Holding Pattern:
Problems and Progress in Rural Aviation

Conrad deFiebre
Minnesota 2020 Fellow

November 2011

MINNESOTA 2020

Minnesota 2020
2324 University Avenue West,
Suite 204, Saint Paul, MN 55114
www.mn2020.org

TABLE OF CONTENTS

Aviation’s share of Minnesota economy:

$12 billion

EXECUTIVE SUMMARY

Like the Baby Boom generation it grew up with, aviation in Minnesota is showing its age as it faces new challenges to its $12 billion annual contribution to the state's economy.

Commercial air service in Greater Minnesota, launched in many cities shortly after World War II, is threatened by declining passenger counts, airline retrenchment and controversy over federal subsidies to carriers. Generous state funding from aircraft user fees that helped build and maintain most of the 136 airports spanning Minnesota has shrunk in real terms for the past decade, and even was raided by legislators and former Gov. Tim Pawlenty to plug state general budget shortfalls.

General aviation — corporate, charter, fractional and private — can fill some of the gaps left as Delta Air Lines backs away from the historic Greater Minnesota role of its home-grown predecessors Northwest, Republic and North Central. But the state must change the way it taxes air travel.

Some experts predict that within 10 years the only Minnesota airports served by the airlines will be in the Twin Cities, Rochester and Duluth. That could spell dire consequences for resorts and other businesses around Bemidji, Brainerd and International Falls as well as new hardships for Iron Range and northwest Minnesota air travelers. It also would strand millions of dollars in public investments for airline-ready airport infrastructure.

Some experts predict that within 10 years the only Minnesota airports served by the airlines will be in the Twin Cities, Rochester and Duluth.

A public-private campaign to restore commercial service to St. Cloud, abandoned by Delta two years ago, shows that local businesses and governments are willing to invest in connecting their cities to the world by scheduled flights. Some such level of local buy-in, as well as greater commitment from subsidized carriers, should underpin reform of Essential Air Service (EAS), the federal program that preserves passenger flights in scores of small, isolated U.S. markets, several of them in northern Minnesota.

Although commercial air service is considered critical for local economic development, some Greater Minnesota cities have thrived without it. At least two large Minnesota corporations fly regular shuttles to the Minneapolis-St. Paul hub from corners of the state unserved by scheduled carriers. This keeps Schwan's and Marvin Windows and Doors' global operations humming at 21st century speed, but leaves neighboring small businesses and private travelers around Marshall and Warroad, Minn., with long drives to access flights.

More companies would consider setting up flight operations in Minnesota if the state reduced its aircraft registration tax, balanced by a targeted increase in the aviation fuel tax along the lines of a new proposal by the Minnesota Business Aviation Association. Minnesota taxes aviation fuel at no more than 5 cents a gallon—the same rate enacted in 1951, its buying power reduced nearly 90 percent since then—and slashes it for large consumers such as airlines to as little as a half-cent a gallon.

There is an opportunity to raise these very low rates on polluting hydrocarbons, even in the current "no-new-taxes" environment. In Washington, both houses of Congress have approved steep hikes in the 21.9-cents-a-gallon federal tax on fuel for business jets, and the conservative-led U.S. House has proposed a smaller increase in the tax on gasoline for private, piston-driven aircraft.

Minnesota policymakers should consider modest increases in fuel taxes for all classes of aircraft to strengthen the user-pays principle for aviation and restore the state airport development fund to inflation-adjusted vitality. And state general obligation bonding for airport improvements—bargain-priced borrowing that already has been authorized to repay some of the budget-balancing transfers of the past decade—should be accelerated to make the airport fund whole again.

More companies would consider setting up flight operations in Minnesota if the state reduced its aircraft registration tax

KEY FINDINGS:

- ✓ Aviation makes up more than 5 percent of Minnesota's economy, generating $12.2 billion a year in output and $6.5 billion in annual labor income to 164,900 workers.

- ✓ Increasingly, this economic activity is clustering at three international airports—Duluth, Rochester and especially Minneapolis-St. Paul—leaving large parts of the state with diminishing access to the world via commercial airlines.

