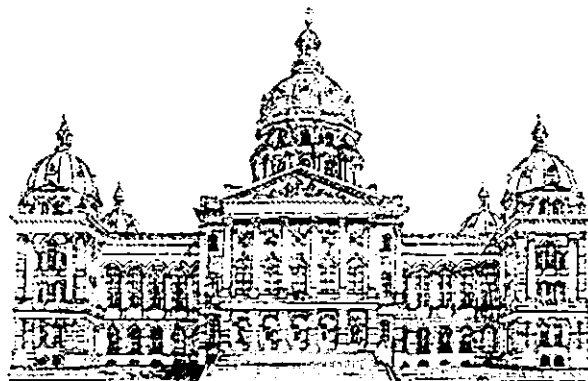


FINAL REPORT

AVIATION TRANSPORTATION IN IOWA STUDY COMMITTEE



Presented to the
LEGISLATIVE COUNCIL
and the
IOWA GENERAL ASSEMBLY
January 2000

Prepared by the
LEGISLATIVE SERVICE BUREAU



Legislative
Service Bureau

FINAL REPORT

Aviation Transportation in Iowa Study Committee

January 2000

MEMBERS

Senator Derryl McLaren, Co-chairperson
Senator Richard Drake
Senator JoAnn Johnson
Senator John Judge
Senator Matt McCoy

Representative Libby Jacobs, Co-chairperson
Representative Frank Chiodo
Representative Bill Dotzler
Representative Willard Jenkins
Representative Steve Kettering

AUTHORIZATION AND APPOINTMENT

The Aviation Transportation in Iowa Study Committee was established by the Legislative Council for the 1999 Interim and provided the following charge: "Review all issues concerning aviation transportation in Iowa. The study shall include proposals for establishing an Iowa office of aviation and a Governor's council for air service development to provide leadership concerning aviation service in this state."

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Aviation Transportation in Iowa Study Committee

I. Overview.

The Aviation Transportation in Iowa Study Committee was established following the 1999 Session of the General Assembly during which concerns were raised regarding the quality of commercial air service available to the citizens of the State. In April 1999, Senate File 476 was introduced.

Senate File 476 relates to financial assistance for air transportation expansion and infrastructure. The bill appropriates to the Department of Economic Development for the 1999-2000 fiscal year \$10 million from the Iowa Comprehensive Petroleum Underground Storage Tank Fund for purposes of providing financial assistance in the form of loans to meet air transportation expansion and infrastructure needs in the State. The bill provides that an initial round of air transportation infrastructure financial assistance disbursements shall be made by the department in installments of \$3 million on or after July 1, 1999, and \$3 million on or after January 1, 2000, provided that certain criteria are met by an applicant. The bill provides that a second round of air transportation infrastructure financial assistance disbursements totaling not more than \$4 million may be made in any number of installments at any time after January 1, 2000, by the Department of Economic Development only after a determination of necessity has been made by the Department of Management and the Legislative Council. The bill provides that the Department of Economic Development shall report to the Department of Management and the Legislative Council quarterly in an effort to provide the Department of Management and the Legislative Council with information necessary to make a determination of necessity. The bill provides that moneys appropriated from the Iowa Comprehensive Petroleum Underground Storage Tank Fund that remain unencumbered or unobligated at the close of the fiscal year shall not revert.

Under Senate File 476, one of the required criteria is that an applicant for financial assistance be an Iowa-based airline company with immediate expansion and infrastructure needs. At the time the bill was introduced, there were only two major Iowa-based airline companies - AccessAir and Great Lakes Aviation.

The Senate passed Senate File 476 on April 26, 1999. The 1999 Session of the General Assembly adjourned before the House of Representatives was able to debate Senate File 476 on the floor.

II. Committee Proceedings.

The Aviation Transportation in Iowa Study Committee met on July 20, 1999, and September 16, 1999, in order to receive testimony and make recommendations.



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III. July Meeting.

The first meeting of the Aviation Transportation in Iowa Study Committee was held on July 20, 1999, in the auditorium of the Iowa Historical Building in Des Moines, Iowa. The testimony received by the Committee is summarized as follows:

A. Department of Economic Development. Bob Henningsen, Business Development Division, Department of Economic Development, discussed the importance of air transportation in recruiting and retaining businesses in Iowa. He discussed the common perceptions that Iowa is a remote location for many businesses and that the availability of air transportation in the State is fair to poor. Mr. Henningsen discussed how these perceptions, particularly regarding the lack of adequate air service, adversely affects Iowa's ability to recruit and retain businesses.

