

TESTIMONY OF
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EXECUTIVE DIRECTOR, NORTH DAKOTA AERONAUTICS COMMISSION
BEFORE THE
SENATE APPROPRIATIONS
JANUARY 12th, 2021
SENATE BILL 2006

Chairman Holmberg and members of the committee,

My name is Kyle Wanner and I am the Director of the North Dakota Aeronautics Commission and will be providing testimony today regarding Senate Bill 2006.

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The Aeronautics Commission was created by the Legislature in 1947 to support the aviation community in North Dakota. The agency's mission is "to serve the public by providing economic and technical assistance for the aviation community while ensuring the cost-effective advancement of aviation in North Dakota."

This slide provides the relevant century code chapters that our agency adheres to and also lists some of the major statutory responsibilities which includes our mission to encourage and provide support to grow and maintain our public-use airports.

We also represent the state and industry in all matters relating to aeronautical activities, and we work to uphold regulatory functions such as the registering of aircraft and the licensing of aerial applicators and aircraft dealers. Our main revenue sources come from aviation aircraft excise taxes and aviation fuel taxes. These revenues provide the ability for our agency to operate but most of all they provide infrastructure grant funding to our public use airports in order to help maintain and to grow our aviation facilities.

As the Director of the agency, I also have the privilege to serve as a member of the Northern Plains Unmanned Aircraft Systems Test Site Authority, the Upper Great Plains Transportation Institute Advisory Board, and the North Dakota Atmospheric Resource Board.

I am also happy to report that the audit for the ND Aeronautics for the biennium ending June 30th, 2019 did not identify any exceptions or defaults.

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The North Dakota Aeronautics Commission serves multiple functions. As previously mentioned, one of those functions includes providing airport infrastructure grant funding as well as planning services to the 89 public service airports throughout the state. The aeronautics staff visits at least 1/3 of all of the public-use airports in the state annually which is a great opportunity to develop a positive relationship with the airports, learn about their needs and priorities, and make recommendations on safety enhancing projects. The staff also updates critical airport information after each inspection so that pilots have the most up to date information to use as they utilize the North Dakota airport system. Additionally, the commission updates and provides aviation publications on statewide aviation studies and the state airport directory.

The commission also offers aviation education funding and works with the Aviation Museums and our non-profit aviation organizations to encourage and promote aviation careers in North Dakota.

We also own and operate the International Peace Garden and Garrison Dam Recreational airports.

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This slide provides a listing of many of the other programs and benefits that we offer to the public and the North Dakota aviation community.

Overall, these programs enhance our mission by encouraging aviation careers to our youth while also supporting our airports and enhancing safety. Our office also manages a statewide maintenance contract for 33 Automated Weather Observation Systems at airports across the state which greatly help to provide up to date weather to pilots, businesses, and medical providers as they fly into and around our communities.

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Our agency strives to provide the best services possible with a small, efficient, and competent staff. The agency is overseen by a Governor appointed board of 5 members who help provide oversight over the agency. They also enable their aviation career experience to be utilized as a resource which helps to provide strategic direction to the staff. The Aeronautics Commission currently has a staff size of 6 and the budget current allows up to 7 full time equivalent staff members which is unchanged from the previous biennium. The staff size presented in the current budget proposal is currently seen as adequate for the upcoming biennium.

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To introduce our commissioners:

Warren Pietsch of Minot is currently the commission chairperson, Kyle Humann, of Mandan, Cindy Schreiber-Beck of Wahpeton, Jay B. Lindquist of Hettinger, and Dr. Kim Kenville of Grand Forks, cumulatively comprise the full commission. This group is geographically represented well, and each member brings a different set of aviation expertise for the agency to utilize as a resource.

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Aviation is an important industry to North Dakota and serves a variety of critical functions from public transportation, emergency access, and aerial crop spraying. Our airports become especially critical during a time when our state is looking for ways to diversify and grow the economy. Even during the current COVID-19 pandemic, our public airports have never closed...and they were able to ensure that emergency related personnel and products have been able to efficiently enter and depart our state. Though our passenger traffic has been significantly impacted by COVID-19, our airports have seen a record amount of air cargo tonnage as people have adjusted to ordering more goods and products online.