- ✓ Recent economic conditions hit small and medium U.S. airports harder than the nation's largest airports. Small airports lost 10 to 15 percent of their scheduled flights over the past five years, the medium-sized lost 18 percent but the biggest airports dropped only 2.3 percent.

- ✓ Regional centers in northern Minnesota are threatened with the loss of scheduled airline service, and a federal subsidy program that preserves flights to many of those places faces withering fire from budget hawks.

- ✓ General aviation—corporate and private—can fill some of the gaps left by airline retrenchment, but it is hampered by state aircraft registration taxes that hit multimillion-dollar business jets particularly hard.

- ✓ The state airport fund, which finances airport construction, maintenance and other needs solely with user fees, has suffered from declining revenues in the current economic slowdown, raids for general state budget balancing and still-unpaid taxes associated with the bankruptcy of Northwest Airlines in 2006. Delta Air Lines, Northwest's successor, is supposed to pay back $4.2 million in back taxes by 2013. A $7.3 million budget raid in 2003 is still owed the airport fund by the state general fund.

RECOMMENDATIONS:

- ✓ Minnesota should reduce aircraft registration fees and raise aviation fuel taxes, which better reflect actual use of public airways. Such a reform of the state's outdated user-financing system for aviation infrastructure, safety and education would promote business-friendly flying alternatives to shrinking commercial airline service in much of the state.

- ✓ State policymakers should speed up repayment of raids on a dedicated airport development fund with more low-interest general obligation bonding.

- ✓ Both local communities and airlines must take more responsibility for the vitality of subsidized passenger routes under the federal Essential Air Service program.

Minnesota should reduce aircraft registration fees and raise aviation fuel taxes

AVIATION'S ECONOMIC IMPACT IN MINNESOTA

According to a January 2011 University of Minnesota study, Minnesota's public airports contributed $12.2 billion to the state's $239 billion economy in 2009, more than 5 percent of the total. It supported 164,900 jobs and paid $6.5 billion in labor income.[1] Most of this activity was concentrated at three large airports—Duluth, Rochester and especially Minneapolis-St. Paul—but the 133 small and medium-sized facilities throughout the state kicked in $434 million worth of output, 3,758 jobs and $184 million in labor income.

Most of the smaller airports lack scheduled passenger flights, but they can host corporate flight departments, charter services, fixed-base operators, flight training, air freight facilities and countless levels of private plane traffic. Because public airports are considered akin to highways, with free access for all, most don't charge fees on operations or even record them. Small planes often take off or land when no airport staff members are present.

The dominant airport in Minnesota by far is MSP. The Metropolitan Airports Commission touts it as "arguably … the most valuable economic generator between the St. Croix River and Seattle, supporting more than 150,000 jobs, $10.7 billion in business revenue, $6 billion in personal income, $1.3 billion in local purchases and $626 million in state and local taxes."[2]

MSP supports more than 150,000 jobs, $10.7 billion in business revenue, and $626 million in state and local taxes

Open 24 hours every day of the year, it served 32.8 million passengers last year via 437,075 takeoffs and landings. From a single landing strip on 160 acres in 1920, it has grown to include four major runways, 127 passenger gates, 3.2 million square feet of terminal space and 22,900 parking places spread over 5.3 square miles.[3]

It offers nonstop flights to 135 places, 21 of them outside the United States. By comparison, the next largest Minnesota airports, Duluth and Rochester, have daily scheduled service only to MSP, Chicago and Detroit. Duluth also books twice-weekly and seasonal flights to Las Vegas, Orlando and Phoenix.

MSP is the lone final destination for flights from the five other airports in northern Minnesota that still have commercial service. (Planes from Thief River Falls stop at the Iron Range Regional Airport in Hibbing, "tag flights" that airlines have largely discontinued because extra takeoffs and landings increase fuel costs and discourage passengers with more time-consuming trips to hubs.)