Mr. Henningsen stated that improvements in air service in other communities have provided direct benefits to those communities. He explained that Iowa stands to gain significant benefits from improving commercial air service in the State, including direct cost savings for individuals and businesses stemming from greater competition and lower fares. Iowa would also benefit from enhanced competitiveness for economic development. Mr. Henningsen also discussed the importance of air infrastructure to both large and small communities and how infrastructure that allows communities to bring in corporate jets is vital to economic development in the area.

Mr. Henningsen stated that the Department of Economic Development supports AccessAir because of the company's sound business strategy, the possibility of more affordable air fares in the State due to increased competition, the company's goal of serving key markets, and the possible statewide impact of AccessAir, including increased competition and a direct effect on costs and the level of service in other areas of the State.

B. Chambers of Commerce.

Des Moines Chamber. Doug Siedenburg, Chair of the Air Service Council, Des Moines Chamber of Commerce, discussed issues regarding air service and its impact on businesses in Des Moines and the State in general. Mr. Siedenburg explained the chamber's role in encouraging more affordable air fares to the State and explained that the chamber has been active on both the federal and state levels to resolve the State's air service situation. Mr. Siedenburg proposed a state commercial aviation system plan which would provide for increased annual funding for the 10 commercial center airports, including significant funding for noninfrastructure use such as marketing and passenger incentives. Forty-five percent of the funding would be divided equally among the 10 commercial center airports, 45 percent would be distributed based on passenger enplanements, and 10 percent would be distributed based on air freight tonnage. In addition, Mr. Siedenburg proposed that the State create a \$20 million Commercial Aviation Economic Development Fund that private-public partnerships could use to create new opportunities in their air service markets.



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Siouxland Chamber. Debi Durham, Siouxland Chamber of Commerce, explained that there has been a significant reduction in air service and passenger enplanements at Sioux Gateway Airport that does not correspond with the robust economic growth of the Siouxland region. She stated that passenger leakage to other airports has increased from 25 percent to 60 percent in the last 10 years. Ms. Durham discussed the Sioux City Chamber's efforts to increase air service in the region over the last several years, especially to Chicago. She suggested the creation of a state Department of Aviation to focus state efforts in the areas of aviation capital improvements, carrier improvement and retention, and air service marketing.

C. Airports.

Fort Dodge. Rhonda Chambers, Fort Dodge Regional Airport, discussed issues regarding the current status of air service in the Fort Dodge area. Ms. Chambers discussed the customers served by the Fort Dodge Regional Airport and the importance of the airport's relationship with the only major air carrier at the airport, Northwest Airlines, in maintaining and improving air service at the airport. She stated that, although the airport saw a decline in enplanements in 1996 with the loss of Vanguard Airlines, it is doing extremely well and she hopes to reach the 10,000-enplanement level this year so that the airport can receive entitlement funding from the Federal Aviation Administration for infrastructure and other projects. Ms. Chambers expressed indifference in regard to the impact that AccessAir has had on the Fort Dodge Regional Airport.

Mason City. Duane Haataja, Mason City Municipal Airport, stated that the Mason City Municipal Airport is struggling to provide competitive air service in its region at affordable rates. According to a 1998 Iowa Department of Transportation-commissioned study, 80 percent of the airport's potential passengers are leaking to other airports within driving distance. Mr. Haataja encouraged the creation of a state Department of Aviation to provide support and assistance to the State's airports. He also suggested that the State encourage and financially assist aviation marketing programs in the future.

D. Legislative Fiscal Bureau. Jeff Robinson, Legislative Fiscal Bureau, discussed the potential direct savings to Iowa passengers as a result of the addition of AccessAir to the air service market in Iowa.

E. AccessAir. Roger Ferguson, AccessAir, discussed issues regarding the development and current status of AccessAir. Mr. Ferguson discussed how air fares have been increasing and air service has been decreasing in recent years in Iowa. He explained AccessAir's strategy of seeking out destinations, routes, and markets where there is reasonable competition and of providing unique pricing and service to enhance AccessAir's competitiveness in the market. Mr. Ferguson discussed private and public funding sources received by AccessAir, including state funding from Iowa and Illinois. Mr. Ferguson also discussed plans for obtaining additional planes and obtaining a slot in Washington, D.C. He emphasized the importance of receiving additional state funding in order to obtain additional planes, improve air service, and lower air fares.



