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Troubles at Pittsburgh International Airport

Summary: Pittsburgh International Airport (PIT) had a very bad year in 2020 in terms of passenger traffic and aircraft operations—takeoffs and landings. PIT is owned and operated by the Allegheny County Airport Authority (ACAA).

Passenger count and other airport activity in 2020

Since the Covid-19 pandemic started to spread widely in early March, the 10 months from March through December saw the total passenger count fall 73 percent with domestic down 72.3 percent and international down 94.5 percent compared to the same period in 2019. For the year as a whole, including January and February, domestic passengers were down 62.1 percent and international passengers were down 83.8 percent from the 2019 totals. All airport activity and financial data are taken from ACAA website.

April was the hardest hit month for travel as massive restrictions were placed on the economy to slow the spread of the virus. Only 32,413 domestic passengers enplaned and deplaned, a 96 percent collapse from April 2019. Traffic picked up slightly through October reaching 306,491 but remained 65 percent behind 2019. The count then fell, reaching only 240,211 in December, 70 percent below the year-earlier figure. International travel was essentially nonexistent from mid-March through December.

The decline in passengers using the airport was accompanied by a big drop in *aircraft operations* during the 10 months. The biggest drops from the same month in 2019 occurred in April and May with declines of 62.9 and 64.4 percent. In December, aircraft operations remained 43.5 percent behind the year-ago number and for 2020 overall operations were down 38 percent from 2019's total.

Unfortunately, the ongoing rapid spread of Covid-19 poses an ongoing obstacle to the return of pre-pandemic passenger levels and aircraft operations. Indeed, the changes in the way business is conducted with more internet usage and work from home point to a very slow return to the earlier patterns of air travel. It could take several years. And 2021 will very probably see only modest improvement from the second half of 2020 passenger counts.

While passenger counts were falling dramatically, the level of cargo handling at the airport held up well in 2020. For the year cargo was down only 4.8 percent from 2019 and posted a small gain in December. In April, May and June, when passenger counts were off over 85 percent from the same period in 2019, cargo was down only 75 percent. August was the worst month with a drop of 14.5 percent before rebounding through the rest of the year. Cargo obviously was not subject to the same restrictions—mandated or self-imposed passenger travel.

Mail handled at the airport rose significantly in 2020 climbing 9.9 percent over the 2019 level. Double-digit percent gains were posted in several months hard hit by Covid. December saw a jump of 62 percent compared to December 2019. As yet, there is no explanation for the big rise in mail activity. Although an increase in cyber-shopping could be a possible explanation.

Estimating revenue impact of activity slowdown

The declines in air travel passengers and aircraft operations are certain to have a significant direct and substantial impact on airport revenues. The following figures show the 2019 actual *operating revenue* by major category (taken from the 2019 Comprehensive Annual Financial Report (CAFR)) and, in parentheses, the amount the Airport Authority had budgeted for 2020. All figures are rounded to the nearest thousand. These figures will be used below to estimate impacts on 2020 revenue.

For 2019 landing and terminal fees, $59,555,000 (2020 budget $56,578,000); other aeronautical, $8,908,000 ($8,716,000); parking, $41,631,000 ($44,087,000); rental car, $12,510,000 ($14,250,000); terminal concessions, $10,707,000 ($10,927,000); hotel and utility sales, $8,939,000 ($7,900,000) and Allegheny County Airport, $2,812,000 ($2,865,000).

In addition, PIT imposes a passenger facility charge and a customer facility charge. The passenger facility charge is a ticket surcharge allowed by the FAA that is used to pay for projects involving safety, security, capacity and noise reduction. The charge is set at $4.50 per ticket. The customer facility charge is a state-approved add-on fee for rental car transactions at the airport. In 2020 the charge was $6 per day for up to seven days. It was $5.50 in 2019.

Auditors assign the revenue from these fees to the category of non-operating revenue. In 2019, facility charges amounted to $28,516,000, reflecting the passengers using PIT. By way of comparison, in 2014, these charges produced $20,544,000. Thus, this revenue rose 39 percent during the five years. It was not due to such a large increase in passengers and likely reflects higher rates charged. Two other providers of substantial revenue in 2019 were state gaming at $12,400,000 and royalties from natural gas production on airport property at $10,122,000.

As of this writing, there are no monthly data publicly available for any revenue categories for 2020 and the CAFR for 2020 is unlikely to be available before April.

While the actual extent of revenue declines from 2019 or shortfalls relative to budgeted amounts for 2020 will not be known for a few months, it is reasonable to estimate what happened to them based on passenger and operations declines.

