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Can PIT afford this terminal?

By Colin McNickle

Allegheny County Airport Authority officials like to argue that Greater Pittsburgh can't afford *not* to spend at least $1.1 billion on a major reconfiguration of Pittsburgh International Airport (PIT).

But an analysis by scholars at the Allegheny Institute for Public Policy casts doubt on the basic affordability of the project without an infusion of public dollars above and beyond what officials already have said will be tapped.

"The reality is that in order to fund the (project), the airport will take on a huge amount of debt," remind Elizabeth Miller, a research associate at the Pittsburgh think tank, and Frank Gamrat, its executive director.

"This debt will almost certainly not be affordable with only the funds from non-operating revenues," the researchers stress (in *Policy Brief Vol. 19, No. 26*).

The authority plans to repurpose or demolish the Findlay Township facility's "landside" terminal that now houses ticketing, baggage and security functions. Additionally, it will remove the existing short-hop train that conveys passengers to the "airside" terminal whence planes arrive and depart. A new terminal will be tucked into the space abutting the airside terminal.

Officials insist that no "local" tax dollars will be used for the project. (Its initially announced $1.1 billion price tag was more recently characterized as a "placeholder" figure). Instead, the project will be funded through airline revenue; parking and terminal concessions; revenue from gambling (tax dollars by any other name) and royalties from Marcelles Shale production on airport land.

The Airport Authority says the goals of the new terminal are to stabilize airline costs; become more environmentally sustainable; enhance the experience for all customers and passengers and provide value to the greater regional community.

"Noticeably absent from any of the authority's goals is a commitment to, or assurance of, financial sustainability," Miller and Gamrat say.

"What will the authority, with over a billion dollars spending on new facilities, accomplish in terms of increasing the number of flights and destinations and affordability?" they ask, also questioning how disruptive the construction will be to airport operations.

That financial sustainability question looms large when one considers, as Miller and Gamrat did, the authority's Comprehensive Annual Financial Reports (CAFR) from 2013 through 2018.

To wit, PIT's largest revenue source is "airline rentals and fees." But the CAFR shows that revenue dropped 23 percent from 2013's $58.7 million to 2018's $45.2 million.

While it remains to be seen if the big drop in 2018 was an aberration or the start of a trend toward lower revenue, the fact that there also was little net growth in that revenue from 2013 to 2017 "should be a matter of concern," the think tank researchers say.

Indeed, parking fees rose 30 percent over the same five-year period. Also higher were rental car, terminal concessions and other revenues. Landing fees were down 6 percent (the fee rate fluctuated during the period).

But while PIT's total operating revenue rose 2.6 percent in the 2013-18 period, the airport's growth fell well short of keeping up with inflation, measured at 7.8 percent for the period by the Consumer Price Index.

And counting on non-operating revenue, such as that from gambling proceeds and Marcellus Shale, to help pay for this billion-dollar-plus project could be an iffy proposition.

Not only could the $12.4 million the authority receives annually "in perpetuity" via amended Gaming Act legislation be undone legislatively, there are no guarantees that gambling will continue to produce adequate revenue to help meet the terminal project's bond obligation.

Neither are those airport property gas wells perpetual royalty-producing mechanisms; revenue will decrease as the wells run dry over time. Already in 2019, the number of active wells and production is down from 2018.

And lest we forget, the Airport Authority must continue to cover operating expenses in addition to the capital expense of the new terminal project over the bond retirement period. Consider that

employee compensation grew by 43.4 percent in the 2013-18 period while "professional services" costs rose by 47.3 percent.

"If the rapid growth in the two largest expense categories, and the slow growth in total operating revenue, continues, the positive gap between operating revenue and operating expenses will shrink considerably over the next decade or so, further increasing the difficulty of making bond payments," Miller and Gamrat say.

"It will likely take a large portion of operating revenues as well and the surplus over operating expenses has been shrinking," the Allegheny Institute scholars warn. "Any effort to raise revenue through higher fees will be counterproductive to passenger counts and attracting new flights. "Will the state be on the hook again to provide funding help as it was before?"

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