1 University of Minnesota Center for Transportation Studies, "Update of a Web-Based Economic Impact Calculator for Small- and Medium-Sized Airports and a Study of the Economic Impact of Minnesota Airports," January 2011. http://www.cts.umn.edu/Publications/ResearchReports/reportdetail.html?id=1990

2 Metropolitan Airports Commission, "about msp." http://www.mspairport.com/about-msp.aspx

3 Metropolitan Airports Commission, "statistics." http://www.mspairport.com/about-msp/statistics.aspx

The MAC also operates six general aviation airports around the Twin Cities area called "relievers" because they ease congestion at MSP. "Anoka County-Blaine, Flying Cloud and St. Paul Downtown airports have a strong corporate aviation base, while Airlake, Crystal and Lake Elmo cater more to recreational and small business aviation needs," the MAC says.[4]

The relievers combine for more than 400,000 takeoffs and landings a year—a total nearly that of MSP—and are home to more than 1,600 aircraft. They support more than 2,200 full-time jobs and generate more than $250 million in annual economic activity.[5]

Best of all, no general taxation subsidizes either the state Office of Aeronautics or MAC operations. In 2009, the MAC raised $241.5 million in operating revenue, 34 percent from airline fees, 46 percent from parking and concessions and 20 percent from ground and building rentals, general aviation fees and other business sources.[6] The MAC has authority to levy property taxes in the seven-county metropolitan area, but hasn't done so since the early 1980s.

4 Metropolitan Airports Commission, "MAC's Reliever Airport System." http://www.metroairports.org/relievers/system/default.aspx

5 Ibid.

6 Metropolitan Airports Commission, "Budget & Financial Information," http://www.metroairports.org/mac/organization/Budget.aspx

A RACE TO THE TOP IN AIR SERVICE

The large, vibrant Twin Cities market and the hub strategies of Northwest and Delta have spurred the rise of MSP into a giant economic driver, the 15th busiest airport in the United States and No. 30 in the world.[7] While MSP has remained strong through the Great Recession and its lingering aftermath, many of its smaller competitors, in Minnesota and elsewhere, have shrunk precipitously.

This reflects a nationwide trend of airline cutbacks in small or economically hard-hit cities while sparing service to the biggest and most prosperous. The Airports Council International reported that small U.S. airports lost 10 to 15 percent of their scheduled flights over the past five years, the medium-sized lost 18 percent but the biggest airports dropped only 2.3 percent.[8]

Small U.S. airports lost 10-15% of their scheduled flights over the past five years

Medium-sized airports lost 18 %

The biggest airports dropped only 2.3%

The top 50 airports now claim more than 80 percent of all U.S. passenger departures, the 200 smallest less than 3 percent. Nearly 200 small or remote airports have lost air service entirely since 2008. But even relatively large airports face serious risks. After Delta shut down its hub at Cincinnati/Northern Kentucky International Airport in 2009, airline flights and nonstop destinations plunged well over 50 percent from 2006 peaks.[9]

Airlines say these steps are necessary given a struggling national economy and high fuel prices. State and local policy makers in Minnesota face a dual challenge of maintaining the MSP hub while getting the most out of aviation's economic potential in the rest of the state.

7 Metropolitan Airports Commission, "statistics." Op.Cit.

8 The New York Times, July 8, 2011, "Air Service Cutbacks Hit Hardest Where Recession Did." http://www.nytimes.com/2011/07/09/business/flight-cutbacks-hit-midsize-airports-hardest.html?pagewanted=all

9 Ibid.

VOTING WITH THEIR FEET ON THE GAS PEDAL

The withering of airline service in much of Greater Minnesota has many causes, among them the choices of travelers themselves. One study found that more than half of the airline passengers from regional Minnesota markets with their own commercial service “leaked” to larger airports, mainly MSP, which accounted for nearly 98 percent of all Minnesota passenger departures in 2010.

Together, smaller Minnesota airports have lost tens of thousands of commercial passengers over the past two decades while MSP enplanements nearly doubled to an annual pre-recession peak of 17.2 million. Experts point to high small-market fares and sparse flights poorly scheduled to make hub connections, factors that often outweigh in travelers’ minds the hassle and expense of hours on the road to reach a direct flight.

Airport officials in northern Minnesota also blame their declining patronage on a lack of advertising and promotion by Delta. They say the airline, which receives federal subsidies to fly planes in and out of Hibbing, International Falls and Thief River Falls, does little to grow the business, even though these routes feed into other Delta flights from MSP.

