IDENTIFYING AND DEALING WITH PITTSBURGH INTERNATIONAL AIRPORT PROBLEMS

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Pittsburgh International Airport continues to win accolades from international travelers. Publications such as the London Official Airline Guide and Conde Nast's Travel magazine count PIT as one of the world's five best airports. PIT is quite obviously a great place to spend an hour or two between flights. Unfortunately for the citizens of this region, it is also one of the nation's three most expensive airports from which to originate domestic travel. Put bluntly, tax dollars were invested to build a world class airport that meets the need of foreigners at the expense of local residents. To those for whom price is no object, from those who planned, designed and built it to the wealthy international travelers who applaud it, PIT is a marvelous facility. The rest of us, increasingly, prefer Cleveland's more pedestrian but far less expensive airport.

Key Findings

In a report issued in November, 1999 Paul Stifflemire and Jake Haulk summarized the deficits of the present operations at Pittsburgh International Airport.[i] It is now necessary to offer recommendations for solving the problems that are so apparent.

The most immediate and obvious impact on the traveling public served by PIT is the cost of that travel. Due primarily to the monopoly enjoyed by USAirways at PIT, the cost of travel originating at the airport is at least 30 percent higher than at other similar airports nationally.[ii] This additional cost is born nearly entirely by the citizens of this region who originate their travel at PIT. Those passengers merely traveling "through" PIT having originated their travel elsewhere to a different final destination enjoy the benefits of the airport without enduring the high cost.

- A key positive change, then, at PIT would be the elimination or at least a mitigation of the USAirways near-monopoly by increasing the level of competition there. Such a change would not only positively impact prices for passengers, but would likely increase the diversity of services and naturally improve the quality of service as well. Mitigating the dominant status of USAirways will require an effort on the part of the airport's management to engage USAirways while simultaneously developing the interest of the other airlines currently serving PIT to increase their level of activity and attract the interest of additional carriers to make de novo entry to the PIT market.

- Another factor impacting the cost of air travel at PIT is, of course, the efficiency of operations at the airport as they impact the cost of doing business there to air travel retailers. Better management leading to lower costs for airport tenants, principally airlines, would result in lower costs to travelers given a truly competitive environment. Concurrent then with the establishment of increased competition should be efforts to generate improved operating efficiencies at PIT.

- As to economic development, it is clear that PIT has been a great disappointment. In real time neither job creation nor economic development is occurring anywhere near the level projected during airport planning. This could change, however, were the real estate surrounding PIT transferred to private ownership. More than 12,000 acres of land are presently off the tax rolls as the result of public ownership of the property that includes and surrounds PIT.[iii] What's more, development of this land and its return to productive use is simply not probable so long as Allegheny County owns it, and is virtually impossible so long as the land is part of the "airport complex." Federal law prohibits the use of airport property for any purpose other than airport related purposes. The key then to making productive use of the land is first separating it from the airport and secondly transferring it to private ownership.

Introduction

In a November, 1999 report entitled "A Study of Airfares and Economic Growth at Pittsburgh International Airport," Paul Stifflemire and Jake Haulk detailed a number of troubling issues surrounding PIT. The key finding of the report was that travel costs to passengers originating flights at PIT were on average 30 percent higher than those charged at nine comparable airports elsewhere in the US. Secondly, Stifflemire and Haulk reported that USAirways enjoys a virtual monopoly at PIT, controlling nearly 90 percent of passenger traffic and flights. Finally, the report demonstrated that PIT has not achieved either the level of passenger traffic or the positive economic impact on the region that were promised by airport planners to justify the "investment" of hundreds of millions of the public's dollars to make the nearly $1 billion project possible.

This static analysis does a fair job of identifying the existing flaws of PIT as one of this region's "assets." However, as was asked by a member of the news media at a press conference held at Pittsburgh International Airport, "What should be done about it?" A plan of action is now needed to begin to remedy the problems.

In both the short and long run, Pittsburgh International Airport can and will play a vital role in the social and economic development of this region. PIT is a critical piece of this region's infrastructure. Traditionally, infrastructure--roads, bridges, waterways, utilities including water, sewer and energy, and of course airports--has been deemed to lie within the purview of the public sector--of government. This report will analyze key considerations and present recommendations that are most likely to ensure that PIT can function as efficiently and effectively as possible. These considerations will include the means by which PIT can meet the interests of the citizens of this region and provide quality air transportation services at the lowest possible cost.

This report is not a "plan," but instead represents a position paper outlining approaches to solving the problems identified in the November Report:

- How can the current monopoly situation at PIT be cured with the aim of both improving customer service and reducing the cost to the public of air travel from and to Pittsburgh International airport?

- What, immediately, is the best method of economic development of both the airport and the so-called airport "region?" What approach should be taken to leverage the airport "asset" and stimulate economic development, generate jobs and wealth without, as is currently the situation, having taxpayers finance or subsidize the development and incur the risk?

The only "cure" for any monopoly is competition. Unfortunately, monopolies invariably arise under conditions that frustrate and, in many cases, preclude competition altogether. Such is the case at PIT.

Historical Factors

The new airport facility was built largely because of the fact of USAirways historical utilization of Pittsburgh as its principal "hub." Allegheny Airlines and its successor USAir had developed a strategy in which the old Greater Pittsburgh International Airport functioned as the hub of a hub and spoke system that served first a regional Eastern US market, then national and international markets as deregulation afforded that opportunity. Other airlines served Pittsburgh on what can best be termed as an "incidental" basis. That is, airlines like TWA, American and Delta flew to and from Pittsburgh on a purely demand basis. Their level of service was determined largely by market forces and ebbed and flowed based on the region's economy. From the end of World War II through the 1960s as Pittsburgh's basic industry dominated economy expanded, the demand for air service in the region also increased. Concurrent with this economic growth was an increased demand for landing rights at Greater PIT by all competitors with, of course, Allegheny Airlines and USAir dominating the market. It is important to recognize that, during the highly regulated regime, the FAA assigned landing rights at Pittsburgh and was instrumental in establishing and preserving Allegheny Airlines' and then USAir's market dominance. Air travel between World War II and the end of the decade of the 1970s was largely a luxury and business market and price was a secondary issue to the typical consumer.

Nonetheless, the FAA had an interest in allowing enough competition for market share by all airlines to regulate prices to a certain extent and to ensure that service levels were consistently high. And, during the 1980s, deregulation essentially freed competitors in the airline industry to develop new strategies that concentrated on the most profitable markets and routes. These included the "price competition" strategies of early discount airlines like People Express, and the "hub and spoke" systems initially pioneered by a parcel delivery company by the name of Federal Express. Unfortunately for the Pittsburgh region, concurrent with airline deregulation in the 1980s the industries that had underpinned this region's economy since the end of the war saw their fortunes decline steeply. With the decline of Pittsburgh's economic fortunes would come a related decline in demand for air travel to and from the region.

The last expression perhaps overstates the situation. It would be better put to characterize demand for air travel in the Pittsburgh region as undergoing a declining growth rate after 1980. Unfortunately, by the time these emerging trends were apparent, if they ever were to airport planners, the new PIT was a "done deal." It should be understood, however, that the growth in air travel to and from Pittsburgh throughout the history of Pittsburgh's airports has essentially reflected the development of the airline industry. What's more, air travel in the Pittsburgh region never outperformed industry's average growth rates and has often lagged them. Finally, air travel was never viewed as a growth industry or an economic engine until, largely out of desperation, this region's political leaders cast it in that light in order to "sell" the new Pittsburgh International Airport to the public.[iv]

What is important in the analysis above is the illustration of the fact that the economy of a region like greater Pittsburgh is affected by complex factors far beyond the awareness, much less the control of local visionaries and politicians. The combination of national and global economic changes in tandem with a dynamic restructuring of many industries in the face of intense competitive pressures made long range planning a dangerous exercise in the 1980s. Particularly dangerous were large-scale public works like airports.