One way to approximate passenger-related revenue declines would simply apply the percentage drop in passengers to the revenue expected in the 2020 budget. Of course, to the degree that lease agreements with vendors have fixed or minimum payments the estimates of revenue shortfalls from expected will be too large and merely point to huge losses for the vendors whose incomes are based on activity at the airport.

Parking, rental car, hotel, passenger facility and concessions revenue would be most affected by the passenger count drop. Landing and terminal fees would be impacted by the reduction in aircraft operations. Total passenger count was down 62.7 percent for the year and aircraft operations were down 38 percent.

For example, applying the passenger drop to parking revenue of $44.1 million implies a loss of $27.6 million; for rental car fees, $8.9 million; for terminal concessions, $6.9 million; for hotel and other, $4.9 million. Note that the percentage decline in passengers was from the 2019 level. Assuming the budget forecast assumed some growth in passengers, the calculations of revenue loss are just slightly lower than they would have been using a higher expected count.

For aeronautical related revenues, the losses would likely track with the 38 percent reduction in flight operations and lead to a decline from expected amounting to $21.5 million. All told, the operating revenue loss could be close to $70 million. How much was defrayed by contractual agreements will not be known until the audited financial data are made available.

In non-operating revenue, the passenger and customer facility charges would fall $17.9 million short of expected. Presumably, the gaming tax money was paid in full at $12.4 million. How the gas royalty payments fared in 2020 are not known to the public. But a repeat of 2019's $10.1 million should be a reasonable approximation. If President Biden proceeds with the fracking ban as many in his party want, the royalty payments will diminish as new wells are prohibited and old wells produce less gas.

Finally, note that the federal government provided $36 million to the Airport Authority in the CARES stimulus program funds. According to Elaine Chao, the then-secretary of Transportation, the money would be used to maintain salary and benefits (WTAE-TV, June 2020). Evidently it was used for employee pay since there were no announced layoffs at PIT.

What private company could see a prolonged 63 percent decline in its business and not be forced to make staffing level cuts?

Airport expenses

There are no publicly available data for spending at the airport for 2020. It is reasonable to assume that operating expenses were close to the revised budget amount of $104.6 million included in the recently published 2021 budget (available on the authority's website). The original 2020 budget called for $108.36 million. (*There is a question about the 2020 budget expense projection. There are two figures for total operating expenses in the 2020 budget document—$108.36 million on page 2 and $114.4 million on page 5).*

It is very interesting that the 2021 budget shows only projected expenditures. There are no budget projections for operating or non-operating revenue. It is an odd budget indeed that has no estimates of revenue. The Airport Authority plans an increase in operating expenses from a revised 2020 budget figure of $104.59 million to $109.95 million in 2021.

By category, wages and benefits will rise $1.3 million from $42.3 million, suggesting no major staffing level changes are anticipated and, certainly, no layoffs. Professional services outlays are budgeted to jump from $22.6 million to $27.5 million. That's a hefty 22 percent rise. But no explanation is provided for the big jump.

The budget goes into great detail regarding capital projects which are projected to rise $2.6 million to $49.9 million. The budget also details the sources of funding to cover the capital projects.

It would appear that the Airport Authority knows it will need a lot more federal funding help in 2021. To the extent that vendors have been very hard hit by the plunge in passengers and need a lot of financial help to stay in business, ACAA could be looking at a very weak flow of revenue compared to spending for many months. However, the board did find money for a big raise and bonus for the authority's CEO.

Overly optimistic ventures of bringing in more carriers through subsidy enticements failed to generate sustained passenger traffic as hoped or predicted. In fact, passenger counts have not risen as fast as nationally over the last few years and PIT remains stuck as the 47th busiest airport as of 2019 (*Bureau of Transportation Statistics, Airport Rankings*) while other comparably sized airports have moved up in the rankings.

The reality is that the region PIT serves has not been growing in step with the nation or other regions in terms of population and jobs. Absent a major hub carrier, passenger traffic at PIT is driven by the size and vibrancy of the local economy. Subsidizing people to travel out of the region makes no sense. Subsidizing business travel is inefficient and wasteful if the region has a business climate and political views that are inimical to business startups, operations and growth. In a successful business climate, subsidies should not be needed.

The board of the Allegheny County Airport Authority must take a hard look at the realities that exist and take steps to prepare for unpleasant contingencies that are in store if the pandemic's lasting effects produce a major long-term loss in air travel. And it certainly needs to rethink subsidies altogether.

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