Meanwhile, claiming millions in losses despite the federal subsidies, Delta gave notice in July that it will discontinue service to Hibbing, International Falls and Thief River Falls, as well as to Brainerd and Bemidji, two cities whose flights currently are not subsidized. The airline also linked the move to impending retirements of its aging turboprop airliners that serve northern Minnesota, high fuel costs and “low passenger demand.”

Under current federal Essential Air Service rules, all five cities are guaranteed some kind of replacement passenger service to be established by year’s end through a Federal Aviation Administration bid process. Some airport managers worry that will mean downsizing to smaller commuter planes that lack lavatories, cabin service and compatibility with tall concourse jetways.

In fact, the Brainerd Lakes Regional Airport, now completing construction of such a jet bridge, has attracted an EAS bid involving 19-passenger aircraft that can’t use it. Bemidji and Hibbing, however, appear slated for EAS service from 50-seat regional jets with full amenities.

Long-range prospects for these airports remain uncertain, however. Funding has been tightened periodically since EAS began in conjunction with airline deregulation in 1978, and the entire program is now under fierce attack from federal budget hawks.

It spends about $200 million a year on subsidies nationwide to air carriers for service to small, isolated communities, nearly all of it raised from FAA user fees, especially overflight charges on planes that cross U.S. airspace but don't land in the country. Although the expense is a tiny sliver of the federal budget for aviation, it has faced a drumbeat of derision in Congress and the media over near-empty planes flying from some EAS airports. Delta, for example, averages only four to six passengers per flight on 34-seat Saab turboprops out of Thief River Falls.

A loss of Essential Air Service diminishes a community's competitiveness

Despite the criticism, EAS is unlikely to disappear completely. Some form of the program will probably preserve service to dozens of remote towns without highway links in Alaska and Hawaii, the two states spared in a bill passed by the U.S. House that would phase out EAS everywhere else. Compromise in Washington, D.C., could also extend EAS in communities in northern Minnesota that are many hours away by road from a hub airport gateway to the world. Requiring financial contributions from local communities and more buy-in from airlines could make this more palatable.

"A loss of EAS diminishes a community's competitiveness," said former U.S. Rep. James Oberstar, the program's chief architect. "A real player has highways, rail and air. And the public airways are the common heritage of all citizens."[10]

10 James Oberstar, face-to-face interview, Minneapolis, September 2011.

LURING AIRLINERS BACK TO ST. CLOUD

A different challenge confronts St. Cloud, which lost its Delta flights to MSP in January 2010. Because St. Cloud had no scheduled commercial service at the onset of EAS in 1978, it is ineligible for the program. Instead, it has secured a $750,000 federal grant and matching funds to guarantee an airline $1 million in revenue to launch service to Chicago. Most of a targeted local share of $250,000 has been raised from area businesses and government bodies, officials in St. Cloud say. In addition, businesses are being asked to establish a "travel bank" pledging fixed amounts of ticket purchases annually.

"We want sustainable service, twice a day, seven days a week," said Jami Bestgen, a marketing consultant who is spearheading fundraising for the city. "An airline will lose money while people's habits change, but we expect to be profitable after three to six months. In fact, we believe our actual numbers will get us three flights a day."[11]

With a "catchment" market population of 600,000 for service to Chicago (it was smaller for flights to MSP because of St. Cloud's proximity by car), that prediction may not be out of the question. Minnesota Department of Transportation officials, however, warn that minimum revenue guarantees like the one St. Cloud envisions have a weak record of sustaining service to small markets.

"Almost everywhere, as soon as the revenue guarantee dries up, so does the service," said Dick Theisen, MnDOT aeronautics planning coordinator. "Most communities can't afford to keep paying that forever."[12]

St. Cloud leaders maintain, however, that the federal-local subsidy would be only temporary. But they say the negative economic effects of lost airline flights are permanent.

