

**ECONOMIC AND FISCAL CONSEQUENCES FOR DALLAS-FORT  
WORTH INTERNATIONAL AIRPORT AND THE NORTH TEXAS  
REGION FROM THE SHUTDOWN OF DELTA AIRLINES' HUB  
OPERATIONS**

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## **A. Introduction**

The U.S. commercial aviation industry is at a perilous juncture. Over the past two years, several legacy carriers have filed for bankruptcy while they and the rest have reduced service, wrested wage and work rule concessions from their employees, and pursued other strategies to reduce operating expenses. Combined losses over the past three years have exceeded \$30 billion, and additional bankruptcies remain a distinct possibility. The so-called discount carriers have also encountered financial stress recently and, with the exception of Southwest, are only marginally profitable.

Many factors have contributed to the parlous state of the domestic airline industry. Air travel in the U.S. grew at a rapid pace until 2001, expanding from 172 million passenger enplanements in 1970 to nearly 615 million in 2000. But the combined impact of the events of September 11, 2001, an economic recession, high fixed costs and other factors reduced traffic in 2002 back to the level of 1995. Fortunately, the past two years have witnessed a revival in air travel, though enplanements have yet to reach their pre-9/11 level.<sup>1</sup>

By early 2004, it appeared the worst was over for the legacy air carriers, and several actually reported small operating profits. But during the spring and summer months, the price of jet fuel escalated dramatically. Since fuel accounts for about 25 percent of an airline's operating expenses, the 50 percent increase put several "recovering" carriers back in the red.

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<sup>1</sup> DFW's post 9/11 rebound has outpaced the industry, and airport officials expect 2004 passenger traffic to be back to its 2000 peak of more than 60 million. But the 2005 outlook is guarded because of Delta's pullout (see discussion below).

Against this backdrop, Delta Airlines—currently the number two carrier at Dallas-Fort Worth International Airport and perhaps the most financially pressed legacy airline not currently in bankruptcy—began reducing its service from DFW several years ago. At present, Delta and its regional carrier, Atlantic Southeast Airlines, operate only 254 flights a day from DFW. To further rein in costs, on September 8, 2004 Delta announced it was shutting its hub at DFW and reducing the number of daily flights to only 21 by January 31, 2005. The aircraft are to be relocated to Delta’s hubs in Salt Lake City, Cincinnati and Atlanta.

Delta’s shrinkage at DFW International will result in 3,600 local job losses, including administrative, technical, and customer service workers. Delta’s maintenance facility will be closed and its freight operations reduced dramatically. About 1,000 Delta pilots and flight attendants currently reside in the North Texas area, and many of them may choose to relocate after the DFW base is closed in January.

Delta’s decision to pull more than 90 percent of their flights out of DFW will have serious financial implications for both the airport and the North Texas region. These are discussed below.

**B. Financial impacts on DFW Airport operations and local taxing jurisdictions from the Delta pullout**

As mentioned above, Delta currently operates 254 daily flights from DFW. Each “landing” plane pays a fee to the airport based on the weight of the aircraft. In addition, Delta makes payments to the airport for the gates it leases. Delta employees also contribute to airport parking revenue and make purchases from airport concessions.

The DFW Airport Board estimates that lost landing fees from Delta's reduced schedule for the remainder of this fiscal year will total about \$18 million, while lost gate rents and increased operations and maintenance expenses will be about \$13 million. Estimated concession sales near the Delta gates for FY05 would decline by \$29 million, which produces a loss of \$3.6 million in fee income for the airport. In addition, the loss of \$29 million of taxable sales will reduce the state's collections by about \$1.8 million and the City of Grapevine's revenues by \$290,000.

The Delta pullout will also negatively affect local property tax revenues. According to the Dallas and Tarrant County Appraisal Districts, Delta's taxable business property is currently on the rolls at \$97 million. About 90 percent of this property likely will be relocated to other taxing jurisdictions after January, with attendant revenue losses not only for the counties but also for the cities and school districts whose boundaries overlap the airport's footprint.

These amounts are not insignificant. The loss of landing fees, gate rentals, and concession income totaling \$35 million is equal to about seven percent of DFW's \$494 million FY05 operating budget. That number is estimated to increase significantly for a full 12 month period. Unless other revenue sources are found, the airport may well have to reduce its operating budget.<sup>2</sup> Or worse, under agreements with the other airlines currently providing service at DFW, those carriers could be forced to make up any operating revenue shortfalls.

Delta's pullout from DFW has also raised concerns about the airport's bonded indebtedness. Under DFW's current Capital Development Program, \$2.7 billion is being

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<sup>2</sup> American Airlines plans to increase its flight operations at DFW in 2005, which will offset some of the loss of landing fees. However, it is not clear at this time whether the additional American flights will result in any new hires or gate rentals.

invested to upgrade the airport's infrastructure, including a new international terminal, the SkyLink automated people mover, and major road improvements. With \$3.8 billion of outstanding debt, DFW will likely be under scrutiny by the financial community as a result of the Delta downsizing and the corresponding loss of revenue. Should this scenario lead to a downgrading of its bonds, DFW Airport would face higher borrowing costs for future capital improvements.

**C. Economic and fiscal impacts on the Metroplex region from the Delta downsizing**

While the financial implications for DFW airport from Delta's pullout are significant, the overall negative economic and fiscal impacts on the region will be even greater as a result of job losses, payroll reductions, and substantially reduced local procurement by the airline. To estimate these impacts, we have utilized the IMPLAN economic input/output modeled developed by the Minnesota IMPLAN Group.

