Airport Security: A costly enterprise

By Steven L. Reich

We read daily of diverted flights from Europe, evacuations of airport terminals because of security breaches, and renegotiations of ailing airlines and their unions to reduce costs. The events of 9/11 continue to affect our aviation system and many aspects of our lives and culture. Most experience a reminder in the onerous ritual at airport security checkpoints. Aviation security and Florida’s fiscal security are intertwined.

Florida is the only state in the U.S. that is home to 4 large-hub airports. Roughly 50 percent of the 60-plus million tourists that visit Florida arrive by air. The immediate impacts of the post-9/11 period on the state’s tourism industry were harsh. There continue to be some residual negative affects on numbers of passengers, but the lasting impacts are being felt as increased operating expenses for airlines and airport operators and costly infrastructure modifications that are now either required by regulation or essential to business operations.

The forecast growth in air travel and transport demand in Florida, coupled with the infrastructure needs of the new security measures, creates a narrow window of opportunity for airports to react.

THE FEDERAL RESPONSE

In the first week after the terrorist attacks, the U.S. airline industry lost between $1 and 2 billion. That same month, Congress passed the Airport Transportation Safety and System Stabilization Act, providing airlines with short-term assistance in cash and loans up to $15 billion. Nonetheless, by the end of 2001, the industry reported losses of over $7 billion.

With the signing of the November 2001 Aviation and Transportation Security Act (ATSA), establishing the Transportation Security Administration (TSA), commercial airports were required to begin screening all checked bags for explosives by January 2002. Other requirements of the ATSA, familiar to airline passengers, include government-issued photo IDs for boarding planes, limited access gate areas, and new limitations to carry-on items.

Further measures implemented by the industry include aggressive parking rules, traffic monitoring, and enhanced tracking of airport security identification passes. All of these security enhancements have an associated cost to air carriers and airport operators. In some cases, the impacts of diverting funds to these critical investments are all too obvious.

AIRPORTS CHALLENGED

Meeting the ASTA deadline for screening all checked luggage for potential explosives was one of the biggest challenges to airport owners and operators. Before 9/11, less than 10 percent of checked baggage loaded on domestic flights was screened for explosives. In the course of two months, 100 percent of the baggage had to be screened. Many airports met this challenging deadline with temporary measures, such as installing explosive detection systems (EDS) in their lobbies, which led to disruptions of passenger flow and terminal congestion. Permanent solutions to better placement of this equipment can require modifications to airport terminal structures to enable traditional baggage-handling areas to integrate and support the weight of EDS machines. Some of the largest airports have designed systems that will require dozens of these machines—at over $1 million each, and $200,000 per install.

While “in line” baggage screening solutions may represent the single largest ticket item, consider that airports were faced with increased operating expenses (for example, additional law enforcement personnel) and decreased operating revenues. Average passenger enplanements dropped by 6.6 percent by the end of 2001, compared to 2000. Major airlines, those with annual operating revenues of $1 billion or more, reported an overall decline in passengers of 7.4 percent. Scrambling to stay afloat, airlines were forced to reduce the number of flights and cut airfares in an attempt to restore demand. However, lower
prices made the industry's revenue decline precipitous. According to a University of Washington study, 2002/2003 airline revenues were nearly 25 percent below those posted in 2000. The financial health of the airlines made it difficult for airports to pass along their additional costs. Unable to recoup these increases, airports had (and continue to have) less available funding for capital projects and reduced debt capacity.

THE STATE RESPONSE

In the 2003 session, Florida Legislature passed House Bill 1833, the Secure Airports for Florida's Economy (SAFE) Act. This landmark legislation, signed by Governor Bush in July of that year, established a 27-member governing body, the SAFE Council, and mandated mechanisms to help ensure fully-coordinated airport and aviation security activities within the state. The Council is comprised of representatives of Florida's commercial airports, general aviation facilities, aviation industry and State agencies.

The Council has estimated that there is over $1.2 billion in identified capital needs as a result of essential or required security improvements at Florida's commercial airports. This compares to annual capital investment that has averaged $800 million for the last five years for all capital projects at 14 of the 19 commercial airports. The $1.2 billion does not include necessary enhancements at general aviation facilities.

Florida's general aviation airports support essential health, welfare, emergency and safety services. They also play a major role in commercial airline pilot training. Florida is a world center for this—training and licensing one third of all commercial airline pilots. Also, according to the Florida Department of Transportation, general aviation airports bring an estimated 9 million vacation or business travelers to the state each year, and they house more than 6 percent of the nation's general aviation fleet.

In the recently-adjourned Florida legislative session, House Bill 977 and its companion Senate Bill 1808 were passed, requiring general aviation airports with runways of 5,000 feet or greater to produce security plans. A model plan that meets TSA requirements has been published by the Florida Airports Council to guide and assist facility operators in this endeavor. Once all general aviation airport security plans are complete, the total aviation security needs of Florida will be clear.

GOOD NEWS – BAD NEWS

While the federal government is covering a significant portion of airport security expenses, the burden is not carried entirely by them. TSA promises to provide for the installation of some security equipment, but it has never specified the portion of expenses airports will carry, and compensation occurs on a case-by-case basis.

For the fastest-growing commercial airports in Florida, the fiscal challenges of the new security measures are being met without expected federal participation. Some have begun to recoup the capital outlays made to meet the required mandates. For others, though, the burden to fund security upgrades delays the investments necessary to attract new service, creating a kind of “Catch-22.”

A potentially significant but unknown cost yet to be faced by airports is new security regulations for cargo. Over the last decade, the value of Florida air cargo has been steadily growing at an average annual rate of 10.7 percent, translating to over $12 billion in 2004. Annually, Florida's aviation system transports over 2 million tons of cargo, and this figure is expected to double by 2010. Cargo transported by Florida's aviation industry is expected to exhibit a higher growth rate than passenger traffic. In the next 20 years, domestic cargo tonnage in Florida is forecast to grow at an average annual rate of 5.2 percent, outpacing the national average. International air cargo is likely to exhibit a slightly higher growth rate to that of domestic cargo. There seems to be little argument that new security mandates for air cargo will be implemented; the extent and cost of them is less certain.

Population growth and tourism are significant factors influencing statewide demand for transportation. Florida has experienced fast population growth in the past, and, over the next 20 years, the state is expected to add 5 million residents, as well as host more than 1 billion visitors. As a result, by 2020, the transportation system will need to serve 21 million residents and a substantial increase in freight movement and tourism. Recent trends show that economic activity and the demand for transportation will grow even faster than Florida's population during that period.

While the larger portion of economic impacts associated with airports in Florida is concentrated in aviation-related, transportation, food and tourist-oriented (amusement, lodging, etc.) industries overall, a significant number of Florida industries are impacted by airport operations. These groups include construction, textiles, chemical/petroleum, printing and publishing, communications, utilities, retail and wholesale trade, real estate, finance, health services, and many more. All these industries depend on air transportation services provided by Florida's airports.

Airports are extremely vital to the economic strength of the state. In financial terms alone, aviation services and facilities make an enormous contribution to Florida's economy. A study conducted in 2000 by the Florida Airports Council estimated the impact of the 7 largest airports in Florida to be approximately $40.6 billion in economic activity, including $9.8 billion in wages.

The bad news is that there appears to be over $1 billion in investment needed to address security needs. The good news is that passenger traffic is expected to reach pre-9/11 levels this year, and to grow in the foreseeable future. This presents a window of opportunity for immediate capital improvements to accommodate new passenger and security demands at Florida's airports.

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