"The loss of commercial air service in … St. Cloud is likely to be very harmful to the potential growth of the area economy," St. Cloud State University economists King Banaian and Rich MacDonald wrote in the St. Cloud Area Quarterly Business Report at the time of Delta's pullout. "There is no doubt that site locators use information on access to commercial air service as a major factor in making recommendations to firms."[13]

11 Jami Bestgen, St. Cloud airport marketing consultant, telephone interview September 2011.

12 Dick Theisen, MnDOT Office of Aeronautics, face-to-face interview, St. Paul August 2011.

13 St. Cloud Area Quarterly Business Report, January-March 2010, p. 32. http://www.scapartnership.com/files/file/Jan_%202010%20QBR.pdf

St. Cloud Airport manager Bill Towle said that has already happened. “There was an optics company looking to locate in St. Cloud with 25 good-paying jobs,” he said. “They located in Rochester instead.”[14]

Banaian, once a prominent conservative blogger and now a Republican state legislator, has even raised the possibility of a state seed fund for airline revenue guarantees at regional airports. Current Minnesota law prohibits subsidies to airlines, and little appetite to change that is apparent in the rest of the Legislature.

While St. Cloud-area businesses have pledged nearly $150,000 to airline service subsidies and area counties and cities $100,000, the public and even many businesses are lukewarm to the idea. A St. Cloud Area Quarterly survey of businesses found that only 30 percent expected any negative effect from the loss of commercial flights, and none foresaw a major unfavorable effect.

In a broader public opinion poll cited by Banaian, only one-sixth of St. Cloud area residents put a top priority on restoring local airline service. Three times as many said better roads were more important, and nearly twice as many called for extending the Minneapolis-to-Big Lake Northstar commuter rail line to St. Cloud.

Delta left St. Cloud, which had had air service since 1993, just as the city completed a multimillion-dollar airport upgrade, including two new passenger gates. To conservatives, Banaian said, “That’s an example of government waste. I look at it as a stranded investment. If anyone made a mistake, it was trusting Delta.”

Now St. Cloud has sworn off doing business with the Atlanta-based airline that dominates the MSP hub, Towle said. Instead, it is negotiating with other airlines for flights to Chicago or Denver.

We have a great asset here in a 7,000-by-150-foot runway and a precision instrument landing system.

“The airlines are more risk-averse these days,” Towle said. “But we have a great asset here in a 7,000-by-150-foot runway and a precision instrument landing system. It depends on the economy and oil prices, but I am confident we’ll get commercial service back at some point.”

Meanwhile, St. Cloud Regional remains a certificated commercial service airport, incurring associated security and safety expenses without revenues from scheduled carriers.

“Our costs have gone down about $100,000 a year because we need less staff coverage without commercial service,” Towle said, “But we’ve lost more than that in fuel sales, car rentals and airline landing fees. And we still have to plow the runways and keep the lights on for 40,000 general aviation operations a year.” City taxes now support half of the airport’s yearly $800,000 budget, he added.

14 Bill Towle, St. Cloud Airport manager, telephone interview August 2011.

MAKING DO WITHOUT AIRLINE SERVICE

Southwest Minnesota has lacked commercial airline service for decades. Largely agricultural, this corner of the state includes some of its poorest counties. But some businesses there have found ways to forge their own air connections.

The Schwan Food Co. flies nine weekly shuttles from its Marshall, Minn., headquarters to MSP on two company-owned 19-passenger Beechcraft turboprop jets. About 11,000 Schwan employees, customers and guests take those flights annually. In addition, the firm maintains two Citation eight-seat business jets that fly anywhere in North America from the Southwest Minnesota Regional Airport in Marshall, usually three to five days a week. Its flight department employs six pilots, three mechanics, a dispatcher and a manager, at an annual cost of $2 million to $3 million.[15]

"We used to contract with a charter for a certain number of seats annually, but that cost 20 to 25 percent more," said Brad Snell, Schwan's flight department director. "It allows us to be in a rural location with access to world markets."

For years, the operation ran side-by-side with Schwan's Red Baron Squadron, vintage Stearman biplanes that performed aerobatics at air shows around the country to promote the company's Red Baron Pizza. It was the oldest civilian air team in the United States until its retirement in 2007.

Schwan's sheer size, with 17,000 U.S. employees and billions in annual revenues, provides the scale to support its aviation investments. Smaller Marshall firms such as Carlson-Stewart, Runnings stores, B&B Trucking and Ralco maintain single aircraft, while other businesses charter flights from Marshall-based Midwest Aviation.

