

A Woeful Tale of an Airport Subsidy

Summary: The Allegheny County Airport Authority transferred a lot of money to OneJet Inc. to have them move their “focus” airport to Pittsburgh from Indianapolis. Promises of services to 10 destinations were made in exchange for the \$3 million of loans and investments. It has not worked out well.

OneJet Inc. began its existence by incorporating in Larkspur, California. Its headquarters is in Massachusetts. Its hub (*focus*) of operations—if two destinations can be called a hub—is in Pittsburgh. After beginning serious operations in Indianapolis in 2015 with great fanfare about service to cities throughout the Midwest and Pittsburgh, the airline dumped Indianapolis as its base in 2016 and entered into a heavily subsidized agreement to move its operations base to Pittsburgh. OneJet promised flights to 10 destination cities from Pittsburgh International Airport (PIT) in exchange for a \$3 million “investment”.

In October 2017, the airline received an unknown “investment” in Milwaukee to set up a secondary operations base. As of August 17, 2018, the airline operates to only five destinations—Hartford, Indianapolis, Pittsburgh, Albany and Buffalo. The Albany and Buffalo flights are only between those two New York cities. Two destinations remain for Pittsburgh—Hartford and Indianapolis. And flights from Hartford and Indianapolis are still in effect to each other and Pittsburgh.

Note that, according to USA Today, Milwaukee business leaders made a significant investment in the airline last October. However, currently, Milwaukee is not a second focus airport and is not even a OneJet destination. Nor are Memphis, Nashville, Omaha, Kansas City, Cincinnati, Columbus, Richmond, Palm Beach, Louisville, Providence or Raleigh. All were cities where OneJet started service or promised to start.

Now the Allegheny County Airport Authority, which provided a \$1 million loan as part of the \$3 million used to get the airline to move its focus of operations to PIT with its promise of 10 destinations, has filed suit against the carrier to recoup \$763,000 for failure to make good on its promises.

What is the real problem here? Can failure to do due diligence be at fault? And the glaring conflict of interest of having a non-voting OneJet board member also sit on the board of the authority is extremely problematic if not a gross violation of ethics or the law.

As a non-voting board member of the airline, the authority board member—and by extension the entire authority board—should have had access to the financial situation of the airline, including importantly, current and projected revenue and costs per seat mile flown as well as expenditures for ground operations, flight control, scheduling, booking systems, planning, marketing and general management. Were the authority board and county officials made aware of the key figures? If so, were they deemed credible? Was there a business plan showing prospective revenues and profitability associated with the promise to greatly expand service? If all was in order, why has the airline failed so miserably? How many other creditors and investors other than in Pittsburgh are suffering losses as well? None of this is known because the privately held corporation does not make the information public.

More importantly, now that the authority is suing OneJet, it would seem likely that other creditors will be looking to jump in before any other adverse financial news hits the carrier.

Then too, the authority would have done well to read the large number of predominantly negative passenger reviews that excoriated the airline for cancellations and delays.

All that said, what we have here is another useful object lesson—a lesson that seems never to be learned. Subsidy of airlines beyond providing the place to land and takeoff, the parking for passengers and other infrastructure is a gamble at best and poor economics at worst.

Have so called experts been of any help in the OneJet fiasco? Consider these quotes in a May 30, 2017, Trib article.

“Airline industry experts say that although giving public money to startup airlines can be a gamble, the OneJet deal is the type of creative investment [PIT] needs to make to rebuild after losing its hub status and more than 70 percent of its departing flights.”

One aviation consultant was quoted as saying, “It would appear to me this should work very well. It's not the same thing as getting British Airways into town, but it's part of the mix. A strong, business-focused market like Pittsburgh is somewhere where this makes sense.” Another said, “In a matter of two or three years, I think the money will be going back to the coffers of the government.”

The first consultant mentioned above, when asked about the authority's lawsuit, replied flippantly in an August 14 Post-Gazette news story saying that “God gave us the court system” to settle such disputes. And a couple of days later, he told the paper “It was a risk, an option, and it hasn't worked. That's the name of the game.” Easy to say when it is not your money at risk.

And the story does not end there. At PIT, there has been a rash of subsidization of airlines over the past three or four years to induce them to provide service to various U.S. and overseas destinations. So far, there has been no data released regarding the number of passengers that are using those flights. Some reporting on the passenger counts at WOW Air, Condor and China Eastern would be useful. Qatar Airways cargo and recently British Airways have received or will be receiving subsidies.

Where is all the money coming from? Apparently, a lot comes or will come from the state. Bear in mind that for the last 10 years or so the airport has received well over \$100 million in gaming revenue to retire debt. And now, thanks to some Legislative maneuvering, it will continue to receive \$12 million each year in gaming money. Some of the money for subsidies likely comes from the Department of Community and Economic Development's other development funds.

Which raises the main issue: Are airports primarily economic generators or infrastructure that accommodates and helps facilitate economic activity and growth? If airports are hubs, they are clearly jobs producers and economic generators. Without a hub, the airport is primarily a facilitator of economic activity that involves air travel and transport. Obviously, being able to accommodate the demand for travel by inbound and outbound passengers that is organically produced by the local economy and population travel needs is important. Indeed, that is why municipal governments or authorities underwrite or help underwrite the construction costs of airports and related structures.

However, that means demand for air transportation at a non-hub airport will depend on the area's population, income, employment and businesses and/or amenities that attract out of towners to the area served by the non-hub airport. Real demand for travel will bring in carriers to provide service. For some destinations, travel demand that is insufficient to make the routes profitable for airlines will go unmet, forcing passengers to use flights with one or more stops or find other modes of travel.

Subsidizing airlines so they can lower the fare prices to fill a plane to desired levels or so they can make a flight profitable with lower than desired loads cannot be justified. It could well be taking business from existing carriers who could get the passengers to their destination with one stop. Then, too, it represents, in part, an indirect transfer of tax dollars to the passengers using the subsidized flight.

Why should local or state taxpayers underwrite the flights of people so they can avoid using existing options? Or in the case of overseas travel, why should taxpayers subsidize people who are traveling to other countries and spending lots of money overseas?

Money spent on ill-advised subsidies is money that could be used for other justifiable purposes on behalf of taxpayers. Or the tax dollars could have been left in taxpayer pockets in the first place in the form of lower tax rates.

Unfortunately, as has happened at PIT, subsidies beget subsidies. Give it to one carrier and others are bound to show up with their hands out. As the analyst quoted above said, it is a gamble with risks. Airport officials should not be in the business of making unnecessary gambles with taxpayer money. And at the very least, they need to show real and permanent positive outcomes resulting from the subsidies if and when some happen.

Considering the total amount of taxpayer dollars that have already gone into PIT over the years, further use of tax dollars to subsidize carriers and passengers is outrageous.

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