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Mr. Ferguson discussed the potential benefits he believes will occur at both large and small airports in the State as a result of AccessAir's presence in the air service market, including increased traffic in the airports served by AccessAir due to lower fares and increased service, increased traffic at smaller airports due to fare-matching at those airports, and economic development throughout the State.

IV. September Meeting.

The second meeting of the Aviation Transportation in Iowa Study Committee was held on September 16, 1999, in the Supreme Court Chamber in the State Capitol in Des Moines, Iowa. The testimony received by the Committee is summarized as follows:

A. Iowa Department of Transportation.

Aviation Programs. Dennis Tice, Director, Planning and Programming Division, Iowa Department of Transportation (IDOT), stated that there are 113 publicly owned airports in Iowa - 10 commercial service airports, 34 primary general aviation airports, and 69 general aviation airports. Most passenger enplanements in Iowa are attributed to Des Moines and Cedar Rapids and to business travel, while most freight tonnage in Iowa is attributed to Des Moines and Cedar Rapids. He explained that air fares in Iowa are not consistently comparable with those in other states. The primary factor affecting air fares is competition, which is influenced by federal regulation (slots), the hub system, equipment types, overall system capacity, carriers, and other issues.

Mr. Tice described various aviation programs providing financial support to airports within the State. The federal Airport Improvement Program (AIP) provides infrastructure funding to commercial service and general aviation airports on a 10 percent airport match basis and has historically provided about \$12 million a year to the State's airports. The State Airport Improvement Program provides funds for airside facilities to general aviation airports and commercial service airports not receiving federal AIP entitlement funds on a 30 percent airport match basis. The Commercial Air Service Marketing Program provides commercial service airports with funds for airport marketing and promotion. Additionally, Rebuild Iowa Infrastructure Fund moneys are appropriated for vertical infrastructure improvements at commercial service airports and general aviation airports. Mr. Tice also explained that local funds are used for maintenance, operating expenses, matching funds for state and federal grants, capital improvements, and other miscellaneous projects.

Federal Initiatives. Dan Franklin, Office of Policy and Legislative Services, IDOT, discussed pending federal legislation. He stated that there were two bills pending in Congress which would reauthorize federal aviation programs, one reauthorizing programs for two years and one for six years, the passage of which are uncertain. Mr. Franklin stated that there has been significant federal activity regarding the investigation of high air fares and passenger rights issues which may be folded into the long-term reauthorization bill. In 1998, the total amount of federal aviation aid to Iowa totaled approximately \$22 million plus \$700,000 in reauthorization funds.



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B. Thomas Aller, Vice President of Investments, Alliant Energy, and Transportation Commissioner. Mr. Aller discussed his personal views regarding the need for an increased emphasis on aviation in Iowa, the need for an emphasis on intermodal activity, and the importance aviation transportation will have in affecting future economic growth in the State. Mr. Aller advocated elevating the role of aviation in the structural organization of the state transportation system.

Mr. Aller commented that there are more legitimate aviation needs in the State than there is funding available. He emphasized attention to the needs of the State as a whole rather than just to those areas with commercial service and general aviation airports. Mr. Aller stated that Iowa's future is tied both to investment in the 10 largest airports in the State and to aviation transportation as a whole. He stated that a large part of Iowa's economic growth will be tied to moving passengers and cargo in and out of the State.

C. Airlines.

1. **Northwest Airlines.** Bob Benner, Director, State and Local Affairs, appeared on behalf of Northwest Airlines. Mr. Benner discussed Northwest's current service in Iowa airports, the competitiveness of Northwest's ticket pricing, and the general health of the airline industry. He commented that Northwest had experienced significant air passenger growth averaging 11 percent per year between 1984 and 1998. Mr. Benner stated that there is a high correlation between air fare prices and distance traveled and that fares in Iowa are comparable to fares in other states. He stated that walk-up fares are often higher due to the reduced flight frequency in the State. Mr. Benner stated that the airline industry is extremely cyclical and is very sensitive to economic pressures.
2. **Great Lakes Aviation.** Doug Voss, Chairman, President, and Chief Executive Officer, appeared on behalf of Great Lakes Aviation. Mr. Voss discussed the challenges of operating a regional airline, including the difficulties of matching fares at other airports in the region while trying to run a profitable operation. Mr. Voss stated that Great Lakes Aviation is headquartered in Spencer, Iowa, and has managed the Spencer Municipal Airport since 1980. Its United Express operations serve 70 cities in 15 states. Mr. Voss stated that Great Lakes has struggled to achieve and maintain profitability, especially in light of its subsidization of federally mandated, but unfunded essential air service (EAS) during a period of federal budget cuts.