Input-output models track how spending flows through a regional economy. The estimates include direct, indirect, and induced impacts. Direct impacts are the result of a firm or agency procuring goods and services in the local community. For example, Delta Airlines pays commissions to local travel agents and purchases fuel, aircraft parts, computer services, advertising time in local media, and a wide range of other goods and services in the Metroplex economy. These vendors and suppliers, in turn, purchase goods and services to support their local operations. For example, the local firm providing computer support services to Delta hires employees, purchases office supplies and computer parts, and hires professional service providers such as accountants.

The induced impacts track the economic and fiscal effects of Delta employees spending a portion of their earnings in the local economy for goods and services. Each of these impacts is adjusted to only account for local purchases. For example, when Delta purchases jet fuel from a local vendor, only a small part of the related activity actually occurs in the DFW region because we do not have extensive oil production and refining activities in North Texas. When added together, the sum of all of the activity from direct, indirect, and induced impacts is greater than the local proportion of Delta's spending, which is the "multiplier effect." This multiplier effect occurs not only when a new company comes to the region, or an existing firm expands, but also when an ongoing business like Delta Airlines leaves the local economy.

When Delta withdraws 90 percent of its operations at DFW International Airport, many local businesses will lose a valuable, long-term customer. Based on our input-output models, some of the local industries providing goods and services to Delta that will be hardest hit include computer and data processing services; petroleum and petrochemical related industries; banking and other financial services; travel agents; aircraft, aircraft parts, and maintenance service providers; personnel supply services; and many others (see Table 1).

**Table 1**

**Impacts on Delta Vendors in the Dallas-Fort Worth Region  
Based on Reduced Operations at DFW International Airport  
(Top 10 Industry Groups by Value of Lost Activity per Year)**

Industry Group	Estimated Reduction in Economic Activity*
Aircraft, Aircraft Parts, Aircraft Services	\$ 19,035,575
Computer & Data Processing Services	\$ 6,718,708
Professional Services (real estate, legal, accounting, other)	\$ 5,271,699
Petroleum and Petrochemical	\$ 4,663,460
Air and Ground Transportation Services	\$ 4,006,343
Financial Services	\$ 3,509,029
Communications, Advertising, Media	\$ 3,252,352
Wholesale Trade	\$ 3,013,851
Hospitality Industry (eating, drinking, lodging)	\$ 1,484,168
Personnel Supply Services	\$ 1,031,426

\* Based on IMPLAN input-output model estimates. We were not provided with specific data on Delta’s local procurement of goods and services. This is only the value of activity that remains in the local economy. For example, total fuel purchases for Delta aircraft coming through DFW could approach \$100 million per year.

In estimating the total economic and fiscal impact of Delta’s reduction in activities at DFW International Airport, we have made the following assumptions. According to local media reports, Delta’s local ground-based workforce will be reduced by 3,600 jobs including administrative, technical, and customer service functions. Delta currently has about 361 pilots and 650 flight attendants based at DFW International Airport. If flight activity is reduced by 90 percent, we assume that a proportional share of flight crew will be affected. However, flight crew personnel have the option of “commuting” from their homes to another flight base. To be conservative in our estimates of the negative impacts of Delta’s reduction in flights at DFW International Airport, we have assumed that 50 percent of the flight crew personnel transferred to other Delta cities will choose to

continue to reside in the Metroplex. Therefore, the induced impacts of spending by these individuals will remain in north Texas.

As noted earlier, in addition to the direct, indirect, and induced impacts of the Delta pullout, the loss of passenger traffic will reduce retail, food, and beverage sales at DFW International Airport. Our estimates include the local economic and fiscal impacts of these losses.

Including direct, indirect, and induced impacts as described above, when Delta Airlines carries out its announced reduction in flights at DFW International Airport in early 2005, total economic activity in the Metroplex will decline by \$782 million annually (see Table 2). This reduction in activity will cost the regional economy over 7,000 jobs paying more than \$344 million in annual wages, salaries, and benefits. Property income from rents, dividends, and other sources will decrease by \$143 million each year. State and local governments will also experience an estimated loss in yearly tax revenues of about \$58 million. These revenue losses include valuations associated with Delta aircraft currently based at DFW International Airport that will be relocated.

**Table 2**

**Economic and Fiscal Impacts of Delta Reducing Operations at DFW**  
(assumes 50% of reassigned flight crew continues to live in DFW area)

Description	Impact
Total Economic Activity	\$ -782,311,000
Total Wages, Salaries, Benefits	\$ -344,207,000
Total Employment	-7,056
Total Property Income*	\$ -143,278,000
State and Local Taxes <sup>+</sup>	\$ -57,951,000

\* Includes royalties, rents, dividends, and corporate profits.

+ Includes sales, excise, property taxes, fees, and licenses.

#### **D. Summary and conclusion**

Since 1990, Dallas/Fort Worth has been the fastest-growing major metropolitan area in the nation in terms of people and jobs. Without question, DFW International Airport is one of the economic engines that has helped sustain that growth. On-going and planned expansion projects will ensure the airport remains competitive in the decades ahead. But for the near-term, the airport faces some serious challenges as a result of Delta's decision to "de-hub" at DFW.

*As documented above, Delta's pullout will affect the finances of both the airport and the region. The airport must close a \$35 million gap from lost landing fees, gate rentals, and concession sales in FY05. The loss of more than 7,000 direct and indirect jobs, with attendant reductions of income and spending, will ripple through the region, reducing annual economic activity by \$782 million. Local salaries and wages will be diminished by \$344 million annually while state and local governments will lose \$58 million of much-needed revenue.*

New flights planned by American Airlines next year will generate some additional landing fees, but the airport will be severely pressed to fill the 24 gates left vacant by Delta. Given Southwest Airlines' decision not to move any flights to DFW, and the reluctance of other discount carriers to serve DFW with Southwest making noises about expanding service from Love Field, it may be many years before DFW's gates and terminals are fully utilized.