"We offer 8,000 more destinations than the scheduled airlines," said Lynne Johnson, Midwest vice president. "We'll pick up anybody, anywhere." In operation since 1962, Midwest maintains three business jets and three King Air turboprops. [16]

15 Brad Snell, Schwan Food Co. flight director, telephone interview, August 2011.

16 Lynne Johnson, Midwest Aviation vice president, telephone interview August 2011.

Marshall Mayor Bob Byrnes noted that all this private aviation has made the local airport one of Minnesota's busiest, staging more flights than some with airline service. The city of 14,000 has made intermittent attempts to regain commercial flights, absent from the city-owned airport since the mid-1970s, but Byrnes said that prospect is increasingly dim.

"The changes in the industry work against us," he said. "We have a customer base that would use regular service and benefit from its reliability. And it's a good investment necessary to retain jobs."[17]

Meanwhile, the city has funded more than 40 percent of airport operations with local revenues over the past three years. The subsidy has averaged $171,000 annually, about one-half percent of the city budget.[18]

One advantage of the current situation, Byrnes noted, is savings on safety and security expenses that are not required at airports without scheduled flights. The Transportation Security Administration does not operate at Marshall, and the airfield is not fenced, he said.

The TSA left the St. Cloud airport late last year after the city's initial efforts to regain commercial service stalled. "They won't stay for one charter flight every three weeks," said airport manager Towle.[19] But without TSA, St. Cloud can no longer host the occasional charters to the Sunbelt it once offered.

17 Bob Byrnes, Marshall mayor, telephone interview August 2011.

18 City of Marshall, Minnesota, Airport Revenues and Expenditures, 2008-2010.

19 Bill Towle, Op.Cit.

REFORMING STATE AVIATION REVENUES

A consultants' study performed for the Minnesota Legislature in 2008 found that few other states impose significant registration taxes on aircraft.[20] Minnesota's outlier rate, beginning at 1 percent of the manufacturer's list price, can amount to hundreds of thousands of dollars a year on new multimillion-dollar business jets. The authors recommended that the state reduce its aircraft registration fee "and enforce it."

Since 2002, the number of active aircraft registered in the state, excluding antiques and classics that pay a one-time fee of $25, has declined by 10 percent, to 5,676.[21] MnDOT maintains the falloff is due mainly to a sputtering economy and not state registration fees.

"Aviation is very sensitive to ups and downs in the economy and the price of fuel," said the Office of Aeronautics' Theisen.[22]

According to the Minnesota Business Aviation Association, only about 260 business jets based in Minnesota shoulder four-fifths of the total registration fees, which peaked at $7.5 million in 2001 and declined below $5 million toward the end of the decade. Commercial airlines are not required to register their planes in Minnesota, but are assessed an "airflight property tax" that averages about $8 million a year, in addition to fuel taxes that decline to a half-cent a gallon after the first 200,000 gallons in any year.

"Delta blows through that at about 1 p.m. on Jan. 1," said state Rep. Michael Beard, a licensed pilot who is chairman of the House Transportation Committee.[23] In its peak year, Delta's predecessor, Northwest Airlines, bought 290 million gallons of jet fuel in Minnesota, paying about $1.5 million in tax, Theisen said.

Most small, piston-driven recreational airplanes, the bulk of Minnesota's general aviation fleet, pay only $25 for annual registration but the full 5 cents a gallon on aviation gasoline.

20 Conklin & de Decker Aviation Information, "State Taxes on Aviation," Report to the Minnesota Legislature, December 2008. http://www.commissions.leg.state.mn.us/afwg/Finalreport.pdf

21 Minnesota Department of Transportation, "Minnesota Registered Aircraft" spreadsheet.

22 Dick Theisen, telephone interview September 2011.

23 Rep. Michael Beard, telephone interview, September 2011.

Since 2006, the Minnesota Business Aviation Association has proposed several plans to reform state aviation taxes and fees, mainly by cutting registration rates and increasing the fuel tax paid by the most expensive private aircraft. Its latest plan would double the tax on fuel only for business jets to 10 cents a gallon and set reduced registration fees based upon the weight of aircraft.

"The updated statute must adequately fund the state airports, be equitable and easy to administer," the association said.