Mr. Voss stated that Great Lakes was able to achieve profitability in 1998 through three avenues: transitioning of a large portion of its aircraft and equipment to United Airlines' Denver hub to improve aircraft utilization and focusing less on flights generated from Chicago O'Hare's slot-restricted airport; discontinuing service to small communities as fast as the federal Department of Transportation's EAS policies will allow; and increasing yield (revenue per



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passenger mile) by raising fares in order to achieve maximum net revenue per segment.

Mr. Voss encouraged the Committee to review several federal aviation policies, including the latitude given to the federal Department of Transportation to *adjust eligibility of communities in the EAS program, airport slot allocation, and the method for measurement of success between the airlines and the communities they serve.* He stated that growing passenger enplanements do not necessarily equate to success.

D. Spencer Airport. Brenda Dryer, Executive Director, appeared on behalf of the Iowa Great Lakes Corridor of Opportunity. Ms. Dryer discussed the importance of the air service at the Spencer Municipal Airport to the community and the economic development of the community, the amount of investment that has been made in the airport, and the importance of Great Lakes Aviation to the Spencer community. Ms. Dryer stated that Spencer Municipal Airport acts as a regional hub for a 50-mile radius around Spencer and that 66 percent of the people in the region are going outside the State for air travel. She stated that enplanements decreased in the mid-1990s, but have rebounded somewhat in 1999.

Ms. Dryer urged state support for development of the *Spencer Municipal Airport*, including encouraging the opening of slots at Chicago O'Hare so that more air service providers would become interested in providing service to the Spencer Municipal Airport.

E. AccessAir – Department of Economic Development.

Current Investments. Bob Henningsen and Mike Fastenau, Department of Economic Development, presented information regarding the state's financial investment in AccessAir through the Physical Infrastructure Assistance Program and provided an overview of AccessAir's financial state. Mr. Fastenau stated that the State has made approximately a \$4.55 million total investment in AccessAir – \$3 million in direct loans, \$750,000 in a direct loan to be repaid in passenger credits, and an \$800,000 forgivable loan. In return, AccessAir has promised to provide passenger air service from a minimum of three Iowa communities to New York, Los Angeles, and other national airports, serve over 675,000 passengers annually from Iowa, employ at least 400 individuals in Iowa, and invest over \$30 million in the operation.

Financial Factors. Mr. Fastenau explained that several factors have affected AccessAir's financial state in the past several months: the delay in obtaining Federal Aviation Administration (FAA) certification, the delay on approval of AccessAir's third and fourth planes, and AccessAir's increased expenses to accommodate air passengers displaced from AccessAir flights cancelled due to lack of plane approval. According to the department, 40 percent of AccessAir's negative net worth occurred prior to operation, and 20 percent occurred in June and July when such air passenger accommodation expenses were incurred. The department projects that AccessAir will have a positive



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cash flow by December 1999, and a positive net income by January 2000, if plans for additional planes proceed as planned.

F. Airport Panel.

Airports Association. Ed Elam, Past President, Iowa Public Airports Association, stated that AccessAir is not a perfect solution for the entire state and encouraged the Committee to examine and expand current state aviation programs, create an office of aviation, and create an airport revolving loan program. He commented that general aviation airports are often stepping stones for businesses to compete in the world market, but that airports need sufficient runways for many of these businesses to locate in Iowa.

Des Moines Airport. Bill Flannery, Aviation Director, Des Moines International Airport, stated that Iowa has excellent air service but has a problem with high fares. He stated that the high fares are primarily affected by competition and that airlines should expand their service to other areas. Mr. Flannery stated that the Des Moines International Airport is working to expand to two full runways by 2002 to accommodate expanded air service, especially cargo air service. He commented that Iowa's geographic location is great for businesses since it is in the center of the country.

Southwest Iowa Airport. Mike Salamone, Southeast Iowa Regional Airport, encouraged political subdivisions to establish aviation authorities to operate and support airports in their communities. He stated that aviation authorities offer the opportunity to spread responsibility and liability among several entities. Mr. Salamone encouraged the Committee to expand the authority of aviation authorities in Iowa Code chapter 330A. Mr. Salamone encouraged the state to coordinate data collection on air service issues and to establish a statewide position on air service issues.

