southwest Airlines. For reference, this pipeline includes projects such as the new terminal at Pittsburgh International, and the terminal replacement in Burbank/Hollywood, California.

THE PANDEMIC

When the pandemic hit, passengers essentially disappeared overnight. Bustling terminals became ghost towns, and the financial gravity of the situation quickly became apparent. It is certainly no exaggeration to say that the past 15 months (and counting) have been the worst financial period in the history of commercial passenger aviation.

To illustrate the devastating impacts of the pandemic, Southwest Airlines' operating revenues in April 2020 decreased by 92 percent year-over-year. While our financial situation steadily improved since then, it is important to note that our last public earnings release reported that our March 2021 operating revenues were still down 54 percent compared with March 2019.

When the pandemic first hit and we realized the severity of the situation, Southwest's focus quickly turned to two overarching concerns: 1) protecting our Employees and our Customers, and 2) preserving and generating cash.

To that point, I want to express our gratitude to leaders on this Committee for the support provided to both airports and airlines during the pandemic to save jobs and support the survival of our industry. Concerning the airlines, we will be forever grateful for the Congress's enactment of the Payroll Support Program (or PSP). Southwest takes considerable pride in never having had a layoff or furlough during our 50 year history. That streak was in serious jeopardy of being broken this year if not for PSP. So, on behalf of my 56,000 fellow Employees, I want to extend my heartfelt appreciation for you being there during our darkest hour.

I am also happy to report that Southwest did not cease service to any of our domestic airports at any point during the pandemic. In fact, not only did we not cease service, we actually welcomed 18 new airports to our route map. We added smaller markets like Bellingham, Washington; Eugene, Oregon; Bozeman, Montana, and Jackson, Mississippi, while also opportunistically adding larger airports like Chicago O'Hare, Houston Bush Intercontinental, and Miami International Airports.

Growing our network during the pandemic may seem counterintuitive, but demand across our pre-pandemic network was significantly depressed. At these depressed levels of travel demand, leisure travelers have outpaced business travelers, and adding these new airports allowed us to keep our Employees working and our idle aircraft productive, while generating new revenue in many leisure-oriented destinations. And, as an added bonus, millions more Americans now have access to our low fares, and our award winning Customer Service and Hospitality.

Today, passengers are starting to return—still primarily leisure passengers—but please don't interpret that to mean everything is back to normal. At Southwest, our revenues remain at significantly depressed levels relative to 2019, and we have yet to breakeven in any month since the pandemic began. Per data supplied by our trade association – Airlines for America – revenues for the U.S. airlines collectively during the month of May 2021 were down 45 percent from May 2019 levels.

AIRPORT CONSTRUCTION TODAY & LOOKING FORWARD

Going back to those new airport facilities that were under construction before the pandemic – those largely continued as planned and we made considerable progress throughout the past 15 months. In the case of LAX, for example, we just celebrated the opening of the new Terminal 1.5 earlier this month. This was a project that Southwest Airlines led, and it was completed on-time, and well below budget.

Looking to next year, we are particularly excited about the growth opportunities provided by the soon to be completed terminal expansions at Denver International, Phoenix Sky Harbor International, and Las Vegas McCarran International Airports. And looking into 2023, we are excited about future growth opportunities in Nashville and Kansas City, where multi-billion dollar terminal investments are scheduled to come online on-time and on-budget. These are all examples of construction projects occurring right now.

Regarding the $50-plus billion pipeline of airport projects that were in the planning or concept phase before the pandemic – progress there understandably paused as airports and airlines waited to see what the post-pandemic world might look like. But that temporary pause is over as project teams have been reengaging, and momentum continues to pick up. That’s not to say that airports and airlines will agree on everything – like many things – we’ll debate “the needs” and “the wants”, but we have a long track record of finding a common ground.

Turning quickly to financing, we believe that the current system for funding airport improvements through multiple streams of dedicated revenue has been highly successful in meeting airports’ critical infrastructure improvement needs – be those related to safety, security, the environment, the customer experience, or capacity for future growth. We strongly believe that increased taxes and fees on passengers does the most harm to price-sensitive Customers and to smaller markets, such as many of the 18 new airports we have added or announced since the pandemic began.

We cannot lose sight of the fact that that the vast majority of all airline consumers today are flying for leisure or personal reasons, and those types of passengers have always been incredibility price-sensitive and thus the reason for historically low airfares since the pandemic began. Until business traffic returns to pre-pandemic levels – which no one can confidently predict when that will occur – we expect average airfares to remain relatively low for the foreseeable future. Thankfully, none of the over $50 billion in the pipeline is dependent or contingent upon an increase in the Passenger Facility Charge (PFC).

I want to again recognize the importance of the financial support that Congress has provided airports and airlines throughout the pandemic, including $8 billion in untapped airport grants stemming from the American Relief Act, which became law in February. That money has yet to be distributed by the FAA and will go a long way to support the aviation ecosystem as we continue to climb out of the hole created by COVID.

In closing, Southwest Airlines appreciates this Committee's commitment to a thriving aviation sector and your recognition of the importance of air travel. We thank you for the support you've provided to both airports and airlines during this pandemic.

Thank you again for inviting me to testify. I'll await your questions.