

Statement of Ted Christie
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Good morning Chairman DeFazio, Ranking Member Graves, and members of the Committee. Thank you for the opportunity to testify today at this important hearing about airport infrastructure needs and financing. My name is Ted Christie. I am President and CEO of Spirit Airlines.

For those of you who may not be familiar with Spirit, we are the largest so-called “Ultra Low-Cost Carrier,” or ULCC, in the US. Today, we serve about 50 US domestic airports – large and small – as well as more than 20 international destinations. We fly 135 mainline aircraft and have one of the youngest fleets in the Americas.

Our total prices including all ancillary products and services are, on average, about 30% less than those of other airlines in the US, based on DOT data. While corporate travelers and more affluent consumers have many good choices among carriers in today’s market, we have designed our product to serve highly price-sensitive consumers, mainly middle-class Americans who pay for their own tickets, and who travel for leisure or to visit friends and relatives, as well as people who work for small and medium-sized businesses.

I’m very proud that, in 2018, Spirit ranked as one of the most on-time airlines in the US, as measured by the DOT, and we now rank high in several other reliability metrics. We’re looking even better this year. We think our low prices and our operational reliability add up to a very strong value proposition for consumers on a budget.

Turning to the broader topic of this hearing, Spirit strongly supports the objective of improving airport infrastructure in the US. All airlines do. Airport investment is critical for improving outdated or inadequate facilities, for adding capacity to accommodate the secular growth in aviation traffic (particularly passenger traffic), and for supporting the powerful catalytic effect that airports and the aviation industry provide to the general economy and the communities we serve.

We all know about the dire situation of underinvestment in much of our Nation’s traditional infrastructure. Yet that general shortfall masks the very vigorous activity in the airport infrastructure sector in recent years. Airport investment and development have been booming, with nearly \$165 Billion in capital investment projects completed, underway or planned since 2008 at the nation’s 30 largest airports. Numerous smaller airports are also making significant

investments. These investments, taken together, include airfield projects, terminal projects, cargo facilities and general aviation facilities. It's really across the board – in fact, it's hard to find an American airport today that has not either recently finished with, or is in process of managing and planning, a major improvement project.

The boom in airport projects is supported by strong demand -- by passengers, cargo carriers and general aviation. Airport revenues are way up, and that growth in user demand has also driven record receipts into the Airport and Airway Trust Fund, which is expected to reach an all-time high balance of \$7.7 Billion by the end of this year. Most U.S. airports are in excellent financial health, holding record cash reserves.

Today, airports and airport authorities enjoy investment-grade bond ratings in an era of historically-low interest rates. Investment capital is cheap, plentiful and looking for well-designed projects in airports. And that's not only about the bond markets. Public-private partnerships and other innovative structures are also successfully developing even some very large airport projects around the country. Finally, the airlines themselves have invested billions in airport improvement projects in recent years. And that's despite the fact that most of us do not have investment-grade bond ratings or as easy access to capital markets as most airports.

Financing large infrastructure investments is always a challenge. Across the country, airlines and their airport partners work collaboratively to solve it every day. Yet in this historically favorable environment, in which airports are increasing revenues and are in a strong position to access capital, an increase in the PFC maximum seems an inefficient tool to deliver enhanced funding to airport infrastructure projects. In fact, increasing PFCs could well be counterproductive.

I'm sure that most airports, including those appearing before the Committee today, may like to see an increase in PFCs. We shouldn't be surprised, as any increasing revenue source for most organizations would be considered desirable. Asking an airport if it would like more money, especially with few strings attached, puts everyone, including airport management, in a difficult spot. In some ways, it is akin to asking a barber if you need a haircut – the answer is predictable.

But increasing PFCs by any amount, let alone doubling the current cap to \$8 or more, is not the right answer to the problem we are all trying to solve. Here are some reasons why:

- PFCs are a consumer tax, and the traveling consumer is already punishingly taxed. Over \$60 of the average round-trip fare of about \$350 is government taxes and fees. That's too much. Take a family of 4 going for a vacation: If the PFC cap is raised to \$8 per segment, that increase puts the total round-trip PFC bite at \$64 – a real number to

consider for many middle-class families. Moreover, travelers from smaller communities usually must connect through big cities on their trips – so that would double the PFC amount, to \$128. And, remember, on top of that there’s all the other taxes and fees included in the cost of a ticket.

- PFCs are a flat assessment, like many government fees affecting travelers, based on a single leg or itinerary. They are therefore regressive and hit ordinary consumers hardest, particularly those who can only afford to travel at a lower price point. I will concede that many business travelers may not change their plans because of an increase in PFCs. They often travel at short notice and pay higher “walk-up” fares, on top of which a \$8 round-trip PFC increase may not seem so noticeable. And, usually their employer is paying anyway. But a customer on Spirit pays only about \$110 each way, on average, including all ancillary charges, so the proposed increase will represent a material increase in the price she pays.
- Our mostly discretionary travelers have a very high demand elasticity in reaction to even modest changes in price. In other words, if travel prices rise, they will travel less, and all those new airport facilities won’t be quite so full anymore. If we want to encourage travel, and the economic benefits it brings to communities, we should be seeking ways to hold the line or even lower the tax burden for ordinary consumers, not increase it.
- A related point that is specific to low-fare airlines like Spirit: Value airlines like us typically use limited airport facilities more intensively and efficiently than larger legacy airlines. We have to, in order to keep prices low, because we focus on the most price-conscious consumers. We run more passengers per day through each airport gate, and we occupy less terminal square footage for a given volume of passengers. (By the way, airports and local communities appreciate that we can deliver more passengers through limited facilities.) Yet each of our customers subsidizes the entire airport facility at the same per-person PFC rate. By comparison, the airport rates and charges that airlines pay directly – for landings, gates and terminal space – do vary according to an airline’s efficiency of use, which in our case are passed on to our customers through lower prices.
- PFCs are a “one size fits all” approach to supporting airport funding that ignores the great differentiation among our nation’s airports and their individual needs. Airports vary widely by size, by their function in the national network, by which kinds of airlines serve them, and by the current status of their improvement programs – whether already completed, in-progress, or on the drawing board. Yet an indiscriminate wave of new funds from a general PFC increase – which, if approved, will certainly be implemented by every airport – will reduce valuable discipline in the financing and planning for improvement projects, based on each airport’s unique circumstances.

- PFCs are used to fund airside improvements and physical facilities, among other permitted purposes. Yet the runways and other physical infrastructure at the airport are used by cargo carriers and general aviation as well. It is not fair for airline passengers to be footing bills for airport assets that are shared with non-passenger operations that do not generate PFCs.
- Finally, airports' expenditures of PFCs are subject to looser controls than most external airport financing that airlines (and, by extension, their customers) agree to cover. Eligible PFC projects include a broad set of construction, security, noise-reduction and other purposes that can escape the rigor of a cost-benefit test that other airport funds and projects must pass.

I'll pause for a second to underline that, despite our differences on the PFC issue, airlines and airports have a constructive and positive relationship with one another across the country. We work together every day to serve our communities, to improve facilities and to invest in the customer experience. Our challenges and priorities are shared, not separate. Spirit serves two of the three airports appearing here today – maybe Spokane someday, too – and I'd say we enjoy an excellent relationship with all our host airports.

Going back to the beginning of these comments, like other airlines Spirit wants to help improve airport infrastructure.

We stand ready to meet and work with you, Mr. Chairman, and Members of the Committee, in finding constructive and creative solutions to this problem.

Thank you again for the opportunity to speak today.