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★ MONDAY, MARCH 13, 2000

Tax Midwest Express as other state businesses are taxed

A strong majority of the Legislature's Joint Finance Committee has wisely approved a bill that would tax Midwest Express Airlines the way most other Wisconsin businesses are taxed.

In general, state businesses do not pay property taxes on machinery and equipment essential to manufacturing products or providing services. The machinery and equipment exemption dates to the 1960s and has been a factor in business expansion in Wisconsin. The tax-exemption philosophy was recently updated when the state took computers used by business off the tax rolls.

Midwest Express, based in suburban Milwaukee, is seeking a property-tax exemption for its airplanes and related equipment similar to the machinery and equipment exemption given other business. One example: Trucking firms don't pay such property taxes on semis. But Midwest pays what the state calls an ad valorem tax on planes and related equipment in lieu of local general property taxes.

A bill seeking to change that practice failed last year, either falling through the cracks in a busy legislative session or falling victim to the bare-knuckle politics that accompanied a budget adopted months late and in secret by a handful of legislators.

The Midwest bill was reintroduced and on March 2 was approved 11-6 by

■ Issue:
Bill exempting airline from tax

■ Our view:
Exemption will allow more investment in state

the finance panel. It now goes to the Assembly and Senate and should be passed in both houses.

Opponents of the bill raise two arguments:

■ That it is special-interest legislation written to benefit just Midwest Express.

■ Giving the airline the \$1.7 million tax break it seeks will hurt small airports by cutting the amount of state tax money available to them.

No doubt, the bill is designed specifically to help Midwest. But the company makes a persuasive case that an exemption is a good investment for the state. With the break, airline executives say, Midwest will more easily be able to put nearly \$1 billion into equipment the next five years and to expand service and employment. In addition, they argue, an exemption will mean

Wisconsin's tax policy on airlines will be closer to that enforced in neighboring states.

Critics who say the break will cut funding to small airports by \$1.3 million a year are correct. But that gap can be filled with money from the Wisconsin Development Fund until the next budget is written. Then, the level of airport funding can be fully debated. In addition, legislation pending in Congress could significantly increase federal aid to state airports.

Midwest Express is a home-grown business started by state entrepreneurs that now employs 3,000 people, 80 percent of them in Wisconsin. It has a solid reputation as a well-run, passenger-friendly outfit. Helping it grow by altering state tax policy to treat a state-based airline the way other firms are treated is in Wisconsin's long-range best interest.

Airline is home-grown commodity

Midwest Express Airlines traces its roots to 1946, when papermaker Gruberly-Clark Corp. began shutting executives on company aircraft. In 1969, service was expanded and called K-C Aviation. In 1978, K-C became a commercial carrier and was renamed Midwest Express. The firm went public in 1995.

Midwest employs more than 3,000 people, about 80 percent of them at its Milwaukee-area hub at General Mitchell

International Airport. Midwest and Skyway, a wholly owned subsidiary, have a fleet of 52 planes flying to Green Bay and 47 other cities in the United States and Canada.

In recent years, travel and industry magazines have called Midwest the "best U.S. airline" and the "best managed national airline." The airline recently signed a five-year contract with the union representing its pilots.



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3-5-2000

OUR OPINION

Give Midwest Airlines a break

The most interesting economic development debate in the Wisconsin Legislature these days is the Green Bay Packers' plea for public money to help rebuild Lambeau Field. With all due respect to the Packers, it's not the most important development issue on the Legislature's agenda.

Far more vital to the future of Wisconsin's economy is the request by Midwest Express Airlines to get a \$1.7 million tax break so the airline can expand its flights and service across Wisconsin.

The Legislature's Joint Finance Committee voted, 11-5, last week to recommend lifting a \$1.7 million per year personal property tax for the Milwaukee-based airline. Wisconsin taxes are twice as high as those in any surrounding state, and nearly three times higher than taxes in other states (Missouri and Nebraska) where Midwest Express operates "hub" bases.

Midwest Express would like to double the size of its 52-plane fleet over the next five to seven years, with a corresponding expansion of service. It is not a question of *whether* the airline will expand, but *where*.

The personal property tax exemption sought by Midwest Express would be more than made up with new jobs — and the higher income taxes that come with those jobs — as well as increased landing and facility fees that would be generated as Midwest Express grows.

That growth should take place in Wisconsin. But it could happen in Omaha, Neb., Kansas City, Mo., or some other city with the foresight to seize the opportunity.

Airports with good airline service generate economic activity. As Wisconsin tries to attract the high-tech firms of the future, the quality of commercial air service in Wisconsin will be an important draw.

Granting Midwest Express a break from Wisconsin's uncompetitive property tax would produce jobs.

Wisconsin's neighbors recognize that. Iowa, Michigan and Illinois exempt aircraft from taxes and Iowa and Minnesota exempt ground equipment. Competitors to Midwest Express get those breaks, but Midwest Express does not because of Wisconsin's antiquated system of taxing airlines.

Those who oppose giving Midwest Express a break say they're worried about how it will affect small airports. The personal property tax money generated by Midwest Express goes into a state aeronautics fund that aids all airports, commercial and general aviation.

That \$60 million fund includes about two-thirds federal money and only 14 percent from airline personal property taxes. The Midwest Express share of that 14 percent is about 3 percentage points. Further, only 19 percent of the fund's expenditures go to general aviation airports — and only then if they apply for money to finance renovation or expansion projects. None of that cash finances day-to-day operations.

To ease the burden for small airports, the bill includes a one-year "hold harmless" clause that gives the state Department of Transportation time to figure out a better system.

Airplanes and hangers aren't as crowd-pleasing as pro football's most hallowed football stadium, but they're more important to the state economy. Unlike the Packers, Midwest Express can fly away.



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Exemption would help airline grow

Repeal tax on Midwest Express

Officials of Midwest Express Airlines make a convincing case that the state has an "archaic tax" on its fleet of airplanes that should be repealed.

Wisconsin imposes something called an ad valorem tax that is paid into the state's transportation fund based on the value of the company's airplanes.

While the impact to Midwest Express isn't substantial now, the company is bent on expanding -- to the tune of \$1 billion in new planes and other purchases through the year 2005.

That's why in 1999 the company went to the Legislature to ask for a repeal of the tax. It came close to being included in the 2000-01 state budget but was dropped at the behest of Senate Majority Leader Chuck Chvala, D-Madison, when the final budget details were worked out.

Now the proposal is back in bill form, and it should pass. The legislation is constructed so only Midwest Express, the only airline based in Wisconsin, will be eligible for the tax break.

Our support is not based on any hope that Midwest Express will provide carrier service to the Chippewa Valley Regional Airport.

Company officials have made it clear they won't discuss where new service will be provided until they know the state will grant them the tax relief they say they need.