But MnDOT officials and some legislators have questioned whether the plan would actually do that. An earlier MBAA proposal that called for raising the aviation fuel tax to just 6 cents a gallon was shot down because it would have left a hole in state revenues to support aviation. State officials must carefully assess the latest proposal for fiscal soundness, but conceptually it has the potential to promote business aviation in Minnesota by basing taxation more on the amount of activity than on the value of aircraft.

State legislators should fear no tax revolt for raising targeted jet fuel levies above the current 60-year-old levels

Wherever the numbers finally settle, state legislators should fear no tax revolt for raising targeted jet fuel levies above the current 60-year-old levels. Both houses of Congress have passed an increase in the federal fuel tax for business and personal jets from the current 21.9 cents a gallon to 36 cents a gallon. The steep hike would largely finance a planned $22 billion replacement of the nation's World War II-era land-based radar air traffic control system with satellite technology that promises to improve both flight efficiency and safety.

The U.S. Senate also would impose a 14-cents-per-gallon surtax on fuel for jets in fractional ownership. The U.S. House would raise the federal rate on gasoline for piston-powered small planes from 19.4 cents a gallon to 21.2 cents.[24]

24 "FAA Reauthorization Bill," information sheet courtesy of Minnesota Business Aviation Association.

WHERE THE MONEY GOES

While federal funding is the largest contributor to aviation infrastructure in Minnesota and across the country, the state airport fund also plays a significant role, totaling $248 million in expenditures from 1999 through 2010.[25] More than two-thirds of the money, all from user fees, goes to airport construction and maintenance, with the rest split among navigational aids, operations of two state aircraft, education, the Civil Air Patrol, marketing and an Office of Aeronautics staff of 40, mostly planners and engineers

In 2010, the fund collected $17.4 million made up of $7.8 million from airline property taxes, $3.3 million in aviation fuel taxes, $6.2 million in registration fees and $130,000 in interest on a balance of $5.1 million. But that is down from $35.4 million in 2008 and more than $20 million a year in the early 2000s.

Revenue is projected to run around $19.6 million in coming years, except for 2013, when Delta will be required to pay $4.2 million in back taxes that Northwest shorted the state amid its 2006 bankruptcy.

In addition, the state general fund still owes the airport fund part of $15 million transferred in 2003 to help balance a no-new-taxes state budget. About half of that has been repaid with state general obligation bonding for airport projects. At today's low borrowing rates for government bonds, legislators should not further delay repayment of this raid on supposedly dedicated user fees.

25 Minnesota Department of Transportation, State Airport Fund Revenue.

CONCLUSION

Aviation supplies a vital cog in Minnesota's end-of-the-road economy, helping to level the playing field against centrally located and coastal competitor states and regions. For one outstanding example, Digi-Key Corp. of remote Thief River Falls is a leader in prompt supply of high-value, low-weight electronic components because of air freight capabilities at the local airport.