Dubuque Airport. Arnold Honkamp, Dubuque Airport, stated that airports need more funding and should be able to tax the customers in the region served by the airport or to receive funding equal to the tax revenues generated by the airport. He encouraged the Committee to create a stronger aviation department, increase support to more airports in the State, continue the Commercial Air Service Marketing Program with some changes in the formula for distribution, and reevaluate the Rebuild Iowa Infrastructure Fund allocations.

V. Recommendations.

The Aviation Transportation in Iowa Study Committee adopted the following recommendations:

A. Department of Transportation.

1. That air service and aviation issues be given high priority within the Iowa Department of Transportation through the development of an aviation division within the department, that there be improved communication and



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coordination between various state departments regarding all issues relating to aviation, and that the General Assembly establish a statewide Council on Air Service to examine and act upon any issues related to air service in the State. The council shall be composed of geographically diverse representatives of the business community and airports in the State, and shall also include representatives of state government.

2. That the Iowa Department of Transportation increase the emphasis on commercial air service to the citizens of the State. The Committee recommends that the department should continue to support general aviation for the sectors of business and leisure interests.

B. Markets. The Aviation Transportation in Iowa Study Committee finds that a substantial economic benefit can be achieved for the citizens of the State through competitive passenger and cargo service markets. The public savings and additional economic development opportunities warrant the attention of the State.

The Committee recommends that the Department of Economic Development be directed to explore all possible sources of financial investment and assistance to Iowa-based airlines to encourage competition in the airline passenger market in Iowa.

C. Department Report. That the Department of Economic Development with the participation and cooperation of the Iowa Department of Transportation present a report to the General Assembly by December 15, 1999, which identifies additional initiatives which would stimulate quality, affordable air service, and competition. (A copy of this report is on file in the Legislative Service Bureau.)

D. Aviation Needs. That the Council on Air Service examine the commercial aviation needs of the State and provide recommendations on each of the following:

1. The current unmet needs of Iowa business and leisure travelers.
2. How a total transportation system of highways, rail, and airports can be better networked to meet air service needs.

E. Funding Aspects. That a review be performed of both of the following:

1. The funding formulas for airports.
2. The definition of vertical infrastructure within the Rebuild Iowa Infrastructure Fund in relation to airports.

VI. Materials on File in the Legislative Service Bureau.

A. Committee Rules of Procedure.

B. Bob Henningsen, Iowa Department of Economic Development, filed the following:



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1. A presentation handout.
 2. A handout regarding the Physical Infrastructure Assistance Program participation in AccessAir and AccessAir financial information.
- C. Doug Siedenburger, Greater Des Moines Chamber of Commerce Federation, filed the following:
1. Presentation handout.
 2. A handout titled, "A Commercial Aviation System Plan."
- D. Rhonda Chambers, Fort Dodge Regional Airport, filed a presentation handout.
- E. Duane Haataja, Mason City Municipal Airport, filed a presentation handout.
- F. Debi Durham, Siouxland Chamber of Commerce, filed the following:
1. Written testimony of Ms. Durham.
 2. A handout published by the Sioux Gateway Airport.
- G. Jeff Robinson, Legislative Fiscal Bureau, filed a presentation handout.
- H. Rich Dickinson, Greater Dubuque Development Corporation, filed a letter.
- I. Roger Ferguson, AccessAir, filed the following:
1. A handout titled, "AccessAir."
 2. A handout titled, "AccessAir: Whatever Happened to Iowa's Air Service?"
- J. Representatives of the Iowa Department of Transportation filed the following:
1. A handout titled, "Iowa Aviation."
 2. A memorandum to Representative Willard Jenkins regarding the organization of aviation within state government.
 3. A handout titled, "State Aviation Funding and Organizational Data" published by the National Association of State Aviation Officials.
 4. A handout titled, "Aviation Bills in Congress - 1999."
 5. A handout titled, "1999 Air Reauthorization Comparisons."
- K. Bob Benner, Northwest Airlines, filed a handout titled, "The Northwest Iowa Commitment, Domestic Pricing Analysis - Northwest Airlines."
- L. Douglas Voss, Great Lakes Airlines, filed a presentation handout.
- M. Brenda Dryer, Iowa Great Lakes Corridor of Opportunity, filed a presentation handout.



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N. Michael Salamone, Southeast Iowa Regional Airport Authority, filed a handout titled, "Recommended Legislative Changes to Iowa's State Aviation Programs."

O. Bill Flannery, Des Moines International Airport, filed a presentation handout.

P. The Department of Economic Development, in cooperation with the Iowa Department of Transportation, filed a report in December 1999 in response to the recommendations of the Committee.

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