Timothy Hoeksema, Midwest Express president, chairman and chief executive officer, said the state tax is "clearly a disincentive to grow and provide good service to a community."

He and others contend the airline, under the present state tax structure, would be much better off if the company's expansion took place in other states. The company has estimated that over the next five years the company would pay \$13 million to \$18 million more in Wisconsin's taxes than in any neighboring state.

Carol Skornicka, a high-ranking Midwest Express official who served in Gov. Tommy Thompson's administration, said what the company is looking for could be viewed as an extension of the exemption granted in the 1970s to taxes paid on manufacturing equipment. Most recently, the state also exempted computer equipment from taxes.

"In concept it's the very same thing" to those exemptions, Skornicka said. The state has realized it's important not to tax "the tools for productivity," she added.

Company officials conceded some people will accuse them of seeking "corporate welfare" -- at the same time the state is trying to wean its citizens from the welfare rolls.

But, Hoeksema said, the company truly needs this exemption if it is to embark on an ambitious expansion plan. "This should be a no-brainer from a business point of view," he said.

And if the legislation doesn't pass, he said, "We will grow in states other than Wisconsin."

Local officials have made a big play to get Midwest Express to fly in and out of the Chippewa Valley Regional Airport. Their efforts clearly impressed the Midwest Express contingent.

But it is clear if there is any hope of Midwest Express buying more airplanes to use in Wisconsin, they need this tax exemption. The Legislature should pass it before adjourning this spring.

— Doug Mell, managing editor

Editorial

If there is any hope of Midwest Express buying more airplanes to use in Wisconsin, they need this tax exemption.



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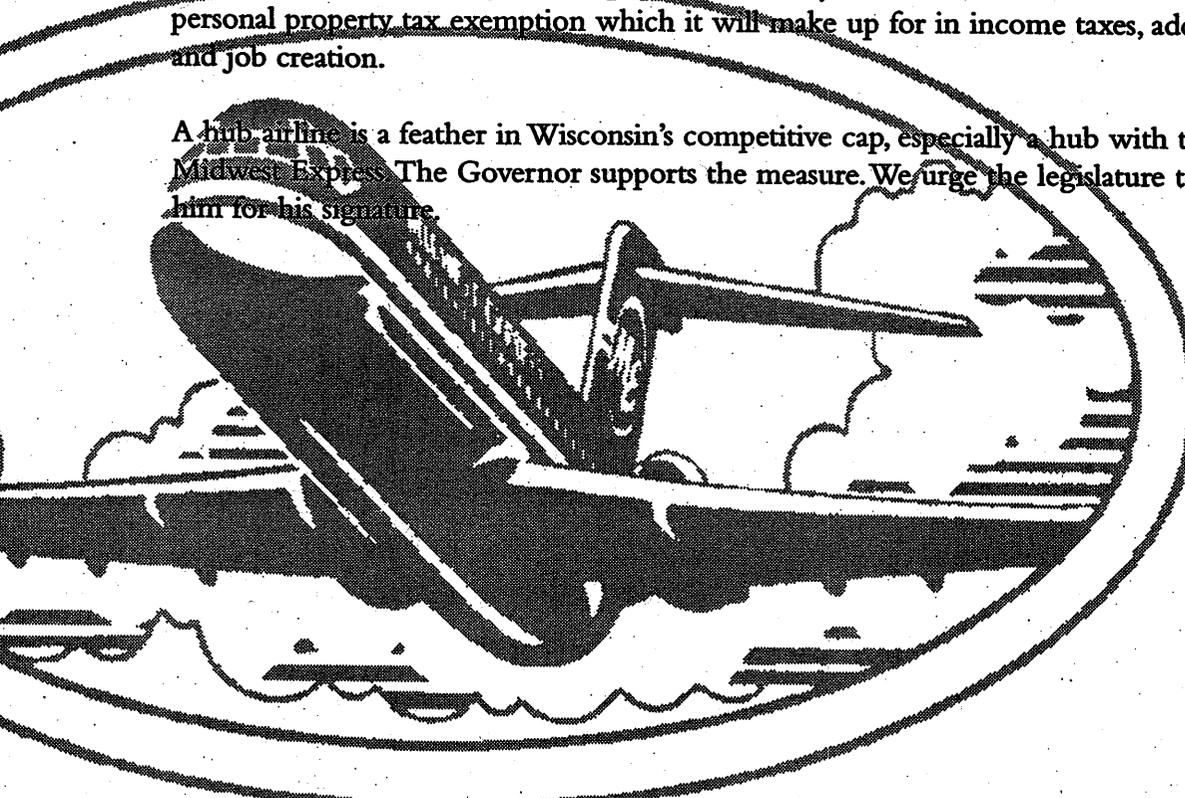
Editorial by Neil Heinen, WISC-TV, Channel 3, broadcast February 29, 2000

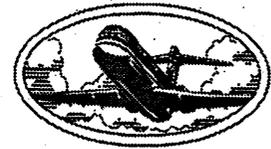
Keeping the Best Care in the Air

If Wisconsin can set aside millions to encourage biotech firms to settle here, as it should, if it can give tax breaks for business and manufacturing and pollution abatement equipment, as it should, if it, for heavens sake, can help support the Milwaukee Brewers, then it seems to us the state should help Midwest Express expand its operations here in the state.

Midwest Express does Wisconsin proud. It's reputation is golden. It employs three thousand people and generates hundreds of millions of dollars in personal earnings and business revenue. And it wants to add planes and ground equipment and stay in Wisconsin. To do so it is asking for a personal property tax exemption which it will make up for in income taxes, additional fees and job creation.

A hub airline is a feather in Wisconsin's competitive cap, especially a hub with the name Midwest Express. The Governor supports the measure. We urge the legislature to get this bill to him for his signature.





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EDITORIAL

Midwest Express tax break ought to fly

Midwest Express Holdings Inc. is plotting a \$1 billion expansion of its airlines, Midwest Express and Skyway. Given its choice, the Oak Creek company would like a good share of that expansion to take place in the Milwaukee area.

But there's a hitch in that flight plan. Wisconsin's corporate tax structure is causing the company to consider taking that expansion elsewhere. Wisconsin can't allow that to happen.

Thankfully, some Milwaukee-area legislators are uniting in bipartisan support for a proposal that would grant a \$1.5 million annual tax break to Midwest Express.

