ALLEGHENY INSTITUTE FOR PUBLIC POLICY

April 3, 2013 **Policy Brief: Volume 13, Number 17**

US Airways Taking the Area for Another Ride?

USAirways has entered into a merger agreement with American Airlines. If the merger passes regulatory muster—it has already received approval of American's bankruptcy judge—the USAirways brand will disappear from the landscape and possibly most of the remnants of the once powerful airline's presence in the Pittsburgh area—its birthplace.

The last two operations–other than local flight operations—remaining in the area are the airline's flight operations center and a heavy aircraft maintenance center. The former has already been mentioned as a candidate for closing, entailing the elimination of 600 jobs. Meanwhile, the maintenance center employees may want to cross their fingers. Normally in the course of business, firms come and go and jobs are created and destroyed, but what makes this instance so egregious are the enormous sums of money state and local officials have thrown at the airline over the last twenty plus years in an effort to keep the carrier happy and jobs in place. It has turned out to be quite futile.

At its peak the airline employed more than 12,000 people locally with more than 500 flights per day. Since 2001 the airline has gone through two bankruptcies and a merger with America West. These and other events impacting the carrier have lowered local employment that today stands at 1,800 with fewer than 50 daily flights. The job count is likely to be reduced further if the merger is approved.

What makes this particular news disturbing is the $16.25 million financing package of state and local subsidies that included grants, tax credits and a low interest loan that was provided in 2007 as an incentive to build the $25 million operations center and to retain 600 jobs. But USAirways has a habit of disappointing the Pittsburgh airport despite receiving heavy subsidies and getting a new terminal built to handle the expansion projected twenty five years ago. They abandoned the airport first as a principal hub and then as a "focus city". While the latest developments may come as a mild shock, it should not come as a surprise.

In 2006, USAirways pitted Pittsburgh against Phoenix and Charlotte to see which would offer the best deal to host the operations center. We commented at the time (*Policy Brief Volume 7, Number 54*) that "the competition was almost certainly a ruse. Moving the heart of the operations system on the fly is clearly impossible. To move the center during operations would have required creating a parallel system at great cost." Prior to bidding, Phoenix had a smaller center serving America West that was not adequate to accommodate the much larger USAirways traffic. The odds were very much in Pittsburgh's favor with or without a subsidy. The situation with American and Dallas is very different, making the Pittsburgh center odd man out.

Not long after Pittsburgh's "victory" in obtaining the operation center, USAirways announced a large round of flight cuts with 450 local jobs eliminated along and the relocation of 500 pilots and flight attendants. We also noted in the 2007 *Brief*, "…that may not be the last of the reductions." At the time, the CEO was asked if this is the last of the cuts. He responded "you never say never." In defending the cuts he also noted that the nature of the airline industry is "far too hard to predict."

And he has been proven correct in that assessment. The airline industry has changed dramatically since the events of 9/11/2001. Other cities have suffered the loss of hubs as mainline carriers have faltered and discount carriers, with point to point service, have become more prominent. Thus, showering taxpayer subsidies on airlines seems like a losing proposition—their business is too hard to predict. The danger for taxpayers now is the temptation for local officials to throw even more money at the newly merged airline in a vain effort to keep the center open. Phoenix's operations center may not have been much of a competition for Pittsburgh, but the American operations center in Dallas is. Short of including the sun and the moon any such offer will almost certainly be rejected.

The focus now should be on making Pittsburgh's airport as attractive as it can be for carriers (in terms of costs of operations, quality of service, etc.) who will compete for and stimulate origination and destination travelers. One positive arising from the reduced USAirways presence has been the advent of more competition for local air travelers. Gaming tax revenue is being used to service airport debt, incurred for the new terminal that was built to USAirways specifications, allowing the Airport Authority to lower airline fees. Moreover, the agreement to drill for natural gas on airport property should help drive costs down even further, enhancing the attractiveness to other carriers. Lowering airline fees still further could entice carriers to offer even more service.

Will area policy makers learn something from the USAirways experience? Sadly, history is not encouraging on that question.

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