The result, as is well understood in hindsight, PIT was transformed into an airport designed and built largely on behalf of and to the specifications of USAirways. It is not an overstatement to insist that PIT is seen today by the public in general and by this region's political leadership as a USAirways facility. That is, in the eyes of this region's public sector leaders, the fortunes of USAirways and PIT are inextricably linked. While there is some pragmatic justification for such a view in the short run, in the long run the best interests of this region require the abandonment of this view.

What Can Be Done Immediately?

The immediate focus of those who are responsible for the operation of PIT, namely the new Airport Authority and Allegheny County's political leaders, must shift from what is for all practical purposes a virtual partnership with USAirways to restoring and stimulating competition at PIT.

1 Determine the inventory of available gates at PIT and "consolidate" those gates into contiguous "packages" that would realistically encourage the expansion of existing airlines as well as new entrants to the airport market.

   This should include a strategy designed to immediately release USAirways from lease obligations on as many gates as the airline would care to eliminate from service. If it were determined that the airport's solvency would be endangered by the number of gates USAirways wished to surrender, a yearly limit or quota could be set.

2 Simultaneously with these efforts a national survey of gate costs should be undertaken to determine where PIT's pricing structure to its airline customers falls regarding other airports.

3 The Airport Authority should develop and implement a basic strategy to become the low-cost provider of services to their airline customers. All necessary measures should be considered and pursued here, including the privatization of the airport's management as outlined elsewhere in this report.

4 Immediately undertake a national marketing effort to all existing airlines. This would include the development of a promotional package outlining the cost savings to be effected by new airport management strategies and an estimation of how those savings will translate into increased profitability of new market entrants.

The strategic objective of new management policies at PIT should be clear and simple. As was pointed out in the November study, PIT is presently served by the lowest number of airlines of any major airport in the US. The remedy of this situation is essential to the improvement of services and pricing to the retail customers of the airport--namely passengers.

A Return To The Free Market

The first step for Allegheny County government, from the County Executive, to the County Council to the Airport Authority is to end the denial regarding the situation at PIT. The November study reported that the average number of airline competitors at major US airports is 18, vs. seven major airlines serving PIT. A primary purpose of the four steps outlined above should be to attract additional airlines to PIT. A look at PIT's closest airport competitors is revealing. At Cleveland, there are 12 major carriers, and at Philadelphia, there are 17 major carriers. The increased level of competition at these airports is directly responsible for a price advantage of 30% at Cleveland and 23% at Philadelphia over prices currently charged passengers at PIT.[v]

Research involved in the November report revealed that USAirways prices its services much more attractively at airports where it faced stiff competition. At Philadelphia, for example, USAirways fares are 20% less, on average, than the fares charged by the airline at PIT. At Baltimore, where 20 major carriers compete, USAirways fares are, on average, 39% lower than those at PIT. It is clear that increased competition at PIT would yield similar results. It is equally clear that price competition at PIT is unlikely without a significant change in the present situation.

Any progress in restoring competition and improving efficiencies at PIT will require a second step on the part of Allegheny County government. And that is a true understanding of the realities of the marketplace we call the air transportation industry and an admission that the situation as currently constituted at PIT is simply not viable.

It is not sensible to collect lease payments from USAirways on gates the airline is not utilizing, nor does it make sense for the airport to exact a "price premium" from USAirways and other airlines on the gates they utilize. This serves neither the interests of the airlines nor the airport, since given the macro-competitiveness of the "airport industry," once leases expire airlines will gravitate away from more expensive gates (at PIT) to less expensive gates available elsewhere (for example, Cleveland and Columbus, Ohio).

While it is understandable that the Airport Authority and Allegheny County would be reluctant to undertake any strategy that would reduce the level of revenues PIT currently enjoys, this may in fact be necessary short-run as the transition from monopoly to increased competition is undertaken. It is also most reasonable to assume that PIT can only remain competitive by reducing its costs and increasing its efficiencies, and therein lies any hope of real growth at the airport in originations and departures. In fact, should subsidies be required to facilitate such a transition these would better serve the long-term interest of the region than would the subsidies currently being considered on behalf of maintaining the USAirways monopoly.[vi]

Key to any transformation is demonstration of a better understanding by the owner/operator of PIT of the nature of its business than has been shown in the past. Airports serve two levels of customer, retailers and end users. The cost to retail air travel at a given airport has a significant impact on the price of that service to the end customer--the passenger. The other determining factor is the economic cost of generating the service that is unique to each retailer (airline).

Unfortunately for the retail customers served by PIT, both the airport and its dominant carrier have cost structures that are among the highest in the nation. The high cost of PIT results from its design and operating methodology. Regrettably, little can be done to change that in the short run.

An Analysis of USAirways[vii]

USAirways, similarly, is currently the least efficient major air carrier in its industry, a situation that requires a long-term remedy. For example, USAirway's cost per available seat mile, a common measure used industry-wide is presently in excess of 13 cents per ASM. How do its competitors fare? As follows:

Southwest	7.46 cents per ASM
Northwest	8.47 cents per ASM
United Airlines	8.82 cents per ASM
Delta	8.92 cents per ASM
Continental	9.01 cents per ASM
American	9.21 cents per ASM
TWA	9.41 cents per ASM
USAirways	13.51 cents per ASM

Seen in this light, USAirways is 81 percent less efficient than Southwest Airlines, and nearly 44 percent less efficient than TWA. Another way of measuring efficiency is to look at the "breakeven" passenger load factor. Again, USAirways has an impossibly high breakeven load factor of nearly 77 percent. By comparison, American, hardly a barnburner for efficiency, has a significantly lower breakeven load factor of 63 percent.

As the overwhelmingly predominant tenant at Pittsburgh International Airport, it is obvious that the financial and operating stability of USAirways Group, Inc. is critical to the airport's wellbeing. Unfortunately, an objective analysis of USAirways is disconcerting to say the least.

For the first two months of this year, USAirways' performance was dismal. However, the airline attempted to put a favorable spin on bad news. A March 3, 2000 press release was entitled "**US AIRWAYS TRAFFIC UP 2.6 PERCENT FOR FEBRUARY**," leaving the distinct impression of positive results. However, reading further one discovers that "traffic" as interpreted by USAirways, now means passenger miles, rather than actual passengers.

As management disclosed:
"...revenue passenger miles for February 2000 were up 2.6 percent compared to February 1999, while available seat miles for the month increased 8.2 percent. The passenger load factor for the month was 63.0 percent, a decrease of 3.4 percentage points compared to February 1999.

For the first two months of 2000, revenue passenger miles were up 0.2 percent compared to the same period in 1999, while available seat miles were up 5.8 percent year-over-year. The passenger load factor for the period was 61.0 percent, down 3.4 percentage points from 1999. The three wholly owned subsidiaries of US Airways Group, Inc. -- Allegheny Airlines, Inc., Piedmont Airlines, Inc., and PSA Airlines, Inc. -- reported that revenue passenger miles for February were up 0.3 percent compared to February 1999 while available seat miles for the month were up 4.8 percent. The passenger load factor for the month was 52.2 percent, a decrease of 2.4 percentage points compared to February 1999.

For the first two months of 2000, US Airways Express revenue passenger miles were down 0.3 percent compared to the same period in 1999, while available seat miles were up 6.0 percent. The passenger load factor for the period was 49.5 percent, a decrease of 3.1 percentage points from 1999."[viii]

As has been reported most recently, passengers are fleeing USAirways in droves. Worse news than a system-wide passenger load factor below 60 percent is hard to imagine. While financial information for the first quarter of 2000 is yet to be disclosed, it is very safe to assume that USAirways is hemorrhaging. An unfortunate turn of events coupled with what can only be called mismanagement has made USAirways extremely uncompetitive.

In virtually any category one can examine, USAirways compares unfavorably to its principal competitors. These range from fuel costs, and operations and maintenance, to the ability to complete flights as scheduled. For example, the first analytical measure compared financial operating performances of the eight major domestic air carriers. These are, in alphabetical order, American, Continental, Delta, Northwest, Southwest, TWA, United, and USAirways. Based on the analysis using the factors shown in the table below, USAirways ranks sixth overall.

