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A Lesson that Never Gets Learned

As of August 30th, the USAirways' (now American) flight operations center, subsidized by taxpayers, will close. Around 650 jobs will either move to Fort Worth or disappear altogether—the result of the airline's merger with American Airlines. Such is the nature of business. Firms are constantly being created, closing their doors, and /or moving. Government placing expensive bets on the success or retention of specific businesses is problematic on several levels.

The first and foremost is that taxpayers should not be bankrolling private investment and second is that there are issues of favorable treatment for some companies and third there is the moral hazard issue. Yet politicians seem to be unable to stop doing it. So many examples of recent memory come to mind; Solyndra and other solar energy companies, Kvaerner Shipyards in Philadelphia, and locally Sony, Lazarus, Lord and Taylor's to mention a few prominent ones.

Recall that USAirways in 2007 asked three cities to put together a financial package to bid on getting a new flight operations center. USAirways had just merged with America West Airlines, who had such a center in Phoenix but deemed it too small (150 people) to accommodate the new combined airline's needs. Pittsburgh, which at the time had the USAirways' flight operations center, was asked to compete against Phoenix and Charlotte to host the new center.

Naturally the news reports of Pittsburgh's victory were glowing. The center was to cost $25 million and employ 600 people—with 450 coming from USAirways' current center with 150 new jobs although as reported in the news "the 150 employees in Phoenix will have the option of moving to Pittsburgh once the consolidation is complete." The financial aid package put together by the state and County totaled more than $16 million which consisted of $3 million in grants, $12.5 million in loans and $750,000 in state tax credits tied to the number of jobs created by the project.

We asked at the time (*Policy Brief, Volume 7, Number 54*) "will government officials ever learn that lavishing tax dollars on firms is not an antidote for market trends? It seems a simple lesson, but one that currently escapes them. The Pittsburgh region suffers dreadfully from this affliction…" We noted the inexplicable loyalty to USAirways from elected officials. "Still the most galling case is the region's support for USAirways over the years. Allegheny County built the airport facility, designed to accommodate 50 million passengers per year at a cost of half a billion dollars largely to house the USAirways hub and the anticipated surge in traffic through the airport."

Unfortunately, the highest passenger count since completion of the new airport occurred in 1997 (20.7 million). All Pittsburgh travelers received from this new hub was a strong USAirways' monopoly, and, for years, the highest airfares in the country. For a long time, the Allegheny County Airport Authority was stuck trying to make huge debt service payments until money from new external sources (gaming and Marcellus Shale production) came along.

In 2007, the time of the bidding process, O&D traffic came in at just over 9.8 million but was slipping and recently has settled in at about eight million origination and destination passengers.

We also noted in 2007 regarding the airline's financial difficulties: "Almost continuous financial problems arising out of extraordinarily high costs at the airline finally led to bankruptcy in 2002 and again in 2004. Those bankruptcies eventually resulted in a merger and a dramatic drop in the airline's presence at Pittsburgh International Airport with flights falling precipitously from well over 500 per day to just over a hundred currently. USAirways' employment in the region fell in concert with the decline in flights from 12,000 in 2001 to below 3,000."

Another red flag was raised not long after the announcement Pittsburgh had won the rights and the expense to host the new center. Flights were again cut from 108 daily to 68 beginning in January 2008. These flight reductions came with 450 local jobs being lost and the relocation of 500 pilots and flight attendants. Employment at USAirways in Pittsburgh fell to 1,800. As we commented, "so the more than $16 million in subsidies used to guarantee 450 flight operations jobs, for which ground was also broken in September, will not offset the loss of 450 jobs and the relocation of 500 others." The CEO of USAirways at the time commented that the cuts may continue while the then Allegheny County Chief Executive responded, "the flying public makes that decision. I wouldn't hold my breath until they figure out how to be competitive in Pittsburgh."

And of course he was correct. Upon the announcement of the merger with American Airlines in March 2013, the CEO told the media that the flight operations center would close "a couple years from now." News reports place the final cost of the 72,000 square foot flight operations center at $32 million and employed 650 people. It opened in 2008 and lasted seven years. It is not clear if USAirways repaid the $12.5 million in loans used to build the center, but state and county money ($3.75 million) and the gamble using taxpayer money did not reap the rewards for which elected officials had hoped.

As we concluded in that *Brief* from 2007: "The ongoing USAirways saga should be an object lesson for government officials. Stop using taxpayer money to support private firms in decisions that are not financially viable absent the subsidies. It is far better to keep taxes low and create a favorable labor climate. But of course if those were present, all this doling out of subsidies would not be necessary to persuade companies to invest in the region and state."

And we might add in this case that given the awful experience with USAirways in the first few years of the new century, the decision to reward them again for a chance at some jobs that were likely to be gone in a few years anyway—not to mention the other significant cuts that were already scheduled—was ill advised at the time and the repercussions are now in full view.

Frank Gamrat, Ph.D., Sr. Research Assoc. **Jake Haulk, Ph.D., President**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org