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Is the Passenger Count at the Pittsburgh Airport Taking Off?

Recently Pittsburgh International Airport (PIT) shared news with the media regarding passenger counts and flights. The headline was that for the fifth consecutive month in 2014 (May through September), passenger counts were better than they were for the same month in 2013. It was also announced that two new carriers were launching service at PIT. Is this a sign that, after years of declining passenger traffic, things are improving at PIT?

Perhaps it is a bit premature to suggest that the increased origination and destination (O&D) passengers at PIT over the past five months is the start of turnaround. Keep in mind that in 2013 a total of 7.88 million passengers either emplaned or deplaned at PIT. This was the lowest total in at least a decade. Airport data for 2002 place passenger traffic at over 18 million. The count then declined to under 10 million by 2006. After further drops it settled into a range of 8 million to 8.3 million from 2009 through 2012. 2009 passenger traffic represented the previous low for the last ten years when just over 8 million O&D travelers used PIT.

Thus, an uptick in 2014 compared to the weak numbers 2013 can be misleading. Note that the first quarter of 2014 showed a year over year drop in passengers from 2013. Based on the first three quarters, the projected annual O&D passengers for 2014 should surpass that of 2013, but still could be one of the worst yearly totals since 2002.

As has been well documented in previous *Policy Briefs*, PIT suffered a huge blow with the sharp reduction in flights by USAirways. It happened quickly as the airline declared bankruptcy (twice), moved its headquarters out of the region, and reduced its presence by first abandoning PIT as a hub, and then as a focus city. Even though USAirways is still the largest provider of flights at PIT, it does so at a fraction of the activity of 15 years ago. By merging with American Airlines last year, its name will soon be a memory for air travelers. Nonetheless, it will leave behind a legacy in the form of the airport facility constructed to its specifications more than two decades ago, for which PIT is still making payments.

While we pointed out in earlier *Policy Briefs* the massive debt load carried by PIT as a result of this construction, considerable headway has been made in reducing this long term debt. According to the Allegheny County Airport Authority's most recent

Comprehensive Annual Financial Report (CAFR), at the end of 2012 the total revenue bond debt (associated with terminal construction) stood at $375.4 million before falling to $327.9 million by the close of 2013. Ten years ago in 2004, total outstanding debt facing the Authority was $614.3 million. Thus, in a decade the outstanding debt has been cut by almost half.

But a lot of credit for this progress, at least over the last few years, can be given to two external sources of funds—over and above revenues from operations at PIT. These are the legislatively mandated gaming money and money from a lease allowing drilling in the Marcellus Shale formation beneath PIT. The airport was slated to receive $150 million from state taxes on slot machine revenue over a period of years. The first $42.5 million of the gaming money was intercepted by the County Executive at the time and used for the County's budget. The remainder will be used to pay off the bonds ($39.4 million has been used already, with $68.1 million remaining).

From a gas drilling lease agreement the Authority received an up-front bonus of $46.3 million that will be used over the next five years—except for $3.5 million being held in escrow "until certain property deed mineral rights issues are resolved". Once production commences the Authority will receive monthly royalty payments. While the gas money has not been specifically pledged to bond payments, it has to be used at PIT, per Federal Aviation Administration rules. As such it provides room to shift other funds to debt service.

The additional sources of funding have helped PIT reduce the fees charged to airlines using the facility. Landing rates for signatory airlines (those who have an agreement with the airport) rose to $3.5147 per 1,000 lbs. in 2011 before gradually falling to $2.81 in January 2014—a reduction of 20 percent. A similar situation has occurred with the signatory ramp rates as they have fallen from $282 (per lineal foot) to $218.38—a reduction of 23 percent. But as we pointed out in a previous *Brief* (*Volume 14, Number 9*), these fees are still higher than at comparable airports. Being able to reduce these fees, and they still need to keep falling, will help induce more airlines to offer flights that should lift O&D totals.

Two new airlines did commit to PIT in the last couple of months. The first airline is Sun Air Express which will offer flights via small craft to regional airports at Altoona, Bradford, Lancaster, and Franklin along with Jamestown, NY. They will do so under a federally subsidized program called Essential Air Service. Reports estimate that flights to these cities will increase O&D traffic by 1,000 per week for the duration of the program, which is expected to last two years. Sun's CEO claimed that without the subsidy, reported to be $800 per flight, the flights would not make economic sense. In short, it is not certain if the reduced airline fees played much of a role in their decision to bring these routes to PIT, as it is clearly relying on the Federal program. Once that program ends, the service may terminate as well.

On a separate note, we question whether using Federal funds to subsidize uneconomical flights is a good use of money. When the program ends will the airline have developed enough demand to keep providing the service to these smaller cities when the ticket prices will inevitably rise sharply?

The other airline to begin service is Las Vegas based Allegiant Air. Allegiant Air focuses on leisure travel and will offer flights to three Florida cities, including Jacksonville—a city not currently served from PIT. This commitment is perhaps a better sign that the reduction in fees is paying off.

Of course smaller carriers have come and gone at PIT over the last decade or so, but none have been able to push PIT's passenger counts back to the previous peak levels enjoyed during USAirway's heyday. Once the carrier removed its hub at PIT, passenger levels plummeted. The hub system has been replaced by point-to-point service and it is unlikely a new major hub will be coming to PIT. Instead, PIT will have to rely on local demand and O&D traffic as opposed to connecting passengers.

While O&D passengers will in a large part depend on the local economy, continuing to reduce airline fees at PIT should certainly help make the airport more attractive to airlines and could help boost flight offerings and lower ticket prices—a good way to increase the number of air travelers.

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