Airline	Revenues	5yr. Grwth.	Income	5yr. Grwth.	ROE	D/E	RPS	EPS	S/P	12 mos chg
AMR	$17730	2.6%	$985	39.9%	15%	0.80	$119.73	$4.17	52.9375	-6.1%
CAL	8639	9.5%	488	NC	31%	1.92	134.43	6.64	31.1875	-18.3%
DEL	15051	4.4%	1284	NC	26%	0.83	113.28	8.70	46.625	-22.8%
NWAC	10276	1.7%	300	NC	NS	NS	121.65	3.26	16.875	-34.0
SW	4736	12.9%	474	23.3%	17%	0.22	9.39	0.89	17.3125	-13.2
TWA	3309	NC	(353)	NC	NE	6.31	55.21	(5.57)	2.5625	-58.9
UAL	18027	5.4%	1238	82.6%	24%	0.98	336.80	9.97	50.5	-15.5%
U	8595	4.4%	197	NC	286%	27.59	120.28	2.64	18.75	-60.4%

Key:	ROE	Return on Equity	D/E	Debt to Equity	RPS	Revenues Per Share
	EPS	Earnings Per Share	S/P	Stock Price		
Airlines:	AMR	American Airlines	CAL	Continental Airlines	DEL	Delta Airlines
	NWAC	Northwest Airlines	SW	Southwest Airlines	TWA	Trans World Airlines
	UAL	United Airlines	U	USAirways		

The entries in the table above indicate that USAirways ranks in the bottom half of the major domestic air carriers in six out of the ten categories shown. In actuality the picture is worse than that, since USAirways does not rank in the top half of the list in any category except one, return on equity. And even that achievement is dubious, since USAirways is the most highly-leveraged of all of the domestic carriers by far.[ix]

USAirways revenues rank the airline sixth among domestic carriers, and its income is next to dead last, ranking above only TWA, which lost $343 million in 1999. Even this statistic is misleading, however, after adjusting both airline's operating results for special gains and charges not related to actual airline operations, both companies lost approximately $190 million in 1999.

The level of USAirways' leverage is alarming. Simply put, USAirways uses substantially more debt to finance its operations than does any other airline. Much of this involves the sale and leaseback of its airplanes, and it reveals a simple fact about the airline. It is grossly unattractive to investors. The price of USAirways stock has declined more than any other competitor--even the wildly unprofitable TWA--over the last 12 months. In a tragic effort to prop up the company's stock price and preserve potential access to equity markets, the airline's management spent $1.75 billion on stock buy backs in 1999 at an average price in excess of $50 per share. This to acquire a stock that is now worth little more than $18 per share. Foreclosed now from equity markets, USAirways has no choice but to rely on debt to finance its hoped-for restructuring. However, the company's poor financial performance coupled with forecast losses continuing well into 2000 has caused debt rating agencies to reappraise the airline's credit ratings. A downgrading of

USAirways' creditworthiness by Standard & Poor's, for example, could spell disaster for the airline and most likely result in the cancellation of currently planned debt offerings.

Without the recently announced new debt offerings, it is likely the airline would run out of cash in 2000, and the likelihood of bankruptcy would increase significantly.

As USAirways' management has admitted, the airline's operations are the most costly in the industry. Labor costs are the highest, and virtually everything from fuel to maintenance and training are conducted at greater expense and with less efficiency than the competition. By comparison, TWA expects to achieve labor costs that are 90 percent of the industry average in 2000. USAirways is fighting to obtain agreement to eventually reduce its compensation structure to what it calls "parity plus one percent." In other words, USAirways cannot accomplish labor costs below the industry average by virtue of contractual agreements with its unions. Apparently, USAirways has been less efficient at controlling its fuel costs than its competitors. A comparison of third quarter fuel costs at USAirways, American and Continental found USAirways paying 63 cents per gallon, while American paid 56 cents and Continental paid only 47 cents. Airlines are able to achieve some insulation from a rapid increase in fuel costs if they engage in hedging practices. While American and Continental airlines' fuel costs rose between 5 and 6 percent in the third quarter of 1999, USAirways' costs increased a whopping 32% indicating that the airline bore the full brunt of the market fluctuation.

A recent comment by a USAirways' pilot indicates that the company's plans for its Metrojet operation are in disarray. "Right now," claims the individual who identified himself as an "Express Pilot" when making these comments at an Internet investment site, "the pilots and the company are in gridlock over any new jets for us. So Delta, Continental and United are quickly moving in on our turf with their RJs (regional jets). With their jets they are bypassing our hub network and capturing a fair share of our passengers." Recent news articles published in both the Post Gazette and the Tribune Review confirm the fact that USAirways' pilots union is reconsidering any agreement regarding the number of regional jets in the airline's fleet. Conversion of a significant portion of USAirways' operations from "main line" jets (intermediate and long haul) to regional jets (i.e. the MetroJet operation) was a mainstay in the company's strategic restructuring. Failure to reach agreement on this important issue would most likely render USAirways dangerously uncompetitive. Management has stated that it could call into question the viability of the airline.

The failure to successfully integrate regional jets into the airline's operations offers some possible insight regarding the precipitous decline of passenger traffic at Pittsburgh International Airport in 1999. It would appear that a combination of operational failures at USAirways as well as intensified competition from other airlines is accounting for the downturn at PIT. USAirways management admits that it did a poor job of anticipating training and operation needs for the ongoing conversion from so-called main line jets to the regional approach. It simply was not able to get either airplanes or pilots into action fast enough in 1999 to avoid losing market share and, more alarmingly, severely damaging the confidence of its existing customer base. These problems apparently are ongoing thus far in 2000.

USAirways chairman Stephen Wolff expressed concern in this area in comments he made regarding the looming job action by the company's flight attendants. He admitted that any sustained job action that eroded airline operations would have far reaching effects on customer loyalty.

In all, it appears that USAirways operating and financial condition continues to deteriorate. As Wolff has said, this places the airline in the inevitable position of having to consolidate by reducing operations systemwide. It appears a combination of management failures, increasingly harsh competitive conditions and a sudden rise in fuel costs have made USAirways the weakest of all major domestic carriers.

The impact on PIT is obvious. Whether or not USAirways is able to weather its financial and operational storm, passenger traffic at PIT will most certainly continue to decline so long as USAirways maintains its overwhelming monopoly there. On the one hand, the airline is being forced to cut back its hub system passenger operations due to passenger losses to rivals. On the other hand, as USAirways increases its Metrojet operations, it will cut back its hubbing operations as it increases regional direct flights.

The weakness of USAirways as pointed out in the above analysis merely serves to make the need for strategic action on the part of Allegheny County government more pressing than ever.

Is it possible for USAirways to achieve a dramatic turnaround in the efficiency of its operations as an airline? -- perhaps, but only over the long run. While this report is not designed to present an exhaustive analysis of the operating viability of Pittsburgh International Airport's principal tenant and dominant carrier, it does point out a serious problem. The operators of PIT must recognize that USAirways must dramatically shift its strategic practices. This, indeed, casts into serious question the intention and even the ability of USAirways to maintain anywhere near the presence it currently projects at PIT.

Therefore, any price relief for PIT customers must come from a changed strategy by the Airport Authority that will attract more efficient competitors.

Keep in mind that there can be a legitimate argument made that pricing at PIT must be reflective of overall service quality, including convenience, number of flights and destinations, etc. However, such factors are largely determined independently by individual airline retailers wherever free market conditions encourage competitors to differentiate their services. For example, one of this nation's most successful airlines is Southwest. It's pricing is nearly always the least expensive in any market it serves. However, in return for lower fares, the passenger gives up pre-boarding seat assignments, often endures connecting flights, and receives no more than a snack without additional charge on even the longest flights.

It was recently reported that the new Pan American Airlines has expressed interest in establishing service at PIT. Based in New Hampshire, Pan Am provides what it calls "clipper" service--a high quality "luxury" treatment of passengers who have more legroom and amenities on flights. On its face, the impact of the entry of such a provider to the PIT market would seem to be limited. However, a successful provider of "luxury" service at PIT would force other competitors to either defend their own "first class" market share, or endeavor to increase their share of "business" and/or coach service. What's more, the entry of a discounter such as Southwest could incidentally lead not only to more price competition by other airlines seeking to match Southwest's low fares, but also an increase in "premium" services by airlines seeking to compete by differentiating the quality of their products and services.