Not only is aviation a safe and efficient way to transport goods and people, but when our economy is able to fully function - our airports act as key economic engines for their communities as documented by the 2015 economic impact study which revealed that the public airports in the state provide an annual economic impact of 1.6 billion dollars to the state's economy while supporting over 12,200 jobs. It is for that reason; that I believe our airports are going to play a critical role in our nation's post pandemic recovery.

Our state currently provides financial support through infrastructure grants for 89 Public-use airports. 71 of those airports maintain paved surfaces and 18 of those airports maintain turf runways. 54 of our airports are eligible to receive federal funding as a part of the National Plan of Integrated Airport Systems or "NPIAS" and 35 of our airports rely solely on state and local funding to survive.

It's also important to mention that there are over 200 private airstrips that also exist throughout the state.

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Our agency has accomplished much over the past biennium, but I would like to highlight a few major accomplishments that we are proud of -

Our agency has worked to complete a customized update to our Aviation Information Management System which has enabled our agency to become more efficient and accurate in processing all of the registrations and licenses that are a part of our regulatory function. The improved database can also generate quick and accurate reports and helps our staff become more effective when conducting outreach to the aviation community. The utilization of the database to generate e-mails to send reminders and documentation will also significantly reduce mailing costs over time.

The agency also had great success in adapting to the COVID-19 pandemic. We successfully transitioned to an at-home work environment as mandated at the start of the pandemic and then successfully re-opened the office to the public in early June. Since that time, I have cycled employees to work from the office and home environment with great success.

During the beginning of the pandemic, we were able to successfully coordinate issues and concerns with the airports and the Governor's office as executive orders were being released and more information on the virus became available. We were also working with the Federal Aviation Administration to fully understand the extent of the CARES grants that were being released to the airports this past Spring.

In April, our Commercial service airports saw an immediate 95% decline in passenger numbers due to the COVID-19 pandemic which was very concerning since they also receive most of their revenue in the form of vehicle parking fees, car rental concessionaire fees, and passenger facility charges from airline ticket purchases. Essentially, the local revenue being received at our airports in North Dakota and airports throughout the country had dropped immediately and substantially due to public reaction to COVID-19. Thanks to the federal CARES grants, our airports were allocated \$69 million dollars in federal funds that they have been able to receive in reimbursable payments by submitting costs associated with salaries and operations to the FAA. None of these CARES grants are able to be utilized on airport capital development projects, but they have greatly helped to ensure that our airports can stay afloat during these difficult times.

Our office also quickly reacted to the additional development funding that was also made available to airports this past fiscal year and an additional \$88 million was able to be leveraged from the federal government for high priority airport projects in the state.

Our agency also received a federal grant for \$20,000 to help with operational costs at the International Peace Garden airport as a part of the CARES funding. This was the only federal funding that the Aeronautics Commission received relating to the COVID-19 pandemic.

Our staff has also been busy at work with our airports to re-prioritize projects listed on their capital improvement plans now that demand and forecast models have been adversely affected due to the COVID-19 pandemic. We have shifted many priorities from expansionary projects to rehabilitation and maintenance projects and have delayed moving forward on certain projects due to these reasons.

This readjustment of airport development priorities is critical so that we can continue to leverage federal airport infrastructure project funds in the following biennium while being flexible and ready to move projects forward if additional federal or state dollars become available. We also needed to adapt to the fact that \$20 million dollars of oil revenue fund deposit to the Airport Infrastructure as a result of last legislative sessions' "Operation Prairie Dog" bill is not expected to arrive in this biennium.

Over the last two years, our agency allocated \$7 million in airport infrastructure grants to 313 different airport projects all throughout the state from the special fund dollars that our agency collects from aviation taxes and fees.

Last legislative session, our agency was also provided with a one-time \$20 million-dollar SIF transfer to help fund major airport projects in Dickinson and Watford City. \$7 million from that fund has been allocated to date and it is expected that the remaining amount will be allocated this summer once the final phase of Dickinson's runway project is bid. It is estimated that this \$20 million-dollar one-time transfer will have successfully leveraged an estimated \$37 million in federal funds once these projects are completed.

