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Allegheny County Airport Authority Involved in Privatization Effort

The recent news that the Allegheny County Airport Authority is supporting privatization came as a bit of a surprise given the longstanding strenuous anti-privatization stance taken by the current and most recent Allegheny County Chief Executive. But there it is—news that the Authority is engaging in a privatization effort but not of any operations at Pittsburgh International (PIT). The twist is that the Authority is part of a consortium that has placed a bid to take over the San Juan Marin International Airport in Puerto Rico. While all the specifics of the request for bids and the bid submitted have not been divulged, the issue certainly raises many questions—and eyebrows.

The Puerto Rican government has been experiencing financial difficulties including a woefully underfunded pension plan (8.5 percent) and debt so high that it cannot engage in further borrowing. The island government has seen its bond rating fall. Moody's dropped it from A3 to Baa1 and Standard and Poor's dropped it to BBB, both just above non-investment grade. The government needs to convert some fixed assets into cash to right its financial ship. In early 2011 the government leased a toll road and is now looking to lease the airport. As a result the government formed the Public Private Partnership Authority to take the San Juan Luis Munoz Marin International Airport private. The airport has a heavy debt load with one news account noting the facility is carrying \$560 million in debt while generating only \$40 million in revenues in fiscal 2011. Revenue is projected to hold at that level in 2012.

Government officials are hoping (requesting) to get a large up-front payment of about \$1 billion, multi-million dollar investments over the life of the contract with around \$40 to \$50 million spent in the first five years to upgrade facilities aimed at making the airport an economic engine for the island.

Twelve groups submitted bids to take over the airport. One group, the Puerto Rico Gateway Group, includes the Airport Authority of Allegheny County along with Airmall USA, GE Capital Aviation, TIAA-CREF, and OPTrust of Toronto. The latter three are expected to provide financing while the first two are expected to provide operational expertise. The field was whittled to six mid-February with the Puerto Rico Gateway Group surviving the cut. Originally, the decision on the winning bid was to have come in December 2011. Now, the hopes are to have it done in early 2012.

The Allegheny Institute has long supported privatization efforts, but the situation involving the Allegheny County Airport Authority raises a lot of questions that County Council should be asking. First, is it legal for the Authority to enter into a lease agreement such as the one being discussed? Presumably, the lawyers have already done their work on this but it would be nice to know before the process moves further along if that has been done. Second, what financial role,

if any, will the Authority play? If they are simply on board to provide management expertise how will they get paid and how much control over revenue and expenditures will the Authority have? Will they be a subordinate partner to the money providers? Will the Authority hire only local people as employees or will the Authority have to send a management team from PIT to oversee operations for a number of years and if so how will PIT's operations be affected?

Third, what is the level of risk the Authority is undertaking, assuming theirs is the winning bid? And will that risk extend to the government of Allegheny County? Specifically, will they be exposed to any credit risk if the deal goes very sour? Is there any exposure to financial risk associated with liabilities stemming from airport activities—such as deaths or injuries due to worker negligence? Will the Authority have any policing powers associated with security—and how does that work?

It seems reasonable to assume that County Executive and Council would want answers to these and possibly many other questions.

As noted above the presumed role of the Authority in this consortium is to provide airport operations management expertise. According to a news report, the Puerto Rican government has placed importance on an operator's "proven ability to create new air routes and increase traffic." But as we wrote in a previous *Policy Brief (Volume 11, Number 8)*, Pittsburgh International has been grossly underutilized and carries its own heavy debt burden. So much so, that the facility has been receiving gaming money from the Commonwealth to help service that debt thereby helping the Authority to reduce fees and charges to airlines using the airport.

In terms of passenger traffic, PIT and San Juan each handled about 8.5 million passengers (enplanements and deplanements) in 2011. But PIT had been losing passengers for the better part of the last decade until finally seeing a small increase beginning in 2009.

It is interesting that the Allegheny Airport Authority was the only US airport to be involved in in the bidding for the San Juan airport. Even more interesting is that local politicians have fought vociferously against privatization and yet presumably have given their blessing to the Authority's participation in the consortium. Has there been a change of heart? If so, what is the rationale? Is the argument that privatization is not bad in principle, but is bad when County employee jobs might be at risk? Just too bad if any Puerto Ricans lose their jobs.

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