In any case, overall service levels in the market would be seen to improve. If this scenario can be multiplied by the entry of several new competitors, existing airlines would be faced with the choice of giving up market share or defending market share by various pricing and service strategies designed to improve customer attraction.

An inevitable byproduct of this increased competition will be an expansion of the market itself. As was reported in November, a recent study found that at least 600,000 passenger round trips are lost each year to other airports such as Cleveland and Columbus, OH. A significant portion of these customers could be expected to return.

If we assume that the average fare (round trip) paid by these customers was $500, this translates into $300 million in revenues that is up for grabs. Assuming again that each passenger spends and average of $25 between parking and other "retail" purchases at the airport, another $15 million in revenues would be generated.

More importantly, however, the effect of increased competition and lower airfares at PIT will be to stem an enormous drain on this region. We have established that PIT fares are some 60 percent above the national average. Consider the implications. In 1999, nearly 19 million passengers traveled through PIT, approximately 6.6 million of whom originated or terminated flights at PIT.

Assuming that half of these were passengers originating at PIT and that the average round trip fare is $500 (in all likelihood, a low figure), the excess charges at PIT would amount to $ 0.99 billion. That plus the lost revenue for the travelers to other airports brings the total local impact to $1.2 billion. With a conservatively low multiplier effect of 1.5, the total economic drain on the region would rise above $2 billion, a figure that is at least double the USAirways payroll in the region (assuming 12,000 employees at $60,000 per worker)

However, generating a significant increase in passenger traffic at PIT should not be seen as the primary goal of the efforts to increase competition. In fact, it may be that in the short term the ending of the USAirways monopoly will accelerate the ongoing reduction of USAirways' presence at PIT. This could result in a paradoxical situation in which passenger traffic declines at PIT simultaneous with increased price competition. However, it is important to recognize that, at present, at least 65% of the passenger "traffic" at PIT is constituted by individuals merely "passing through" the airport on their way from their originating city to their ultimate destination.

This reality was an important constituting factor in the design of PIT. Anticipating an annual flow of tens of millions of passengers enduring layovers at PIT between flights, designers included an abundance of true retailing opportunities at the airport. Another byproduct of the transformation of PIT from a hub to an origination/destination facility likely will be recognition that the shopping mall aspect of the airport is significantly overbuilt. In fact, increased competition at PIT could result in a short run significant increase in retail business failures at the site. Rather than attempting to forestall this eventuality with misguided subsidies and doomed strategies, its inevitability should be recognized and accepted. Politically, this outcome is not the fault of those who implement any new strategy, but responsibility lies in the error of the original planning exercise. However, one mitigating action that could be taken to cushion the impact of "de-monopolization" on traffic flow would be to allow retailers to charge higher prices for goods and services at PIT.

A study of other airport configurations, such as Baltimore Washington International, Houston International, Minneapolis International, Phoenix International and some of the other airports mentioned in the November report as being comparable to PIT will likely reveal a different set of dynamics regarding services. This is to suggest that while PIT likely has far too much square footage devoted to retail shopping, there may be different uses for that space on display at other airports. As part of the transformation of PIT it might be desirable to reconfigure the airport space that is now devoted to non-transportation activities.

It is also understood that there is a restriction in place at PIT to the effect that retailers there may not charge prices that are above the "average" for similar products and services offered in the communities surrounding the airport. This policy should be abandoned in favor of "market" pricing at PIT based solely on the cost of doing business there. In this way, profit margins might increase enough to offset some of the losses due to decreased customer (passenger) traffic at PIT during the transition. In any case, "free market" pricing should be preferable to controlled pricing, and those retailers that remain after transformation should expect to be able to conduct their businesses as they see fit.

Implementing the recommended strategies to increase competition at PIT will ultimately benefit both end users of the airport and the region as a whole. It must be understood, however, that the transition may be painful in the short run. In fact, any effort to design and manage a painless, perfect transition will fail. Passenger traffic, in the short run, will likely decline as USAirways reduces PIT's hub significance in its overall corporate strategy. It is possible that the post-transition PIT may not return to the current 20 million annual passenger level until years after the transition is accomplished. However, this is not a negative outcome, given the fact that the majority of the current retail customers of the airport would prefer to spend no longer than an hour of time at PIT and are merely "passing through." What is needed for the long-term development of this region is an increase in passengers whose ultimate destination is Pittsburgh.

After all, it matters not whether one is talking about vacationers whose stay in Pittsburgh is temporary, businesspeople that visit for a few days, or individuals who ultimately make their stay in this region a permanent one. It is the dollars spent and invested outside the airport that most directly contribute to economic growth.

In that context, PIT is merely a key component of this region's infrastructure and in the best of all possible worlds would have as the majority of its retail customers, or passengers, individuals who were debarking at the airport because they live and/or do business in this region. Thus, the next issue is how to leverage the airport facility as a key infrastructure component in a way that maximizes the likelihood of encouraging, rather than discouraging economic development in the region.

Finally, at the risk of being overly repetitive, it must be remembered that the demand for airport facilities and services is a direct reflection of the economic activity in any region, not vice versa. It is not being suggested that remedying the airport's current problems will result in an explosion of economic activity in the region. However, restoring effective competition at PIT with the resulting increased efficiencies and benefits should be viewed as part of an overall program to increase economic freedom in the entire region. And, finally, there is no choice in the matter. Deregulation and increased competition in all industries will continue apace. There is no way to avoid change. Instead, change must be embraced and every step possible taken to make this region more competitive and operating on free market principles.

Another Necessary Transition Factor: De-Politicization

As has been discussed, the airport was vastly overbuilt due to faulty economic assumptions regarding both the air transportation industry and the greater Pittsburgh region. Midstream recognition of these errors nearly doomed the new airport, and gave rise to a solution resulting in a virtual monopoly situation. In other words, politics and the political nature of this region's economic development strategies are the fundamental roots of the current, "visible" problems at Pittsburgh International Airport.

In a report issued in July 1999 concerning economic freedom in Pennsylvania vs. the other 49 states, it was noted that the commonwealth ranked 45th--sixth worst overall.[x] Is there a relationship between economic freedom in a region and the price of air travel to and from that region? This report suggests that, yes; there is a relationship due to the fact that virtually all airports are owned by local governmental entities. They are instinctively built and managed as monopolies with little regard for free market realities, much less principles. What's more, to the extent that local government is enlightened, it understands that its role in the economy should be as unobtrusive as possible--less government is better government. While this is rare, there are examples. Increasingly these governments seek to privatize as much as possible, including airports, so that services may be delivered as efficiently as possible by the private sector.

As was reported previously, the first step toward a fundamental correction at PIT involves the recognition that PIT, as presently constituted and operated is an anomaly. As last November's report demonstrated, PIT is served by fewer major airlines than any other major US airport. While PIT presently has seven carriers including USAirways, Minneapolis has 16, Newark 22, Phoenix 19, St. Louis 15 and Denver 20.

The lack of competition for customers at PIT is alarming and egregious. It is impossible to argue that the current situation is either desirable or that it is efficient in any sense. It is merely status quo, and as such, is entirely reflective of this region. In other words, as so often happens, this region's government has conspired, however inadvertently, with a private sector enterprise, to create and maintain a monopoly. The taxpayers and consumers of the region are left to absorb the cost while receiving an inferior product.

How likely, then, is a fundamental change at PIT given the present ownership? Can a government-owned and controlled entity be operated competitively, much less as efficiently as a facility that is privately owned? Unfortunately, evidence throughout the 20th Century overwhelmingly supports the conclusion that, absent private ownership, an organization will not optimize its efficiency. More bluntly, public ownership of an asset is a prescription for inefficiency, corruption, rising costs and declining quality of service. Sadly, it is a fact that competition and efficiency were greater at the old airport than the new Pittsburgh International.

