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### **PIT operating expense high compared to airports in similar-sized metro areas**

**Introduction:** This *Policy Brief* provides a short summary comparison of 2023 airport activity at Pittsburgh International Airport (PIT) with pre-Covid years looking at total passengers, international passengers and airport operations. The principal focus of the *Brief* is per enplanement comparisons of PIT's operating cost, operating revenue and employee compensation with six airports in mid-sized metro areas across the country.

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#### *2023 performance at PIT*

While the thrust of this PIT passenger study is on annual totals for 2023 compared to pre-Covid years, it is important to note that the December total passenger count compared to December 2019 was down 9.1 percent while, over the same period, international passengers fell 11.8 percent short and airport operations posted a 14 percent drop.

On an annual basis, 2023 total passengers were down 6 percent from 2019 and 4.8 percent lower than 2018. International passengers fell 25.3 percent from 2019 to 2023, and 37.5 percent from 2018. Operations dropped 13.5 percent in 2023 from 2019 and 15.3 percent from 2018. In sum, the recovery in activity at PIT is well short of complete, especially in international passengers and airport operations.

#### *Airport operating expense, revenue and compensation comparisons*

In the table below all entries are per enplanement, a statistic used by several airports as a measure of efficiency and cost-effectiveness. Except for Nashville (BNA), financial data are from airport audited financial statements for fiscal year (FY) 2022 if the fiscal year ended in December or by March of the following year. Nashville data are from FY 2022 ending in June 2022. Operating expense in the table is less depreciation. Enplanements used in calculations are from the U.S. Bureau of Transportation and/or audited financial statements if provided therein.

<i>Airport/metro area</i>	<i>Operating expense /enplanement</i>	<i>Operating revenue/enplanement</i>	<i>Compensation/enplanement</i>
Nashville	\$12.21	\$22.81	\$4.11
Raleigh-Durham	\$15.13	\$31.54	\$7.74
Kansas City	\$17.83	\$28.38	\$7.69
Fort Myers	\$17.86	\$24.26	\$5.64
Portland (OR)	\$20.90	\$40.70	\$8.07
Cincinnati	\$30.67	\$33.53	\$14.12
Pittsburgh	\$39.40	\$36.32	\$18.10

The information in the table above shows a very wide range of values for the three comparative statistics examined. Clearly, Nashville stands out as the lowest cost on an enplanement basis. That is partially due to the fact that it has by far the most enplanements owing to considerable hubbing activity.

Another measure is the actual levels of expenses. Portland (PDX) had the largest operating expense less depreciation at \$157 million followed by PIT at \$153.2 million.

In order from smallest to largest operating expense less depreciation for the remaining five airports was as follows: Fort Myers (RSW) at \$90.5 million; Kansas City (MCI) at \$92.6 million; Raleigh Durham (RDU) at \$94.6 million; Nashville (BNA) at \$113 million and Cincinnati (CVG) at \$116 million.

Based on U.S. Bureau of Transportation data, the airports in order of national rank by enplanement count from largest to smallest airport for calendar year 2022 is as follows: Nashville ranked 29<sup>th</sup>, 9.8 million; Portland (33<sup>rd</sup>, 7.2 million); Raleigh Durham (38<sup>th</sup>, 5.8 million); Fort Myers (42<sup>nd</sup>, 5.1 million); Kansas City (44<sup>th</sup>, 4.8 million); Pittsburgh (49<sup>th</sup>, 3.9 million) and Cincinnati (50<sup>th</sup>, 3.7 million).

Nashville's airport has by far the lowest operating expense and compensation per enplanement in the group of seven. PIT by contrast has the highest level for both measures. Indeed, PIT's operating cost is almost double the average of the seven and is far above the four lowest-cost airports. Likewise, PIT has employee compensation expense that is double the average for the group and far more than double the four airports with \$8 or lower compensation per enplanement.

Obviously, operating costs involve many factors besides employee compensation. Indeed, several airports contract out several functions and keep employee count and payroll down in that manner. Nonetheless, PIT, in total costs, is still far above the lower-cost airports.

To be sure, on an enplanement basis, airports with significant hubbing should have per enplanement values lower than non-hubbing airports. Nonetheless, even without Nashville and Portland in the sample group, PIT has much higher operating expenses and compensation costs. Only Cincinnati comes close to the high values posted by PIT.

It is obvious that PIT has never fully adjusted its operations cost structure to account for the loss of the US Airways hub two decades ago. Thus, even though Nashville is

handling nearly three times more enplanements, its total operating expenses less depreciation of \$113 million is \$40 million per year less than Pittsburgh's \$153.2 million. Then, too, Nashville's employee compensation cost at \$37.7 million was \$32 million less than PIT's \$70 million.

### *Conclusion*

To say the least, PIT has a lot of work to do if it wants to have a competitive cost structure with other busier and rising-passenger-count airports. It should not continue to rely on government subsidies to prop up its high-cost business model.

In short, these comparative airports' operation expenses point to serious cost-containment problems at PIT. The passenger data cited above also point to a slow growth market for air travel. Even with generous subsidies to carriers, the international passenger count remains far below the level posted five years ago.

The go-to policy of offering subsidies to carriers is a sure sign that local demand is simply not large enough to sustain certain flights absent subsidization. As has been noted in earlier *Policy Briefs*, the Airport Authority has not revealed how many foreign passengers are arriving at PIT on subsidized flights as opposed to being returning Pittsburgh area residents. The subsidy to British Airways was accompanied by a claim of enormous regional economic benefits from foreign visitors arriving on the flights from London.

Where are PIT's data on those arrivals?

If subsidies are not creating significant numbers of foreign or out-of-region passengers to come to Pittsburgh, the economic benefit of the subsidies is negligible, or actually negative. Since the Airport Authority is subsidizing area residents to go to Europe or other parts of the U.S. and spend money there, it creates a net outflow of income from the Pittsburgh area. Instead, airlines have the basic responsibility of setting rates and flight schedules to meet demand or to try to grow it—not the airport.

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