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Our office recently received this document from the Federal Aviation Administration which highlights the amount of funds that we have received each year from them dating back to 2010.

Prior to 2012, our state had a ten-year average of \$25 million per year being received from the FAA. The national funding levels from the FAA have essentially stayed the same since 2001, but our state has seen

incredible success in recent years in leveraging more federal dollars. Our most recent 10-year annual average of FAA funding being received in-state has now more than doubled to an average \$55 million per year.

This success is due to our pro-activeness in:

- Identifying good justifiable projects that receive high priority consideration
- Ensuring that projects are shovel ready and prepared to receive grant funding during the federal fiscal year window
- Ensuring the availability of higher amounts of state and local funding to match the federal funds

As we work to maintain our airport infrastructure, federal funding has and will continue to be a key part of solving the infrastructure funding challenges that our state is currently facing. 54 of our 89 airports are eligible to receive federal dollars and they compete for these funds nationally and may receive up to 90% funding if funds are available. It is very important to understand that federal funding is not guaranteed, that not all projects are eligible to receive federal funding, and that there have been many cases where federal grants have been provided at much less than 90% which is when local and state dollars are needed to fill the gaps.

The COVID-19 pandemic has also created more uncertainty around the future availability of federal funding and we want to ensure that we are ready to capitalize on any opportunities that do arise as other states may not have adequate local or state funds to leverage those federal dollars. I recommend that North Dakota position itself wisely in order to allow its airports to adapt to either new challenges or new opportunities.

Economic downturns are also incredible opportunities to receive a discount on projects as construction companies are bidding in a more competitive environment.

We are hopeful that as we continue to educate and work with the Federal Aviation Administration on the needs within our state, that an adequate level of funding and commitment to help with our infrastructure challenges will continue into the future.

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Since North Dakota has taken a pro-active role in identifying, justifying, and providing additional financial assistance on airport projects, the state has received an estimated \$548 million from the federal government for airport projects over the last ten years. In that same time period, the state has invested a total of \$151 million in airport projects. For every \$1 dollar that the state has invested in airport projects, we have received \$3.63 from the federal government which is an incredible return on investment.

These dollars support construction jobs and allow our airport infrastructure to be maintained while helping to grow our communities.

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To provide some additional highlights from this past biennium I will start by discussing some key Infrastructure projects have been completed at our 8 commercial service airports.

- Fargo received the funding required to complete the final phase of its major cargo apron expansion as the airport had been named a UPS and FEDEX hub for the region creating hundreds of new jobs for the Fargo area. The airport also began work on a much-needed snow removal equipment building expansion.
- Grand Forks is working to complete its work on an environmental study that would allow the airport to move forward to reconstruct and extend its crosswind runway and then reconstruct its primary runway.
- Devils Lake received new snow removal equipment
- Jamestown worked on a terminal apron reconstruction project.

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- Minot completed the final phase of the rehabilitation of its general aviation apron.
- Bismarck completed the final phase of its \$64 million dollar project to fully replace its ageing pavements on the primary runway.
- Dickinson completed its primary parallel taxiway which has been converted to be utilized as a runway until the primary runway reconstruction is completed in 2022.
- The new airport in Williston opened in the Fall of 2019 and this summer the airport completed the construction of their crosswind runway.

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Multiple high priority projects were also completed for the general aviation airports this last biennium. To mention a few:

- Cando completed a runway rehabilitation and Mohall completed a runway extension.
- Watford City completed its first phase of runway construction this summer and the second and final phase is expected to be completed next Fall.
- Hillsboro, Tioga, Washburn, Garrison, Hettinger, Mandan, and Wahpeton underwent major taxiway and apron construction projects.

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This slide highlights the historical number of airline passenger enplanements on our commercial service flights in North Dakota over the last 30 years... and shows how devastating the COVID-19 pandemic has been to our passenger numbers in 2020. This past year, we saw a total of 572,000 passenger boardings which is a 52% decrease from the passenger boardings from 2019.

Since the bottoming of passengers this past March, passenger demand has slowly been recovering. Multiple national forecasts are calling for the full recovery of passenger numbers by 2023 or 2024, but these forecasts are dependent on multiple factors including the success of eliminating the virus and the path that our country takes in its economic recovery.