The Case for Privatization

What about privatization? Research indicates that there has been a great deal of talk and interest in the concept, but little by way of action. One way comes in the form of "leasing" the management of an existing airport to a private concern. While airport management contracts have tended to be with smaller airports, in September 1995, the Indianapolis Airport Authority signed a 10-year contract with a private firm to manage its system of airports. According to Indianapolis officials, the private firm has guaranteed at least $32 million, and expects $140 million, in cost savings and increased revenues over the life of the contract. Seventy percent of any savings will go to the airport authority, which intends to use it to cut charges to airlines, and the rest will go to the private contractor.[xi]

Allegheny County should analyze this viable alternative--leasing the management of PIT to a private entity--as a first step along the way to possible outright privatization.

Certainly the objectives outlined by the Indianapolis officials--cutting costs to air transportation retailers and improving service and efficiency--are among the short-term goals embraced by this report. Leasing to a private concern would provide an interim during which the benefits of privatization could be analyzed without actually privatizing.

While this appears half hearted and is fraught with danger that is inherent in continuing the political strings of continued public ownership, it is likely the most palatable course of action. If packaged as part of a strategy with the ultimate end being outright sale of the airport to a private owner, this would seem the most reasonable and viable approach at this time.

Interestingly, a great deal of action regarding airport privatization is occurring overseas. In recent years, many countries have adopted extensive privatization programs within their economies. These countries have privatized many parts of their infrastructure, including airports, trucking, telecommunications, railroads, and shipping. Generally, these countries' privatization policies have been driven by a desire to reduce the size of the public sector and to improve economic efficiency. Airport privatization efforts have been undertaken in 47 countries. These efforts vary from selling minority shares in individual airports or inviting private developers to construct runways or terminals to leasing or selling the country's major airports.

For example, in December 1995, the Mexican government approved legislation that would allow private operation of its 58 airports. Key features of the legislation include 50-year renewable leases between the government and a private operator and limits on participation by foreign companies and airlines. The United Kingdom, which privatized its commercial airports in 1987, is one of the few cases where airport privatization is far enough along to provide measurable results. To privatize, the United Kingdom sold the government corporation--British Airports Authority (BAA)--which operates seven major airports, including London's Heathrow and Gatwick airports, in a $2.5 billion public share offering. Even after privatization, the airports remain subject to government regulation of airlines' access, airports' charges to airlines, safety, security, and environmental protection. The government also maintains a "golden share" that allows it to veto new airport investment or divestiture. BAA has generated profits every year since 1987 and is now valued at $4.5 billion. Owing to steadily increasing passenger traffic and growth in retail revenues, BAA generated $455 million in profits for its shareholders in 1995, despite government-imposed caps on charges to airlines and $782 million in infrastructure improvements, including a rail link to central London from Heathrow International Airport. The privatization of BAA has not been without its critics, however. Some private economists have noted that by selling BAA's seven airports together, instead of separately, the United Kingdom's government did not maximize its sale price or instill greater competition. Rather, these critics charge that the government converted a public asset into a regulated private monopoly.

Given the success of the Indianapolis management contract and the numerous divestitures overseas, the benefits of airport privatization have come into clearer focus. It has become possible to clearly articulate the benefits and, in some cases, provide supporting evidence:

- **Capital Infusion.** Forecasts of passenger growth at U.S. airports have a sobering effect. Domestic and international passenger traffic is forecast to grow at 3.9 percent annually through 2007, suggesting that airports will be required to double their capacity over the next two decades. Depending solely on debt capital markets and government funding for this massive expansion of terminals and runways may lead to periods of congestion. Foreign airports such as Copenhagen Airport have demonstrated that tapping the equity market through privatization is an effective means of avoiding congestion and upgrading facilities.

- **Efficiency Gains.** Although airports traditionally are better able than most public sector entities to manage costs, there is much room for improvement. Indianapolis Airport, long considered one of the more efficient airports in the country, has attracted private sector managers who will not make a profit unless about $140 million is saved over the course of their 10-year contract. Some evidence of efficiency gains is already available from overseas privatization. A study by the Reason Foundation demonstrated that labor productivity improved after the privatization of the British Airports Authority.

- **Revenue Windfall.** If current restrictions on the use of airport revenue are changed the proceeds from the sale or lease of airports would generate significant funds to relieve public sector budget pressures. Recently, in Australia, the sale of 50-year concessions for airports in Brisbane, Melbourne, and Perth raised a total of $2.6 billion. An estimate by the Reason Foundation indicated that the 87 largest U.S. airports have a market value of $29 billion.

- **Passenger Friendliness.** Evidence seems to be mounting that where airport operations have been turned over to private managers, airport responsiveness to customer concerns has increased. This is unsurprising, as it is the case in all industries that private owners are more attuned to the customer.

Allegheny County's Role

Should Allegheny County seek to maximize its self-interest, it might begin by viewing itself as an investor, rather than a fiduciary of some public interest. By imitating the British government, and maintaining a "golden share" of PIT ownership, and, assuming a relaxation of current federal restrictions on revenue sharing, the county could recognize an immediate windfall as well as ongoing revenues from a more profitable PIT. The county, after all, should not be in the business of operating an enterprise if that effort is better conducted by the private sector. None the less, Allegheny County could continue its oversight function as a part owner of PIT in those areas where it does have legitimate responsibility, including safety, environmental and other regulatory concerns.

Congress Encourages Privatization

Recognizing some of these benefits of privatization, Congress directed the Federal Aviation Administration to implement a pilot privatization program in 1997 to test the waters. Specifically, the pilot program cleared legal obstacles to privatization for up to five airports. However, despite numerous backroom discussions and boardroom conferences on the topic, there have been few applications to participate in the pilot program. One reason for this slow progress is the time-consuming nature of handling the bidding procedure for privatization.

However, a more fundamental reason for the slow progress is that airline and airport officials have been hesitant to lend their requisite support to municipal and state authorities seeking airport privatization. The hesitance is rooted in a sluggish satisfaction with the status quo—as well as the fear of the airport becoming a cash cow for the municipality, at the expense of airport users. In particular, airline groups have been comfortable with the public-utility culture of airports; apparently unaware of how it might adversely affect the traveling public (their customers). In an interview about the likely results of airport privatization with *World Airport Week*, Tom Browne of the Air Transport Association asked, "What is in it for the traveling public other than a higher cost?"

Keep in mind that Browne's perspective comes from the direction of the status quo, and reflects the "regulation protects the customer" mentality so prevalent there. Given the history of privatization (ne deregulation) universally wherever it has been applied, the customer is the single greatest beneficiary. Of course, this implies that privatization does more than turn a publicly owned monopoly into a privately owned one. It is important to recognize that air travel is a commodity. Price competition has demonstrably been most effective at increasing market share, and that constraining market interest will force airports to perform ever more efficiently under private ownership as opposed to their behavior as publicly owned infrastructure.

What has kept privatization at bay since 1997 has been the fact that it is municipal and county governments that must undertake to break the mold they have been so comfortably occupying since the dawn of aviation. On top of all this, there is little by way of a voter constituency for privatization. It is simply not a burning issue. However, faced with mounting budget deficits, the county of Allegheny and the City of Pittsburgh could certainly utilize what has been described as a likely "windfall" from the sale or lease of such an asset as PIT to a private entity. And, as will be addressed further in this report, the late Tom Foerster's Folly may indeed turn into a stroke of brilliance when it is remembered that some 10,000 acres of land surround PIT and could be leveraged by any aggressive development.

Disposing of the Excess Land

It would appear that any land not deemed critical to airport operations could be sold immediately as it was not purchased with federal funds. What's more, a reading of FAA policy on the transfer of ownership of public airports indicates that the FAA is supportive of such moves. (See Appendix)

The FAA language clearly places the ball squarely in the court of those municipalities and counties that wish to privatize to structure a proposal and solicit the early involvement of the FAA to ensure that the government's concerns for continued efficient operation of the facility are met.[xii] Beyond that, it is indeed likely that those local governments that privatize airport assets will indeed reap at least a partial windfall from the proceeds of the sale. Most importantly, however, the airport will be, according to recent studies, more efficiently operated and demonstrate an even higher level of "customer responsiveness" both to the airlines and to the passengers using the facility.