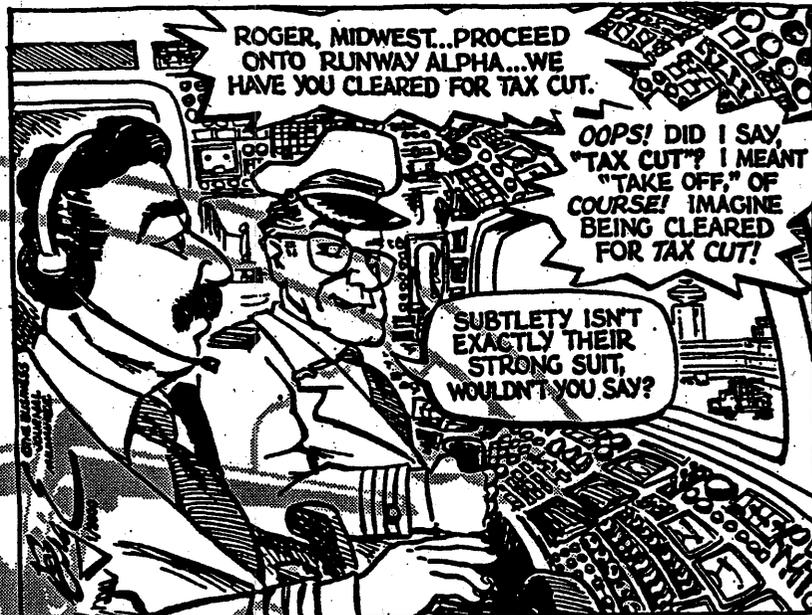
The break would work this way: Wisconsin adds up the value of the company's holdings and applies an ad valorem tax to the proportion of those assets held in the state. The new bill would reduce those taxes.

While some critics may cry "corporate welfare" over the proposal, they'd better think again.

"It's as much a job issue as anything," notes state Rep. Jeff Stone (R-Greenfield), who is drafting the Midwest Express tax relief proposal along with Assembly Speaker Scott Jensen (R-Waukesha), Rep. Jeff Plate (D-South Milwaukee) and Sen. Rick Grob-schmidt (D-South Milwaukee). "Midwest Express is going to do the investing. They're going to hire the people. Do we want them to do that in Wisconsin?"

The answer, of course, is yes. Wisconsin can't afford give its best companies reasons to take their investments elsewhere.

An expansion of the Midwest Express hub would boost the Milwaukee economy in several ways: It would add hundreds of jobs, increase traffic at General Mitchell In-



ternational Airport and improve the city's image as a destination for tourists and conventions.

An airline hub in Milwaukee is key in attracting more businesses to locate here. The fact that the Midwest Express hub is here played a key role in Milwaukee luring the headquarters of Rockwell International last year.

And one needn't look far to see the contributions Midwest Express makes to Milwaukee. Just look at the impact of the Midwest Express Center on the city's downtown. The company paid more than \$8.5 million for naming rights for the convention center.

The company employs 2,695 people, 80 percent of whom work at its Milwaukee hub.

Additionally, because the tax relief would apply to any airline that operates a hub terminal in Wisconsin and has at least 45 departing flights each weekday, it would provide an incentive for other airlines to consider the state for its home base.

All of those benefits far outweigh any revenue that would be lost to the state in the short term.

And the tax relief will send a message that Wisconsin is interested in keeping its most productive, responsible corporate citizens.



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Associated Press

Committee supports tax exemption for airline

ASSOCIATED PRESS

Midwest Express would receive a \$1.7 million yearly tax exemption under a bill that the Legislature's Joint Finance Committee endorsed Thursday despite criticism that it would reduce aid available to help Wisconsin's smaller airports.

Rep. Antonio Riley, D-Milwaukee, said the exemption would help convince the airline that Wisconsin should be the site of a proposed \$1 billion hub expansion. Midwest Express also has hubs in Omaha, Neb., and Kansas City, Mo.

The committee voted 11-5 in favor of the legislation. The Assembly and Senate still must approve the bill before it can be sent to the governor.

Airline officials say that without the tax break, it would be too expensive to move ahead with their expansion in Wisconsin.

"When it comes to taxes, we do not stand up very well," said Rep. John Gard, R-Peshigo, one of the committee's co-chairmen.

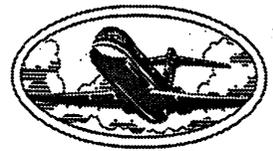
The tax exemption would mean less money for the state's aeronautics assistance program.

Sen. Robert Jauch, D-Poplar, said he opposed using transportation funds for an economic development project like the Midwest Express expansion.

The bill means there will be less money to help smaller airports that are not eligible for federal funding.

"Smaller airports will be put on a diet in order for Midwest Express to gain a few pounds," Jauch said.

Other members of the committee said they were concerned that giving the airline a tax exemption might be unconstitutional.



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March 3, 2000

Committee approves tax break for airline

By Jenny Price, Associated Press

Midwest Express would receive a \$1.7 million yearly tax exemption under a bill that the Legislature's Joint Finance Committee endorse Thursday despite criticism that it would reduce aid available to help Wisconsin's smaller airports.

Rep. Antonio Riley (D-Milwaukee), said the exemption would help convince the airline that Wisconsin should be the site of a proposed \$1 billion hub expansion. Midwest Express also has hubs in Omaha, Neb., and Kansas City, Mo.

"I think it's a question of being competitive," Riley said. "We should not force this Wisconsin-based company to look elsewhere."

The committee voted 11-5 in favor of the legislation. The Assembly and Senate still must approve the bill before it can be sent to the governor.

Airline officials say that without the tax break, it would be too expensive to move ahead with their expansion in Wisconsin.

State income and property taxes would add up to \$27.5 million if the expansion takes place in Wisconsin, while the taxes would amount to \$4.5 million in Illinois, \$6.3 million in Michigan, \$9.5 million in Missouri, \$11.6 million in Iowa and 413.3 million in Minnesota, airline officials said.

"When it comes to taxes, we do not stand up very well," said Rep. John Gard (R-Peshigo), one of the committee's co-chairmen.

A similar tax exemption proposal was left out of the most recent state budget. Carol Skornicka, senior vice president for corporate development at Midwest Express, said tax relief would give the airline the incentive to expand in Wisconsin.

Without a tax break, the airline would make plans to expand elsewhere, Skornicka said. Midwest Express has about 2,000 employees, of whom 80 percent are in the Milwaukee area.



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Tax break bill for airline introduced

Proposal would free Midwest Express from certain property taxes

By Dennis Chapman Of the Journal Sentinel staff

Madison - Tax breaks for Midwest Express Airlines, aimed at encouraging an expansion that cost as much as \$1 billion, began to taxi down the legislative runway Wednesday.

A bipartisan group of Milwaukee-area lawmakers introduced legislation that would free the Oak Creek-based airline from certain property taxes.

"Wisconsin can't afford to lose great companies and good jobs to other states," said Senator Richard Grobshmidt (D-South Milwaukee). "This proposal sends the message that we're serious about making Wisconsin an attractive place to start a business, grow a business and expand a business."