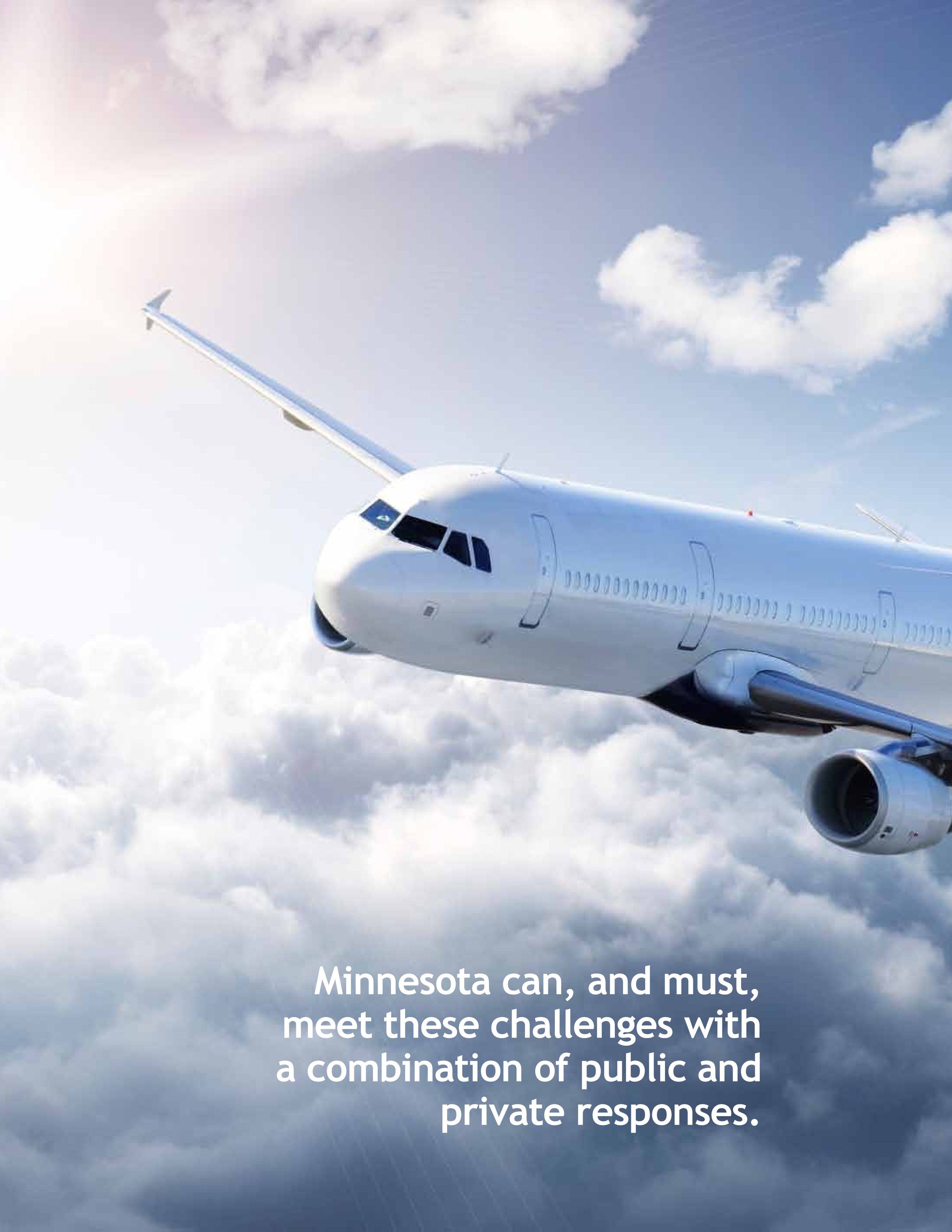
Altogether, commercial and general aviation generates more than 5 percent of Minnesota's economic output, sustaining nearly 165,000 jobs. But this activity is increasingly concentrated at just three of the state's 136 public airports, especially the giant Delta Air Lines hub at Minneapolis-St. Paul International, which garnered nearly 98 percent of the state's commercial passenger boardings last year.

Meanwhile, enplanements at most of the seven other Minnesota airports with commercial service have declined, and Delta is now in the process of pulling out of five of them. It left St. Cloud, now the state's biggest city without nearby scheduled flights, two years ago. Some predict that within 10 years only MSP, Duluth and Rochester will still have airline service.

For now, five smaller Greater Minnesota airports are guaranteed continued commercial service under Essential Air Service, a federal subsidy program enacted along with airline deregulation in 1978. But EAS has suffered cutbacks and faces an uncertain long-term future in Washington.

Minnesota can, and must, meet these challenges with a combination of public and private responses. On the government side, the state should reform its outdated system of aircraft user fees by reducing the cost of registering business jets and increasing 60-year-old aviation fuel tax rates. It also should revitalize its stagnant user-based fund that supports airport development and maintenance, navigational aids and other aviation purposes by promptly repaying millions in budget-balancing raids of the past decade.

If the state takes these steps, it can pave the way for local governments, businesses and regional air carriers to find creative strategies to keep all of Minnesota, not just its three major metropolitan areas, connected to the world by air.



Minnesota can, and must, meet these challenges with a combination of public and private responses.

Minnesota 2020 is a progressive, non-partisan think tank, focused on what really matters.

2324 University Avenue West, Suite 204, Saint Paul, MN 55114
www.mn2020.org