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This slide shows a monthly comparison of the airline boarding numbers and you can see that we started the year strong in January and February showing that 2020 had the potential to be a record-breaking year. Concerns about the virus mounted in the middle of March... and April was when our state and the country began the nationwide effort to slow the spread of the virus. Our airline boardings dropped an astounding 95% from normal levels that month but have since slowly recovered to approximately 50% of normal operations.

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This slide shows a monthly comparison of North Dakota to the national average when looking at the retention rate of airline passenger numbers to pre-covid levels. As you can see, the blue line which represents North Dakota is consecutively higher than the green line which represents the national average. If there is any silver lining, it's that our state has been able to recover our passenger numbers faster than the national average.

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Our commercial service airports provide incredible value to our state's economic well-being and standard of living. The graphic on this slide shows all of the routes and destinations that are currently available to the general public. Ten different direct flight destinations (three seasonal) are available to connect North Dakota to the rest of the world.

As passenger demand was reduced dramatically during the COVID 19 pandemic, our air carriers also reduced the available amount of flights and seats available to our communities. Our state has so far weathered the storm relatively well... as airlines are beginning to slowly add back flights to the markets that are seeing demand increases. The only direct flight destination that we lost during the pandemic so far is Williston direct to Minneapolis. As the recovery continues, we hope to see that market return as well as the potential of other opportunities as well.

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Our next biennium goal is to work to support the aviation industry's recovery from the COVID-19 pandemic. We also want to ensure that we are working with our federal partners to fully understand

changes to their funding programs and eligibility criteria. We also want to ensure that high priority shovel ready projects ready to go as their grant funding becomes available.

Next year we are also planning to update our statewide pavement condition index study which is a project that we undergo every three years. We contract with an experienced pavement consultant firm to inspect and take inventory the approximately 60 million square feet of pavement at our airport pavements throughout the state.

This update will be finalized during the spring of 2021 and the results will be able to be found on our interactive website. Our data will show the condition of each pavement section at our airports throughout the state, along with deterioration details, photos, projected future conditions, and a recommended funding plan to ensure that the pavements are maintained in the most cost beneficial way. This study has been a revolutionary way for our state to manage its airport pavements and fulfill federal grant obligations.

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As we look to maintain and further develop our airport infrastructure, it's also important to understand the current development projects that have been identified over the next 10 years.

During the fall of each year, the North Dakota Aeronautics Commission staff meets with over 50 of the public use airports in the state to review and understand their capital improvement plans.

Throughout this process, projects are identified, and cost estimates are submitted so that the agency can calculate the total amount of project requests that exist within the system. The agency can then work with the federal government and each local airport to identify and prioritize the projects. There is always the understanding that we will not be able to accommodate all identified projects as shown on this graph, but this process ensures that we find the best and most justified projects.

The recent influx of airport infrastructure funds from the FAA and the state as well as the re-prioritization of projects due to COVID-19 impacts... has helped to reduce the large short-term funding gaps that were seen between 2013-2017, however we still have much work to do to continue to try to continue to meet the demands of the system.

In our most recent statewide capital improvement plan update, we have found approximately \$400 million dollars of identified projects that exist at our airports that could take place in the next 5 years and an additional \$550 million that exist in the following 5 years. You have also been provided with a document in your packet that provides an estimated level of needs at the individual airports in our system over the next 1-5 years and 6-10 years.

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There are multiple high priority airport projects that have been identified for the next biennium – to mention just a few from our commercial service airports:

- **Dickinson:** final phase of Runway Reconstruction/Extension
- **Fargo:** Terminal Apron Reconstruction
- **Bismarck:** Major Airfield Drainage Improvements
- **Minot:** Cargo Apron Reconstruction
- **Jamestown:** Parallel Taxiway Rehabilitation

- **Grand Forks:** Crosswind Runway Reconstruction/Extension & Primary Runway Reconstruction
 - \$115 million total estimated cost (project years: 2021 – 2027)

The state has also identified multiple high priority projects at the general aviation airports that will be a focus this next biennium which includes runway rehabilitations at Beach, Carrington, Crosby, Glen Ullin, Hazen, New Rockford, and the final stage of a runway reconstruction and extension at Watford City.