Rep. Jeff Stone (R-Greenfield) said that the tax breaks are needed to help Midwest Express compete and to assure it expands here.

"By changing this tax, we create a home field advantage necessary to promote Wisconsin growth," said Stone, whose bill has attracted 27 cosponsors from both parties.

Although Wisconsin allows tax breaks on other business equipment, airplanes are not exempt from a property tax based on their value.

The proposal was removed from the current state budget during closed-door negotiations last fall, and would have saved the airline about \$2.1 million in property taxes in the 1999-2001 biennium.

Airline officials have estimated that Wisconsin property taxes on the airline and its expansion between 1999 and 2005 would amount to \$22.5 million. That compares with \$9.5 million in Minnesota, \$7 million in Missouri, \$6.2 million in Iowa, \$5.8 million in Michigan and \$4.5 million in Illinois, if the airline were to expand in those states instead of here.

Company officials have complained that airlines doing business in other Midwestern states have been able to pass those savings along to passengers, making it more difficult for Midwest Express to compete.

"The most exciting thing about this is that we are enjoying broad bipartisan support," said Carol Skornicka, senior vice president for corporate development at Midwest Express. Assembly Speaker Scott Jensen (R-Town of Brookfield) said the breaks needed to make Wisconsin more competitive regionally.

"If Wisconsin's economy is going to prosper and grow, we've got to make sure that we don't drive good companies away with tax policies that punish, rather than reward success," Jensen said. The tax break will apply to major airlines with hub airport operations in Wisconsin. Because of that, the legislation would be helpful not only to Midwest Express, but to other airlines looking to set up hubs in the state, said Rep. Jeff Plale (D-South Milwaukee).



**MIDWEST EXPRESS
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Thursday, March 02, 2000

Midwest Express urges tax exemption

Bill is designed to benefit state airlines

By Elaine Kauh Press-Gazette

Midwest Express Airlines is confident state lawmakers will back a measure to exempt it from property taxes paid on aircraft. The legislative Joint Finance Committee is expected to vote today on a proposal to repeal the tax for eligible airlines. For now, the bill would benefit only Milwaukee-based Midwest Express. The tax, called an ad valorem tax, is exempted in neighboring states, said Timothy Hoeksema, the airline's chairman, president and chief executive officer. "It's a huge disincentive for airlines, any airline, to grow in Wisconsin," said Hoeksema, who's confident lawmakers will back the bill. "That's why I think it's a no-brainer." He made his comments during a meeting Wednesday with members of the the Press-Gazette editorial board. Midwest Express represents 40 percent of daily airport departures in Wisconsin, Hoeksema said. Those flights include the airline's wholly-owned subsidiary, Skyway Airlines, which has jet service from Austin Straubel International Airport to Milwaukee.

The company paid about \$1.7 million last year in aircraft property tax. For a \$459 million company that pays \$80 million in total taxes, that's not much now, Hoeksema said, but that tax will increase significantly with future growth, he said. "In 2004 that's \$5.5 million," he said. Midwest Express saw compounded annual growth of 17 percent during the last 10 years and its goal is to continue to grow 12 percent to 15 percent per year, expanding service and replacing older aircraft, Hoeksema said.

The bill would repeal the aircraft property tax for airlines with 45 daily departures to at least 15 nonstop destinations. That means Midwest Express would be the only airline to qualify for the tax exemption. But Hoeksema dismisses the argument that it's a bill just for his company. "I don't agree with that at all," he said. "It's available for anybody who's willing to make the economic investment to improve air service in Wisconsin. I would hope this bill would encourage other people," he said. Hoeksema said it's too soon to pinpoint where Midwest Express expects to grow or whether there are expansions ahead for service at Austin Straubel. "Certainly we look at growth everywhere," he said.

The 15-year-old company has a fleet of 52 aircraft and 3,200 employees, 2,700 of them in Wisconsin. The measure was in last year's budget bill but didn't make it past the conference committee. This time, Midwest Express leaders are optimistic about its passage. "We're very encouraged by the fact that we're back," said Carol Skornicka, senior vice president of corporate development, secretary and general counsel for the airline. If the Joint Finance Committee passes it, the bill would go to a joint committee on tax exemptions for further review, she said. When asked what Midwest Express would do if the bill doesn't pass, Hoeksema said, "we're very confident."

MIDWEST EXPRESS AIRLINES



Preserving a partnership that works for Wisconsin and Midwest Express

Midwest Express Airlines has been a valuable asset to the state of Wisconsin.

As with other businesses, Midwest Express must remain competitive to be viable in the future.

Wisconsin property tax policies put Midwest Express at a serious competitive disadvantage.

Thoughtful tax policies have proven to be among the most successful tools available to states for encouraging economic growth.

Midwest Express is supporting tax reform that will help produce a level playing field as it plans future growth.

Midwest Express has been a valuable asset to the state of Wisconsin.

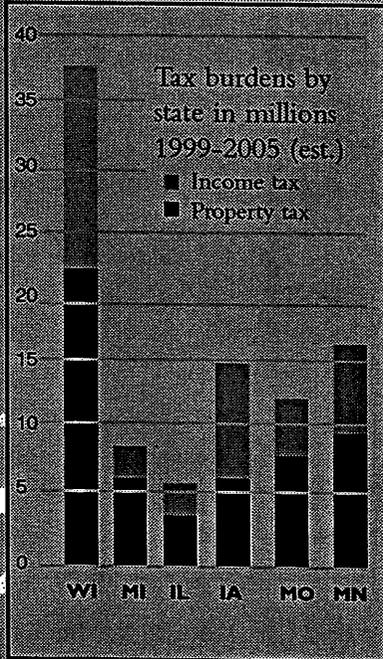
- With more than 3,000 employees and a fleet of 52 aircraft in service, Midwest Express has generated more than 10,000 jobs directly and indirectly throughout Wisconsin. The airline generates over \$265 million in personal earnings and over \$459 million in business revenue attributable to Midwest Express.
- Midwest Express provides the access that companies look for when making decisions about locating or expanding business operations and corporate headquarters. As a hub airline in Milwaukee, Midwest Express serves 80 percent of major metro areas in the country with nonstop flights from Milwaukee. It provides exclusive service to 12 of these cities. In a 1998 study, the Institute of Public Policy found that "medium-sized cities that have a hub airport have been more successful in the 1990s in either attracting high technology employment or in fostering its growth . . . there are over 12,000 more jobs in regions with hub airports than those without a hub facility."
- Moreover, the Wisconsin and Milwaukee convention and tourism industries have benefited significantly from convenient access and superior quality service provided by Midwest Express Airlines, as well as from the monies generated through naming rights of the Midwest Express Center.

As with other businesses, Midwest Express must be competitive to remain viable in the future.