Just as clearly the present situation at PIT seems tailor made for the creation and presentation of a proposal to the FAA that would reverse obvious monopoly conditions, improve efficiencies, cut costs and pass these benefits directly through to the consuming public. The time is indeed right for dramatic action along these lines.

There are a number of approaches that can be taken, and each would require careful review by those charged with formulating a plan for the transformation and revitalization of Pittsburgh International Airport.

This is the "go for the gold" recommendation. A comprehensive proposal would be drafted and submitted to the FAA under which the airport and surrounding real estate would be sold to a private entity. This is the approach currently favored overseas, where numerous privatizations have been successfully carried out.

This action, however, requires the expenditure of the greatest amount of political capital. The approval of all governmental entities would be required, including county, state and federal. This would require a complex and probably years long process that would have to begin and be completed over several election cycles. The danger here is that the process could be held hostage to political expediency and become something of a football. It is also likely that a master planning process would be involved that would undertake to chart out likely scenarios post privatization.

For example, one entire study would have to be conducted resulting in a generation of an Airport Master Plan outlining the method of operation and future conduct of the airport as an entity under private ownership. A second study would relate to the disposition and development of the land surrounding the airport. This might possibly entail a master plan for its development, and a basic question occurs: would the plan be undertaken by the county, or would private developers be solicited to submit bids for the land along with their own master plans. This begs the question as to selling price and the existence of a developer or developers with the financial clout and ambition for such an undertaking.

However, it is likely that the idea of privatization of PIT would attract national interest, if not global attention and very significant developer interest would be forthcoming. This brings us to what is perhaps the most important consideration--the tax status post privatization.

Taxing Authority Implications

Under current FAA regulations Allegheny County is prohibited for all intents and purposes from taxing airport revenues. In return for federal grants, the local taxing authority consents to allow all airport revenues to be utilized solely to fund ongoing operations and ancillary development at the airport. In essence, the airport is to operate as a non-profit entity as concerns the local taxing authority. Operations are to be "self sustaining" and the local authority is not to "milk" the airport by diverting revenues to non-airport uses. What naturally occurs is the creation of an "airport empire" that is, essentially, unaccountable to either shareholders or consumers. In other words, since any excess revenues can only be utilized to further airport operations, wasteful practices and over-investment in the periphery abound. Publicly operated airports can be viewed as "make work" programs, patronage plums, or monuments to great government, depending upon the politician. There are simply no constituents demanding efficiency, since no stakeholders outside of the airport family itself will benefit. Too often, unfortunately, the family of vendors and employees at public airports feel that they are entitled to the spoils and the public be damned.

Hence the somewhat jaded initial view by the FAA regarding airport privatization, and the greatest stumbling block thereto. Simply, to what use can the proceeds of an airport sale be put? But, looking through the mirror from Allegheny County's view the sale of assets provides perhaps the only opportunity for the local authority to generate revenues. If then, the county can be convinced that airport operations will improve under private ownership, AND the county will realize a significant revenue receipt, privatization appears to be highly desirable.

What will be entailed? First, the County Executive and County Council must coordinate an agreement to pursue a study of privatization. This should not result in an interminable process such as was witnessed in Orange County concerning El Toro air station. In fact, Allegheny County government must determine if it is generally favorably disposed to the concept of privatization. If the answer is yes, then a study is worthwhile.

Such a study should result in a working plan recommendation that outlines a fast track process toward a strategic proposal to the FAA.

There are some overarching issues to be addressed:

1 Will the airport be sold together with the real estate or separately?

2 If the airport is to be sold separately, will the county sell 100% ownership, or retain a share of ownership as has been done in some instances overseas?

3 Should a "free enterprise" zone approach be considered? In order to attract the most aggressive bidding by private entities, it is recommended that the county continue to take the non-taxing approach to which it was constrained under the old federal regime. That is, under the terms of any

sale, Allegheny County as well as the state of Pennsylvania should agree to forego taxing any revenues produced by the entity operating the airport in perpetuity.

4 No "tradeoff" considerations should be part of the disposition. In other words, use of the airport's non-essential facilities and land should be entirely at the discretion of the new owner and no limitations or covenants should run with the sale.

If it is determined that Allegheny County has no interest, or no political consensus is likely to be derived in favor of privatizing the airport, consideration should be given to disposing of all unnecessary real estate surrounding PIT.

Disposition of land can occur in one of two ways, a direct sale or the creation of a long term leasehold to be offered to a private entity or entities.

The first approach would be the sale or 99 year lease of the land in its entirety. This would require a strategy. Should the land be sold "as is?" That is, should the entire non-airport land parcel be sold as a unit with no improvements?

Or, should amenities like water and sewer and power (gas and electricity) be brought to and extended into the site at public expense? Is there another alternative, that is, could the utility companies be encouraged to extend their services to the site and into it? These are critical considerations to be determined prior to the implementation of a sale strategy.

Another approach would be the development of all infrastructures and the subdivision of the real estate into parcels as was the strategy at Southpointe in Washington County. This would be the most "fast track" approach to development, but would require the highest level of public investment prior to sale.

There are alternatives of course. By providing tax incentives, such as a limitation on real estate taxes for some period to encourage private development, it might be possible to sell all of the real estate without public investment in infrastructure. In effect, the foregoing of future tax revenues is indeed a form of subsidy, in that it provides the land a competitive advantage over other privately owned land in the region. From a practical perspective, however, the ability of Allegheny County to achieve a windfall of perhaps as much as $100 million from the sale of the real estate substantially eliminates any argument that the county would be better off by immediately taxing the developed real estate. And certainly, the county is better off than it would be holding on to thousands of acres of undeveloped real estate.

Focusing on the Airport Only

Under one approach, private management would supercede the current Airport Authority. The airport would be run as a private, for profit entity, similarly to the operation of

Indianapolis International. Once Congress and the FAA successfully remove the restrictions on county disposition of any revenues it enjoys from the transaction, Allegheny County would be free to utilize those funds in other service areas.

There are complex considerations regarding the current structure of the financing supporting PIT, including obviously the bond issue still outstanding. However it is desirable that the airport become self sufficient while preserving the interests of bondholders and other creditors. A structure for such a lease can certainly be determined and implemented.

The Indianapolis situation seems to preserve the public interest aspect by virtue of the fact that cost savings, profits if you will, enjoyed by Indianapolis are plowed back into cost reductions and service improvements at the airport. Recognizing its inability to manage the facility efficiently, Indianapolis has simply turned operations over to a private entity that will be rewarded for improved efficiency and service. Allegheny County could take this approach.

Is the current situation one in which the Airport Authority serves as an independent, non-political airport operator? This is highly questionable. An article reported that as the Airport Authority vote was approaching, State Rep. Don Walko, D-North Side, urged the Allegheny County commissioners to vote against a proposal to divest from Greater Pittsburgh International Airport and transfer its operations to an independent authority.

"The creation of yet another non-elected quasi-government with no direct accountability to the citizens is bad public policy," Walko wrote in a letter to Commissioners Robert Cranmer, Michael Dawida and Larry Dunn. Walko noted that Allegheny County residents have made the airport a major regional asset by investing more than $1 billion in hard-earned tax dollars. Unlike public officials, Walko asserted, authorities are one step removed from the voters. They have no direct accountability to the taxpayers that finance the operations of authorities.

"The taxpayers of Allegheny County elect and pay you (commissioners) to set policy, oversee management and operate our county's assets," the North Side legislator wrote. "If you are not doing the job right, you can be voted out of office. Authority board members are not subject to such citizen review.

"Regarding professional top-notch management -- we expect you to hire the most qualified staff available. With regard to political meddling -- we expect you to govern with good policies, not for political expediency," Walko wrote. "Moreover, to believe that there is not political meddling when it comes to authorities is unrealistic. There is political meddling in authorities, but without public accountability."

So much for a consensus on the advisability of an "independent" Airport Authority. It would appear that public ownership of the asset, once continued, ensures, as Walko said, public meddling will continue unabated. As for true independence, it is equally unlikely to occur unless and until such independence is either contractually guaranteed for the term of a binding lease agreement with a private operator, or by virtue of outright sale without covenants or restrictions.

