POLICY BRIEF

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Privatizing Airport Parking: Will it Fly?

Elected officials' talk of turning publicly-owned assets over to the private sector under long-term lease agreements to generate large up-front payments seems to be in vogue in Pennsylvania. The state proposed such an arrangement for the Pennsylvania Turnpike; earlier this year, the City of Pittsburgh proposed leasing parking garages and lots to generate funds for debt and pensions; and now the Allegheny County Chief Executive has floated the idea of turning parking at Pittsburgh International Airport over to the private sector to pay off the facility's $475 million debt.

The airport parking proposal is a good idea that needs to be explored. Its 13,000 spaces generate $22 million annually, money that goes to meet the Allegheny County Airport Authority's (ACAA) expenses and help hold down fees charged to the airlines. The proposal would trade off that revenue stream in exchange for an up-front payment that would pay some or all of the outstanding debt. Local experts have suggested that the ACAA might get 15 to 20 times the annual revenue. If that estimate is accurate the lease could fetch $300 million to $440 million.

According to officials at the ACAA the proposal has not yet come up for discussion by their board in a formal meeting. Under a 1999 Transfer Agreement the County leased the airport to ACAA for 25 years (with two additional 25-year extensions at the ACAA's discretion) and with that transfer came "all land, buildings, fixtures, improvements, structures…" according to the County Controller's Financial Report. Thus, since the current lease has 15 years left, in order to enter into a long-term agreement ACAA would have to guarantee that it will exercise its option to extend its lease with the County.

Above all it means the ACAA will have to take the ball and run with it should the proposal get serious. They would have to solicit bids, requests for proposal, and award any eventual contract.

From the perspective of the Federal Aviation Administration (FAA), privatization of parking would be permissible under its Privatization Pilot Program; they likely would look more favorably upon the proposal if the parking structures were leased and the proceeds restricted to airport use. An outright sale of land (on which the parking sits) or structures coupled with a diversion of funds from airport uses would likely run afoul of FAA stipulations, much as the proposed tolling of Interstate 80 violates provisions of the pilot program for tolling interstates.

There is very little U.S. experience in wholesale airport privatization under the FAA Pilot program: only Stewart Airport in New York was fully privatized according to the 2008 Reason Foundation Privatization Report. Proposals for Chicago's Midway Airport and New Orleans' Armstrong International were never implemented. But there is plenty of experience wherein the private sector runs airport parking. A long-term lease with a private vendor would spell out rates, maintenance, and security details.

Substantial impacts will be felt should the airport parking deal materialize. Much will hinge on how much money the deal brings in. If it produces $500 million—sufficient to pay off the entire debt—then there has to be a decision of what to do with the $110 million in gaming money set aside by the Legislature for the airport debt. Recall that the County intercepted the first $40 million of that disbursement and now the remainder is supposed to flow to the ACAA to service bond debt. Erasing the debt means there will have to be a discussion on what becomes of the gaming money. Would the Legislature reallocate the money to other uses?

If the deal brought in less than the hoped for amount, then a different consideration has to be made. The Chicago Midway deal mentioned earlier was a privatization of the entire airport—a $2.5 billion deal that would have netted the City of Chicago $900 million up front. Allegheny County's proposal is just for the parking garages, so there may be some over-estimation of what the County could net. Certainly $200 million or so would be a significant infusion of cash and, coupled with the gaming dollars, would go a long way in reducing the long term debt of the airport. But forfeiting the $22 million annual stream of revenue would make that a difficult decision.

Where the idea goes from here is uncertain. The County's previous proposal to have the private sector involved in the park system, an idea that was studied nearly two years ago, has yet to produce a management agreement for any of the parks' assets. And the economy has been blamed for the Midway deal falling apart. Still, the Chief Executive is to be congratulated for this proposal. It is heartening to see leaders looking to the private sector to help solve government's financial problems.

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