- Midwest Express has been successful because it offers excellent quality service at prices comparable to other airlines. But in today's competitive environment it must continue to expand and enhance its service to maintain its reputation as a leader in service and reliability.
- The Company has plans to increase its fleet from 52 to over 80 aircraft over the next five years. This will require an initial investment of \$966 million and will almost quadruple the book value of its fleet from \$212 million to \$820 million. The Company anticipates providing service to and between new cities, with expanded service and greater capacity to others.

Wisconsin property tax policies put Midwest Express at a serious competitive disadvantage.

- The nearly \$1 billion investment that Midwest Express plans to make to upgrade its service capability will substantially increase the property tax paid under current Wisconsin law.
- If Midwest Express invests in an expanded fleet, it would pay millions of dollars more in Wisconsin property taxes alone than its competitors would pay under the same circumstances. If all projected growth for Midwest Express were to be located in Wisconsin, current property tax law would result in a total property tax liability of \$22.5 million for the Company over the next five years. That is between \$13 million and \$18 million more than any neighboring states would impose.



Excess property and corporate income taxes associated with expansion in Wisconsin range from a low of \$14 million to a high of \$23 million over the next five years.

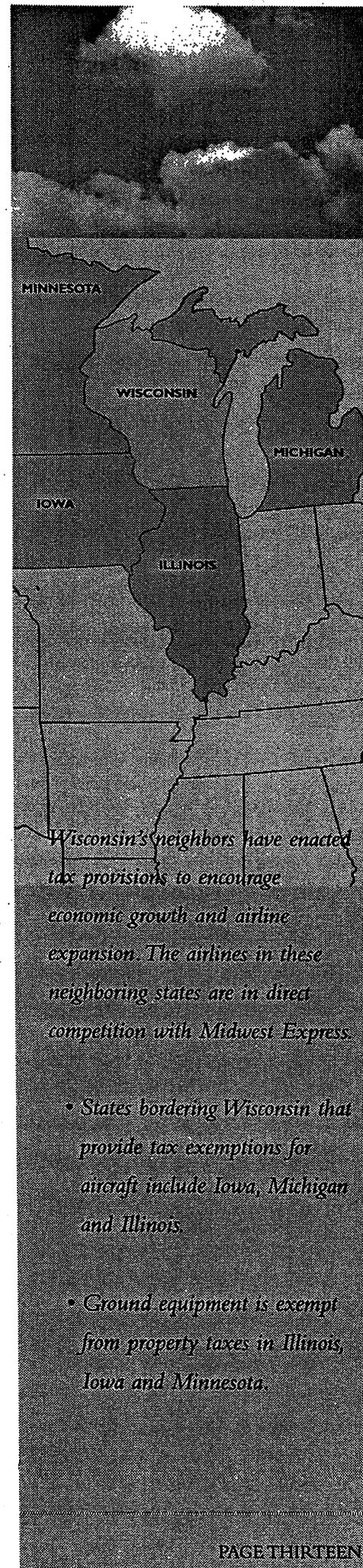
This graph depicts projected property and corporate income taxes to be paid by Midwest Express in Wisconsin as compared to neighboring states. The taxes are based on projected aircraft acquisitions of \$966 million (gross) in years 1999-2005.

Thoughtful tax policies have proven to be among the most successful tools available to states for encouraging economic growth.

- Each of Wisconsin's neighboring states, and other states across the country with major airline activity, have enacted tax provisions to encourage the location and expansion of airlines because of the tremendous positive impact those airlines have on the economies of the states and their municipalities.
- States with significant national airline activity have tax provisions designed to encourage those airlines to expand their operations in their states. These airlines are in direct competition with Midwest Express.
- For example, Iowa, Michigan and Illinois exempt aircraft and Illinois, Iowa and Minnesota exempt ground equipment from property taxes. Other tax considerations include shorter depreciable lives for aircraft.
- Even in Wisconsin, tax laws recognize the value of exempting business equipment from taxes to promote economic development. Computers, treatment plant and pollution abatement equipment and manufacturing equipment are exempt from personal property taxes in Wisconsin. After the exemption was made in the 1970's, significant development occurred within the state.

Midwest Express is supporting tax reform that will help produce a level playing field.

- Exempting Midwest Express from the personal property tax would encourage the Company to make the investments necessary to expand its services, its employment base and the benefits it brings to Wisconsin while remaining competitive in the airline industry.
- The exemption the Company is supporting would be more than made up in income taxes, jobs and other direct and indirect benefits, including new landing fees and property and facilities fees that Midwest Express will generate as it grows.
- Midwest Express has demonstrated a solid commitment to Wisconsin and its communities. The Company has supported hundreds of community organizations including: the Marcus Center for the Performing Arts' Rainbow Summer, Midwest Athletes Against Childhood Cancer (MAACC) Fund, American Heart Association, Make-a-Wish, Next Door Foundation, Project Equality and Milwaukee Art Museum.



Wisconsin's neighbors have enacted tax provisions to encourage economic growth and airline expansion. The airlines in these neighboring states are in direct competition with Midwest Express.

- *States bordering Wisconsin that provide tax exemptions for aircraft include Iowa, Michigan and Illinois*
- *Ground equipment is exempt from property taxes in Illinois, Iowa and Minnesota.*

*"It is a tremendous asset for Wisconsin
to have the world's best airline located
in our state."*

Governor Tommy G. Thompson



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AB-941

**ECONOMIC IMPACTS
OF THE
DANE COUNTY REGIONAL AIRPORT**

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December 1999

TABLE OF CONTENTS

CONTINUED

IV.	ECONOMIC IMPACTS OF THE DANE COUNTY REGIONAL AIRPORT	21
	A. Output Impacts	.....	23
	B. Employment Impacts	.....	24
	C. Personal Income Impacts	.....	25
	D. Fiscal Impacts	.....	26
V.	SUMMARY, ISSUES FOR FURTHER CONSIDERATION AND LIMITATIONS	.....	28
	A. Summary	.....	28
	B. Issues for Further Consideration	.....	29
	1. Economic Impacts of Capital Spending	.....	29
	2. Passenger Spending	.....	29
	3. Implicit Multipliers	.....	30
	4. Impacts on Dane County "Cost of Borrowing"	.....	30
	5. Importance of DCRA to Dane County Business Climate	.....	31
	C. Limitation	.....	31
	APPENDIX A. Characterization of DCRA Administration Expenditures	.....	32
	APPENDIX B. Surveys used in Economic Impact Study	.....	34

EXECUTIVE SUMMARY

This study estimates the impacts of the Dane County Regional Airport (DCRA) on the economy of Dane County, Wisconsin in 1998. The analysis includes the impacts on County output, employment and personal income from the activities directly associated with the use and operation of DCRA. These activities include:

- commercial aviation
- general aviation
- military aviation
- air freight services
- air traffic control
- air terminal car rental services
- air terminal food, gift and sky cap services
- airport administration and operations
- Truax Air Park.