Speaking more directly of an Airport Authority, its primary weakness comes by virtue of its trustee or fiduciary nature. An Airport Authority under the supervision and control of Allegheny County remains ultimately responsible not to the customers of the airport--airlines and passengers--but to the taxpayers (and more particularly the voters) of the county. Public interest is ultimately determined by the voters, however in the short run it is determined by elected officials who are subject to their own self interest in maintaining electability.

By virtue of the enactment of the Airport Authority, PIT has indeed entered a new era. Despite any misgivings, only time will tell whether an "authority" approach will have distinct benefits.

Considering the Reactions of "Customers"

Pittsburgh International Airport has a diverse set of stakeholders. There are the principal retailers of air transportation--the airlines. There are, obviously, the passengers who travel to, from and through PIT. There are the citizens of the region who do not use the airport, the non-traveling public. There are vendors of non-passenger transportation services, and obviously, employees and other service providers who work directly at PIT. There are other constituents as well.

Airlines

Motivated by self-interest, airlines will likely have diverse views regarding the recommendations proposed in this report.

USAirways will most likely be motivated to negotiate in favor of those aspects that facilitate its long-term strategic interests. It is patently unfair for Allegheny County to undertake reforms at PIT without full disclosure of USAirways' intentions. The recommendation to renegotiate USAirways lease positions at the airport would require as a prerequisite the full disclosure of USAirways plans. Of course, this in no way implies that USAirways is obligated to obtain county approval for any actions it is otherwise free to undertake. However, negotiating changes at the airport that would be favorable to the long-term interests of USAirways will certainly entail an atmosphere of trust and understanding.

Therefore a first step in this process is a roundtable series of meetings between USAirways officials and Airport Authority and County administrators. The principal question regards USAirways plans vis-à-vis its level and type of service at PIT. This is not an extraordinary undertaking, as it typically occurs with regularity between leaseholders and lessees in the private sector. The owner of real property must know if his tenant is planning either an expansion or a reduction at the expiration of the lease term. Only with adequate forewarning and preparation can a smooth transition be undertaken.

Presently at PIT it is obvious that USAirways has significantly reduced the number of flights versus the level enjoyed one year ago. One need only look at the Arrival and Departures monitors in the landside terminal to recognize this fact. It is merely time for these partners--the airport and USAirways--to come to a reckoning of the future and work together to mitigate any harm either might suffer.

The next step would be for the Airport Authority to meet with USAirways and all airlines to disclose intentions and formulate plans for the marketing of the airport to additional competitors. Existing airlines should be offered first option on any available gates; however, absent ability to obtain evidence of existing airlines willingness and ability to compete effectively at PIT, marketing of assembled gates should be aggressively commenced industry-wide.

Attracting interest of existing or new airlines in expanded competition at PIT will require--absolutely--indications to the airlines that a new regime is underway, one that will reduce their operating costs at PIT and boost the responsiveness of the facility to them and their customers.

All airlines operating at PIT should have should have direct input to the strategic initiative. USAirways should have no appreciable advantage over other competitors, and any long term structural "deals," i.e. the USAir deal that "saved" PIT must never be on the table or considered. The objective is the creation of an airport that is flexible and responsive to changing market conditions.

There are of course other constituencies that will be involved in the transition

Traveling Public

Motivated by various considerations, airline users generally will be favorable to any change that provides greater benefits than costs. It should easily be recognized that this group of constituents is generally not terribly dissatisfied with current situation. That is, there has not been recognition among the majority of travelers of either the fact that PIT is one of the nation's most expensive airports, or that USAirways monopoly is detrimental to their interests.

After all, keep in mind that somewhere near 70% of those utilizing PIT are merely traveling through the facility, not originating their flight there. If 600,000 of 20 million individuals (annually) are avoiding the airport, this constitutes only three percent of the traffic. However, of those who originate their flights at PIT, this number is nearly 10 percent of the total.

Most importantly, the traveling public is rationally ignorant of the economics of airport operations much less the economic forces that regulate airline prices and quality of service. They have very few options outside choice of particular airlines offered at the airport they utilize, and, in the case of PIT, the monopoly virtually constrains this option. In other words, this constituency is conditioned to being a captive market, and merely accepting, perhaps with some grumbling, whatever they are offered. They may be conditioned to a monopoly situation by now. In fact, more than a few have been heard publicly arguing to the effect that continuing and subsidizing the USAirways monopoly at PIT is in the best interests of consumers.

Airport Retailers

As has been mentioned previously, the airport's many retail shops, restaurants and services will not generally be in favor of a decrease in passenger traffic that could result from a transition at PIT. Steps will be needed to bring this group of diverse constituents on board; however, it is unlikely they will have a "veto" over any plan that is developed.

Non-Airline Transportation Companies

Non-passenger air transportation companies must also be part of strategic initiative, as they will want to ensure that any changes are compatible with their long-term strategic interests. As is the case with the airlines, these entities must not be offered long-term packages or guarantees that serve to reduce the flexibility of the airport owner/operator to respond to changing economic and market conditions. Normal lease and operating agreements are obviously not what is meant by this, but rather any undertaking to publicly subsidize or finance facilities that are ostensibly for private use.

As part of the privatization strategy, these entities should be offered opportunities to acquire any assets they desire: buildings, terminals, runways and land.
Based on research, the growth in non-passenger transportation services at PIT is as key to the long run health of the airport as is the improved competitive health of the airlines.

Non Traveling Public

The non-traveling public is almost totally rationally ignorant regarding any economic impact the current situation at PIT may have. None the less, it is likely that these individuals would generally be in favor of any change that provided greater benefits than costs, although cultural attitude in region is generally "anti-change." However, there is little doubt that this public would be against any change that appeared to threaten increased cost-sharing that might occur short term as the result of actions taken to break the USAirways monopoly.

Other Constituents

Other important constituents are the various enterprises that serve the Airport, as well as the communities surrounding the airport and the various interest groups, including unions and other organized interests that view their welfare as being impacted by developments at PIT. Complete reconciliation of the diverse interests concerned with PIT's future will be difficult if not impossible. Leadership on the part of Allegheny County government and the Airport Authority will be critical in moving forward on this important matter. If progress is allowed to be held hostage by the typical long, drawn out and unproductive vetting process that attempts to formulate a perfect solution it is unlikely any workable solution can be developed, much less implemented. It is time, simply, to make an attempt to remove Pittsburgh International Airport from the old regime of political control and toward the free market enterprise it should be.

Conclusions

Pittsburgh International Airport has entered what is indisputably the most critical period in its brief history. The principal tenant, USAirways, exerts near monopoly control over passenger traffic, flights and gates at the airport resulting in exorbitant prices for airfares. Worse, the company is having serious financial problems. In any case it is clear that immediate action is required on the part of Allegheny County government to address what could quickly become a crisis at PIT. It is necessary to take steps to reduce the monopoly situation at PIT and restore a measure of competition; this both from the perspective of public interest, and as the only means of ensuring the long term economic viability of the airport. Evidence has been presented that restoring competition is the only sure means of ensuring quality, customer-responsive service at PIT, and of ending a significant economic drain on the region that is occurring under current conditions. A number of suggestions and opportunities have been offered in this report, all of which are aimed at achieving a positive transformation of PIT from its present decline to a facility that can truly be an asset to the region. Taking such action will require inspired leadership and courage. However, inaction will only postpone a day of reckoning that, when it does come, could have consequences most dire to Southwest Pennsylvania's citizens.

SOURCES

[1] The report is entitled "A Study of Airfares and Economic Growth at Pittsburgh International Airport" and is available as Allegheny Institute Report #99-13, November 1999.

[1] As documented in "A Study of Airfares and Economic Growth at Pittsburgh International Airport," Allegheny Institute for Public Policy, November 1999.

[1] As reported in "Taking Flight," written by Neil Fisher and published by Allegheny County in 1992, at the opening of the new Pittsburgh International Airport.

[1] For an interesting history of the politics and posturing involved in the "selling" and development of the new Pittsburgh International Airport, read "Pittsburgh International Airport, A Commemorative Book" published by Executive Report Magazine and available from the Information and Marketing Department of the Pittsburgh International Airport Authority.

