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Pittsburgh International Airport's financial quandary

By Colin McNickle

A researcher at a Pittsburgh think tank is questioning the Allegheny County Airport Authority's oft-repeated claim that the now up and running new $1.7 billion midfield terminal at Pittsburgh International Airport (PIT) will save the authority tens of millions of dollars a year.

"(T)he question arises about the impact of interest and debt-reduction expense in the years ahead as the borrowing for the costly new terminal is paid down," says Jake Haulk, president-emeritus at the Allegheny Institute for Public Policy.

"The Airport Authority has reported potential annual cost savings of $23 million in the new terminal compared to the cost of operations at the old terminal," the Ph.D. economist reminds (in *Policy Brief Vol. 26, No. 28*).

That's due, Airport Authority officials say, to the decommissioning of the no longer needed underground train that transported passengers from the old landside terminal to the airside terminal and a more efficient, shorter, baggage-delivery system.

"However, there is the enormous amount of debt incurred in building the new terminal that must be serviced and paid off," Haulk reminds. The Airport Authority has incurred debt of $1.7 billion dollars to build the new terminal, up from the $1.1 billion originally estimated.

"How much will it cost per year to pay off the borrowing?" he asks. "If we assume the borrowing has a 30-year payoff and the interest rate is a fairly low 5.1 percent per annum, the annual payment and monthly payment can be calculated."

Haulk, using the standard amortization procedure for the $1.7 billion debt at a 5.1 percent interest rate over 30 years, says the annual payment calculation is $110 million. That jibes with the Airport Authority's Annual Comprehensive Financial Report estimate of annual payments of $109.9 million. "If only interest is paid and the debt remains at $1.7 billion after 30 years, the annual payment would be $87 million," he says.

"Either way PIT is looking at a massive annual payment that swamps the claim of a $23 million yearly savings from moving from the old terminal," the think tank scholar notes. "Unless the airport can find a source to help fund the huge borrowing, the airport's non-operating costs are going to rise substantially."

Haulk says the question facing PIT, which already has so much trouble growing its passenger count, is how it will raise the money to cover the massive debt service. "Boosting per-passenger gate costs for airlines is likely to be counterproductive," he reminds.

And as the Allegheny Institute has pointed out over recent years, the local economy and its lack of significant job or population growth does not bode well for substantial increased air travel. Occasionally, deep discounts by some carriers can temporarily boost traffic.

"But that is often accompanied by airport subsidies. And typically, once the subsidy runs out, so does the airline," Haulk says, reiterating that long-term sustained gains in air travel depend on job, income and population increases.

And as noted in an earlier *Policy Brief*, "and it is important to repeat," the Pittsburgh region's population and private-sector job gains have been very weak for quite some time and have failed to recover to pre-COVID levels, he stresses.

Pittsburgh International "has made its efforts to boost passenger growth even more difficult with the added cost structure it faces over the next 20 or 30 years," Haulk says.

"Gate and other carrier costs imposed by the airport to cover the annual bond expense will cause fares to rise and passenger demand to fall or fail to grow," he predicts.

"Some low-margin airlines might be forced to leave the airport altogether. And the likelihood of a major hub airline locating at PIT seems very remote," Haulk concludes.

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