The impacts of DCRA on Dane County travel agencies are also estimated, along with the impacts on area hotels, restaurants, ground transportation, entertainment and retail sales from the spending that results from visitors to Dane County that arrive via air.

The Dane County Regional Airport plays a crucial role in the everyday economic and social life of Dane County. In 1998:

- over 1,300,000 people used commercial airline service into or out of Dane County,
- approximately 127,000 people arrived in Dane County using general aviation services,
- over 2,000,000 pounds of mail and nearly 25,000,000 pounds of freight moved through DCRA facilities, and
- nearly 145,000 commercial, military and general aviation aircraft took off or landed at DCRA.

Virtually all trends associated with DCRA activities are increasing over time and many are expected to continue over the foreseeable future.

The estimated overall economic impacts of DCRA's operation and use on Dane County in 1998 include:

- *output* in the County increased by approximately \$588,200,000— that is, DCRA adds roughly \$1,612,000 to the overall Dane County economy every day it is open (365 days a year),
- over 9,700 workers in the County were *employed* due to DCRA operations and use, including nearly 2,200 workers that are employed directly at DCRA military and non-military operations and nearly 4,300 workers that serve the direct needs of air travelers (both local and visitors), and
- the operation and use of DCRA generated over \$223,000,000 in *personal income* for Dane County residents.

Each of the aggregate impacts summarized above can be decomposed into various *direct* impacts and subsequent *indirect* and *induced* impacts.

- An estimated \$52,000,000 was spent in 1998 on commercial and general aviation services. A portion of this "leaked" from the Dane County economy in the form of payments to national headquarters and for purchases of goods and services from non-Dane County sources, but the remainder caused additional indirect and induced output impacts in Dane County of approximately \$27,900,000.
- The combined military aviation expenditure associated with DCRA was over \$30,300,000 in 1998, resulting in an additional \$16,200,000 in indirect and induced impacts on the County's output.
- Dane County's travel agencies saw an estimated \$4,100,000 in sales in 1998 due directly to air travel associated with airlines serving DCRA.

- ❑ The largest Dane County output impact associated with the operation and use of DCRA in 1998 occurred within the County's "hospitality" sector. An estimated \$277,200,000 was spent by visitors arriving by commercial and general aviation services on hotels, restaurants, transportation, entertainment and shopping. These expenditures led to an additional \$177,700,000 in indirect and induced spending throughout the County.
- ❑ Nearly 6,500 Dane County jobs were directly tied to the operation and use of DCRA facilities in 1998. This was comprised of approximately 660 jobs directly associated with commercial and general aviation (including operation and maintenance of DCRA facilities), 1,500 jobs associated with military aviation units, and 4,300 jobs associated with travel agencies and the hospitality sector. The combined labor force connected directly to the use and operation of DCRA would rank the airport behind only the University of Wisconsin-Madison and Wisconsin state government in terms of full-time permanent employment in 1998.
- ❑ The 6,500 direct jobs associated with the operation and use of DCRA in 1998 produced indirect and induced employment for an additional 3,300 workers throughout the County.
- ❑ Approximately \$39,500,000 in wages were paid to workers directly associated with commercial, general and military aviation in Dane County in 1998. An additional \$101,000,000 in wages and commissions were paid to Dane County travel agents and workers in the hospitality sector.
- ❑ The \$140,500,000 in direct wages associated with DCRA-related workers in 1998 produced an additional \$82,700,000 in indirect and induced wages for workers throughout the Dane County economy.

- The combined economic impacts of DCRA-related activities produced approximately \$1,500,000 in sales taxes for Dane County in 1998 and approximately \$22,000,000 in sales and income taxes for the State of Wisconsin.

- In addition to the economic impacts identified above, expenditures on capital improvements associated with DCRA produce economic impacts in the years that they occur. For example, construction of the recently completed 3/21 runway injected over \$21,000,000 into the Dane County economy. This expenditure led to output impacts in Dane County of over \$33,400,000, employment impacts of nearly 360 additional jobs, and increased personal income of over \$12,000,000. While these expenditures do not occur on a regular basis, they do represent significant economic impacts in the years they occur.

- Data and survey information limitations made it impossible to estimate all of the economic impacts associated with the operation and use of DCRA. Important impacts that were not able to be estimated as part of this study include: (1) importance of *access* to DCRA facilities and services for commercial activities in the County in general, and Truax Air Park tenants in particular, (2) benefits to County residents from having easy access to the nearby air services of DCRA in comparison to more distant air services in cities such as Milwaukee or Chicago, and (3) the impact of the DCRA "cash reserve" on the costs of borrowing for Dane County government. All of the omitted areas would create additional positive economic benefits for Dane County.

LIST OF FIGURES AND TABLES

FIGURE 1.	Dane County Regional Airport and Related Economic Activities	.....	5
TABLE 1.	Summary of Dane County Regional Airport Activities: 1996-1998	.....	3
TABLE 2.	Activities Associated with DCRA Commercial Aviation	.....	6
TABLE 3.	Illustration of Truax Air Park Activities Associated with DCRA	.....	8
TABLE 4.	Average Daily Spending by Visitors: DCRA, Wisconsin and Palm Beach, Florida	.....	19
TABLE 5.	Estimated Economic Impacts of the Dane County Regional Airport: 1998	22
TABLE 6.	Estimated Fiscal Impacts of DCRA-Related Activities: 1998	27

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It is the hope of the authors that this study of the *Economic Impacts of the Dane County Regional Airport* will prove useful in understanding the important role the Dane County Regional Airport plays in the economic and social life of Dane County.

I. OVERVIEW

This study estimates the impacts of the Dane County Regional Airport (DCRA) on the Dane County economy for the year 1998. Using input-output analysis and data collected from airport administration officials, government and private sector organizations and airline passengers, this study estimates how the output, employment and personal income of Dane County's residents and businesses is affected by the operation and use of DCRA facilities. This report is composed of four major sections, in addition to this overview. Section II describes the various components of the Dane County Regional Airport and the various Dane County activities that are related to its operation and use. This discussion includes descriptions of the commercial, general and military aviation uses of DCRA and the related activities associated with travel agencies and visitors to Dane County that arrive by air. Section III presents the economic impact assessment framework that was used for this study. Here the input-output model and the data used for this study are discussed. The following section, Section IV, presents the economic impacts that have been estimated for the operation and use of DCRA facilities and services. The final section of the report, Section V, summarizes these results and discusses several key issues or features that need to be taken into account in interpreting the results of this study.