[1] As documented in "A Study of Airfares and Economic Growth at Pittsburgh International Airport," op. Cit.

[1] Discussions have been underway for some time regarding Allegheny County's willingness to subsidize construction of a $200 million maintenance facility for USAirway's exclusive use at PIT.

[1] All data utilized in the analysis of USAirways and its major competitors is sourced from publicly filed information with the Securities and Exchange Commission and from USAirway's reporting of financial and operating data at its Internet Web Site, www.usair.com.

[1] As reported in both the Pittsburgh Post Gazette and the Pittsburgh Tribune Review.

[1] USAirways utilizes an extreme level of debt to finance its capital assets (such as new airplane purchases) when compared to all other domestic air carriers. This results in dramatically higher fixed operating expenses than other air carriers, and a much higher "break even point" on its operations.

[1] This report is entitled "Economic Freedom in the 50 States: How Pennsylvania ranks and Why," and is available from the Allegheny Institute for Public Policy, as Report #99-07, July 1999.

[1] A great deal of information on airport privatization worldwide, and including the Indianapolis experience is available in various publications of the Reason Foundation and the Consumer Policy Institute. One interesting study is entitled "More Airline Competition--Yet Another Reason for Airport Privatization" and, along with other articles, can be found on the Internet at "privatization.org."

[1] The FAA's position on airport privatization is expressed in various reports which can be found at the FAA's Internet Web Site www.faa.gov/arp/fedreg0.htm

APPENDIX

Paragraph C of the Applicability section in the proposed policy addresses the sale, or other transfer of ownership or control, of a publicly owned airport. Paragraph C states that such a transfer would require FAA approval in accordance with the AIP sponsor assurances and general government contract law principles. Because the proceeds of a sale or other transfer of airport property is considered airport revenue, the FAA would condition its approval of the transfer on the parties' assurance that the proceeds of sale will be dedicated to airport use. However, the FAA would take into consideration the specific elements of the proposed transfer, in determining what action would represent appropriate and sufficient compliance with the revenue use requirements of 49 U.S.C. 47107(b) under the circumstances. The FAA also invites the parties to a prospective transfer of airport property to discuss with the FAA, as early as possible in the planning stages, the effect of Federal requirements on the proposed transaction. There is no intent to hinder or prevent additional private participation in the ownership, operation, or financing of airports. The FAA welcomes proposals to do so and is committed to working with interested parties to ensure compliance with Federal laws and regulations.

C. FAA approval of the sale, or other transfer of ownership or Control, of a publicly owned airport is required in accordance with the AIP sponsor assurances and general government contract law principles. The proceeds of a sale of airport property are considered airport revenue (except in the case of property acquired with Federal assistance, the sale of which is subject to other restrictions under the relevant grant contract or deed). When the sale proposed is the sale of an entire airport as an operating entity, the request may present the FAA with a complex transaction in which the disposition of the proceeds of the transfer is only one of many considerations. In its review of such a proposal, the FAA would condition its approval of the transfer on the parties' assurances that the proceeds of sale will be used for the purposes required under section 4717(b). Because of the complexity of an airport sale or privatization, the provisions for ensuring that the proceeds are used for the purposes of section 47107(b) may need to be adapted to the special circumstances of the transaction. For example, in the sale of a public airport to a private entity, FAA assumes that the public owner could not simply retain all proceeds for general use; however, it may also be inappropriate to simply return the proceeds to the private buyer to use for operation of the airport. Accordingly, the disposition of the proceeds would need to be structured to meet the requirements of section 47107(b) given the special conditions and constraints imposed by the fact of a change in airport ownership. In considering and approving such requests, the FAA will remain open and flexible in specifying conditions on the use of revenue that will protect the public interest and fulfill the requirements and objectives of section 47107(b) without unnecessarily interfering with the appropriate privatization of airport infrastructure.

It is not the intention of the FAA to effectively bar airport privatization initiatives through application of the statutory requirements for use of airport revenue. Proponents of a proposed privatization or other sale of airport property clearly will need to consider the effects of Federal statutory requirements on the use of airport revenue, fair and reasonable fees for airport users, disposition of airport property, and other policies incorporated in Federal grant agreements. The FAA assumes that the proposals will be structured from the outset to comply with all such requirements, and this proposed policy is not intended to add to the considerations already involved in a transfer of airport property.

Privatization proposals can be expected to be subject to great individual variation, however, and it may be difficult for prospective

[i] The report is entitled "A Study of Airfares and Economic Growth at Pittsburgh International Airport" and is available as Allegheny Institute Report #99-13, November 1999.

[ii] As documented in "A Study of Airfares and Economic Growth at Pittsburgh International Airport," Allegheny Institute for Public Policy, November 1999.

[iii] As reported in "Taking Flight," written by Neil Fisher and published by Allegheny County in 1992, at the opening of the new Pittsburgh International Airport.

[iv] For an interesting history of the politics and posturing involved in the "selling" and development of the new Pittsburgh International Airport, read "Pittsburgh International Airport, A Commemorative Book" published by Executive Report Magazine and available from the Information and Marketing Department of the Pittsburgh International Airport Authority.

[v] As documented in "A Study of Airfares and Economic Growth at Pittsburgh International Airport," op. Cit.

[vi] Discussions have been underway for some time regarding Allegheny County's willingness to subsidize construction of a $200 million maintenance facility for USAirway's exclusive use at PIT.

[vii] All data utilized in the analysis of USAirways and its major competitors is sourced from publicly filed information with the Securities and Exchange Commission and from USAirway's reporting of financial and operating data at its Internet Web Site, www.usair.com.

[viii] As reported in both the Pittsburgh Post Gazette and the Pittsburgh Tribune Review.

[ix] USAirways utilizes an extreme level of debt to finance its capital assets (such as new airplane purchases) when compared to all other domestic air carriers. This results in dramatically higher fixed operating expenses than other air carriers, and a much higher "break even point" on its operations.

[x] This report is entitled "Economic Freedom in the 50 States: How Pennsylvania ranks and Why," and is available from the Allegheny Institute for Public Policy, as Report #99-07, July 1999.

[xi] A great deal of information on airport privatization worldwide, and including the Indianapolis experience is available in various publications of the Reason Foundation and the Consumer Policy Institute. One interesting study is entitled "More Airline Competition--Yet Another Reason for Airport Privatization" and, along with other articles, can be found on the Internet at "privatization.org."

[xii] The FAA's position on airport privatization is expressed in various reports which can be found at the FAA's Internet Web Site www.faa.gov/arp/fedreg0.htm

Pittsburgh airport is much different than Philadelphia's when flying international. Last year we traveled to Israel and had to pick up our luggage, go thru Customs, then take the luggage back thru TSA security, along with other people who were just coming into the airport. And this was after a 12-13 hour overnight flight in coach with little chance of sleep! I may be partial having lived in Pittsburgh all my life, but I have travelled quite a bit and have found Pittsburgh International Airport to be one of the cleanest and simplest airports to navigate around (comparing it to the likes of â€œThe people of Pittsburgh finally get an airport built for them and not US Air,â€ said David Minnotte, board chairman of the Allegheny County Airport Authority, which operates Pittsburgh International. Included in the $1.1 billion pricetag is $258.8 million for the parking garage and $57.1 million for roads needed once the tram and the current landside building are closed.Â That would be made possible in part by $23 million a year the authority estimates it would save by closing landside and the tram and not having to maintain elevators, escalators and people movers, all of which are nearing the end of their useful lives, Ms. Cassotis said. The timing is good as well since nearly all of the bonds used to finance the midfield terminal will be paid off next year. Fixes for common travel problems.Â Passengers walk though John F. Kennedy International Airport's Terminal 8, Queens, New York, Oct. 22, 2010. 0 Shares. Email. A naked man running through traffic causing delays probably doesn't rank high on your list of potential travel problems but it has happened on the 405 freeway leading to Los Angeles' vast international airport in the past couple of years - twice. There are lots of surprise problems that can creep up on you and throw a wrench in the best planned trips; here are seven unexpected snafus, and how to fix them. For more travel news and insights view Rick's