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This slide provides a graphical view of the executive budget recommendations

The majority Aeronautics Commission budget is comprised of special fund dollars which are received from multiple revenue streams such as fuel taxes, aircraft excise, and registrations taxes. We also receive funding from the federal government for conducting airport inspections and in the form of grants for statewide aeronautical studies.

The Aeronautics Commission is also budgeted to receive \$475,000 in general fund allocation for airport improvements in the next biennium which is a \$25,000 or 5% reduction from last biennium to meet the Governor's budget request guidelines. The reduction of general fund expenditures occurs in the airport grant line item.

For our base budget request, we reprioritized our budget request to ensure that we can maintain our current staff levels of up to 7 full time equivalents and ensure operating expenses are adequate to maintain effective operations while ensuring that we are able to also conduct the statewide pavement condition study that was previously mentioned.

Throughout our budget request, we also asked the governor for the consideration of an additional \$1.875 million in special fund appropriation next biennium so that if revenue levels stay as projected, we would be able to have additional flexibility to leverage federal funds for airport projects and help airports maintain during this difficult time. This request was accepted and recommended for your consideration by the governor's office.

Our budget also includes an appropriation to utilize up to \$20 million from the Airport Infrastructure fund that was included as a part of last sessions' "Operation Prairie Dog" legislation. This funding is not expected to be received this biennium and is also not currently forecasted to be available next biennium unless oil revenues make a recovery. That being said - we request consideration of the appropriation so that the funds may be used if the bucket does fill.

Concerns do exist due to the fact that our agency may not receive funding in the airport infrastructure fund through 2023; particularly since we have some major projects in central in eastern North Dakota that now need our attention. One such project that will require additional assistance is the major runway projects at the Grand Forks airport that is planned to take place starting next year through 2027. Federal participation on this project is estimated to be approximately \$70 million which leaves a \$45 million dollar gap for the state and local airport to finance. Replacement one-time funding or the full funding of the Airport Infrastructure Fund through Operation Prairie Dog is critical to ensure that this project can move forward and the federal funding can be leveraged.

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I also thought it would be appropriate to show the major revenue impacts that our agency has experienced due to COVID-19. Aviation fuel taxes is our primary revenue which we currently receive at 8 cents per gallon. You can see that the revenue was impacted significantly at the beginning of March as aircraft operations declined. We have seen a minor recovery in these revenues since the bottoming in May, but overall, our calendar year 2020 fuel tax revenue is down 41% from the calendar year 2019 revenue levels. We expect a slow recovery in this revenue source to mirror airline activity as passenger demand begins to return.

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Our other major revenue source is aircraft excise in which the owner remits 5% of the purchase price of the aircraft or 3% if it's an aerial applicator aircraft. This tax is incredibly difficult to predict, but in looking at the trends between 2019 and 2020, it seems that purchases were delayed in 2020 to later in the year, but we are only down 5% in 2020 from the revenue received in 2019 which shows that aircraft purchases are still remarkably strong in North Dakota.

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I currently have one requested language change to Section 3 of the bill. This is similar language that was passed last legislative session and it allows continuing appropriation of any dollars received in the airport infrastructure fund until June 30th, 2025 – which is at the end of the following biennium. This is due to the fact that the airport infrastructure fund bucket is the last bucket to fill with the oil tax revenues and if any funds are received, they would most likely be at the end of the biennium, thus not giving us enough time within that current biennium to allocate the funds. The requested language is also provided to you on a separate page.

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Major related legislation that is important to mention includes House Bill 1132 which is also known as the Gap Bonding Proposal.

HB 1132 in its current form would deposit \$20 million into the Airport Infrastructure fund due to its inability to fill within the current biennium from the downturn in oil revenue. This would greatly help our airports to be positioned accordingly for any future challenges or opportunities that arise and would be particularly beneficial as we don't know if this fund will fill next biennium as well. Additionally, as previously mentioned, an economic downturn presents incredible opportunities to receive discounted construction projects prices and helps to rejuvenate the economy by supporting businesses and jobs.

If HB 1132 moves forward with the airport funding in place, additional appropriation language would need to be included within the Aeronautics Commission's budget bill.