II. DESCRIPTION OF DANE COUNTY REGIONAL AIRPORT AND RELATED ACTIVITIES

The Dane County Regional Airport plays a major role in the economic and social life of Dane County and the surrounding region. The most common image of DCRA is that of a "gateway," bringing visitors to the region and providing local residents and businesses access to places throughout the world. It is the image of a bustling air terminal, commercial planes departing and arriving, and friends and family being reunited that most individuals associate with DCRA. In fact, the Dane County Regional Airport is much more than this image in terms of its economic significance to the region. While commercial aviation is an important part of the overall DCRA picture, DCRA also provides an important role in moving goods and information in and out of the region, is home to important military aviation activities, and provides a full range of general aviation services to individuals, corporations, government, health care providers and the broader community in general.

Table 1 provides an overview of major DCRA activities over the most recent three year period. In general, it is clear from this table that most trends pertaining to DCRA are "up." The number of passengers using commercial airline services has been increasing over eight percent a year over the 1996-1998 period, with a corresponding increase in the amount of commercial air carrier activity (movements). The use of DCRA as a way to move air freight has also grown significantly over the period. These trends, coupled with the increase in air taxi services shown in Table 1 reflect the importance of DCRA in a growing and thriving Dane County economy.

Many of the trends identified above are projected to continue into the foreseeable future. Total aviation activity at DCRA, for example, is forecast to increase by 9.7 percent between 2000 and 2020.¹

¹"Wisconsin State Airport System Plan 2020 (Advance Copy of Draft Summary Report)," Wisconsin Department of Transportation, February 23, 1999, p. SR-17.

TABLE 1. Summary of Dane County Regional Airport Activities: 1996-1998

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Commercial airline passengers	1,110,720	1,206,295	1,312,229
<i>Departing</i>	557,513	607,044	662,610
<i>Arriving</i>	553,207	599,251	649,619
Mail (pounds)	2,023,841	3,229,303	2,239,333
Freight (pounds)	11,167,561	24,113,908	24,975,513
Aircraft movements	155,060	145,504	144,712
<i>Air carrier</i>	15,577	15,764	16,149
<i>Air taxi</i>	15,879	16,523	17,488
<i>Military</i>	8,700	7,239	7,499
<i>General aviation</i>	114,904	105,978	103,576

The Dane County Regional Airport creates economic benefits to the Dane County region in many ways, but three ways are primary. First, all government agencies and private sector firms that directly supply aviation-related services through the various DCRA facilities impact the regional economy through the purchase of locally produced goods and services and through the payroll that is paid to airport-related employees. In general terms, these impacts are generated by the activities of the commercial, general and military aviation operations associated with DCRA. The second set of economic benefits are created by the impact of DCRA operations on area businesses that are related to the use of DCRA facilities. These include, for example, sales by area travel agencies for travel associated with air travel from DCRA and area hotels, restaurants and so forth that are impacted by visitors to Dane County that have arrived in the county via aviation services associated with DCRA. The third broad set of benefits generated by DCRA operations is the benefit derived by Dane County residents, industry and government from being able to use aviation services in the immediate area, rather than more distant locations such as Milwaukee and Chicago.

This section describes the various activities directly related to DCRA operations and the activities of the various related activities that are affected by DCRA operations, but are not necessarily located at the DCRA facility. It is this full set of activities that create economic benefits throughout Dane County. Figure 1 illustrates how the various entities are differentiated and related.

A. DCRA Activities

In this report, the term *Dane County Regional Airport* (or *DCRA*) generally refers to the aviation aspects of the Dane County Regional Airport. In some cases a distinction is made between the *Airport* and *Truax Air Park* components. The *Airport* component refers to all activities and land associated with the direct operation of the various aviation services (i.e. commercial, general and military aviation activities). The *Truax Air Park* component refers to land and activities that are not directly associated with operations of the airport. These include, for example, the business operations located along International Lane and Madison Area Technical College facilities. The 2,766 acres of total land area within DCRA is divided roughly into 2,466 acres of *Airport* and 300 acres of *Truax Air Park*. This section describes the activities that comprise each of the DCRA-related activities.

1. Commercial Aviation

Commercial aviation refers to the operations of commercial passenger and airfreight services and the various administrative and support services involved in providing these services. For this study, these operations have been defined as shown in Table 2.

FIGURE 1. Dane County Regional Airport and Related Economic Activities

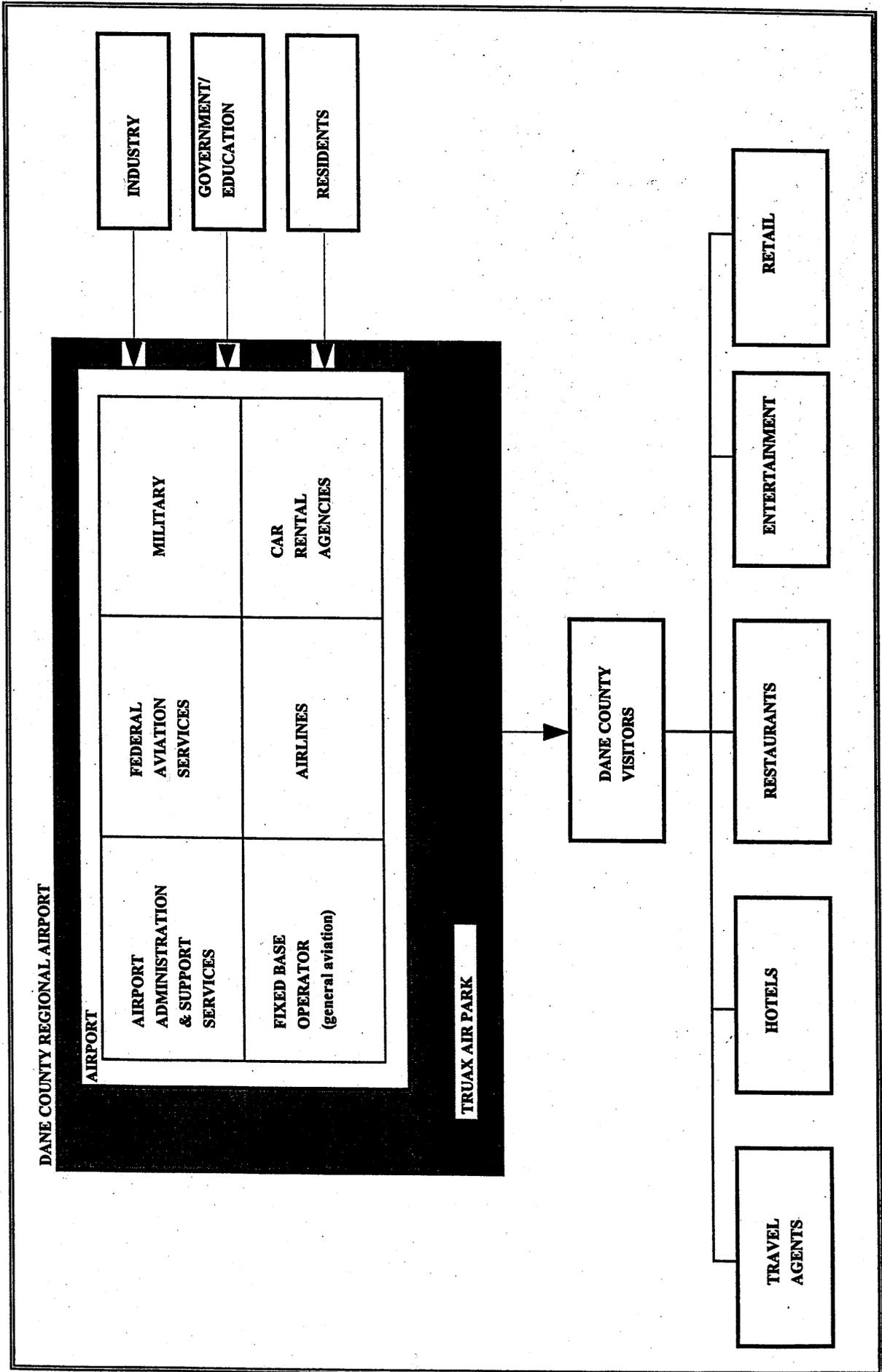


TABLE 2. Activities Associated with DCRA Commercial Aviation

Airport administration	Dane County activities responsible for general operation and maintenance of DCRA facilities, including airport operations, security, terminal and airpark maintenance, parking, land management, etc.
Federal Aviation Administration	Federal activities responsible for air traffic control and aircraft navigational aids
Support services	Activities associated with passenger services, including baggage handling, food service, gifts, luggage carts, etc.
Airlines	Activities associated with regularly scheduled commercial passenger air service and commercial air cargo service
Car Rental	Activities associated with automobile rental to deplaning airline passengers

The inclusion of the above activities in the Commercial Aviation category is somewhat arbitrary in that several of the activities listed in Table 2 support activities other than commercial aviation. For example, airport administration and the Federal Aviation Administration support activities of the Fixed Base Operator and the Wisconsin Air and Army National Guard units which are described later.

2. *General Aviation/Fixed Base Operator*

The Dane County region is served by a Fixed Base Operator (FBO) that provides a broad spectrum of general aviation services. For example, the DCRA-based FBO provides charter aviation services, flight training, aircraft rental and maintenance, aviation fuel services, aircraft storage and so forth. An independent (leased) small restaurant is also part of FBO operations. As noted above, the FBO relies on services provided by the DCRA and Federal Aviation Administration for portions of its operations.

3. *Military*

The Dane County Regional Airport is home to two significant military aviation units and their related support facilities and services. The 115 Fighter Wing of the Wisconsin Air National Guard is located at DCRA and is a vital part of the United States Air Force. This constellation of military aviation activities is composed of units such as fighter wing headquarters, operations, operations support, logistics, maintenance, security and other mission-related units and is staffed by over 360 full-time air technicians, active Guard/Reserves and other mission-related employees and over 1,100 "traditional" part-time Guardsmen. The DCRA is also home to an aviation unit of the Wisconsin Army National Guard. Like the 115th Fighter Wing, this unit has both operations and support services operating out of facilities located at DCRA and is staffed by over 40 aviation-related individuals.

4. *Truax Air Park*

Approximately 300 acres of the overall land holdings of DCRA are used by industry and government for a broad range of activities. While this land is held to meet current and anticipated land needs of DCRA, much of this land is leased for private or public development and is home to over 50 firms or public agencies. A total of 17 different office buildings are located with the Truax Air Park, with a total of approximately 1,329,000 square feet of leasable space. A partial list of the activities located within the Truax Air Park component of DCRA is shown in Table 3.

TABLE 3. Illustration of Truax Air Park Activities Associated with DCRA

Vocational and adult education	Business services
Wisconsin workforce development	Financial and insurance services
Private educational programs	Engineering and scientific services
Trade associations	Printing and publishing services
Medical and health-related services	Telecommunications services

In most cases, activities located within the Truax Air Park do not provide direct services to DCRA operations, but have located in the airpark for "access" reasons or other site-specific attributes. Conditions for the release of Truax Air Park land from the Federal government to the airport require that all funds received from the rental of land be used for the financial support of the airport.

B. Related Activities

As discussed above, the Dane County economy is affected as any of the various aviation-related activities purchase locally produced goods and services or as they pay their employees. Other firms, organizations or individuals in Dane County also derive a portion of their activities as a result of DCRA operations. These activities can be broken into two general categories: *travel-related* and *visitor-related*.

1. Travel-Related

Two local groups benefit from travel-related aspects of DCRA operations. In the first case, Dane County travel agencies derive a portion of their sales through commissions that are paid on travel that utilizes DCRA services. While not all commissions that these agencies receive is based on DCRA-related air travel, the portion that is can be at least partially attributed to DCRA operations. The second group is made-up of Dane County industry, government and residents. These groups derive benefit from the fact that they can easily travel to other destinations using DCRA facilities. While other air travel services are available in cities such as Milwaukee and Chicago, the access to proximate air travel services is a benefit to area business, government and residents. In both cases above, the economic benefits accrue to Dane County businesses, organizations or residents.

2. Visitor-Related

An important economic benefit derived by DCRA operations is the spending that results from visitors to Dane County that arrive using aviation services. While this spending may occur throughout the local economy, it is traditionally thought that air-related visitor spending is concentrated in the following areas: hotels, restaurants, entertainment, retail (shopping) and ground transportation. In contrast to the "travel-related" impacts discussed above, "visitor-related" impacts are generated by outside visitors to Dane County as they come to the county for business, recreation or personal purposes.

III. ECONOMIC IMPACT ASSESSMENT FRAMEWORK

This section describes the assessment framework that was used to estimate the impact of the Dane County Regional Airport on the Dane County economy. This section first describes the general approach taken in estimating the economic impacts of the airport and is followed by a description of the economic model that is employed in this analysis. The last portion of this section describes, or "characterizes," the airport and related activities in "economic" terms. It is the "characterization" data that is ultimately used to determine the economic impacts of DCRA on Dane County.

A. General Approach

The goal of this study is to estimate the impacts of the Dane County Regional Airport and related activities on the Dane County economy. The base year for this study is 1998, the last full calendar year for which complete financial and employment information is available.

As discussed more fully in Section B below, an *input-output* model exists for Dane County for the year 1996. This model is based on economic conditions as they existed in Dane County in 1996 and is the most recent economic model currently available for the county. The model shows the economic inter-relationships that existed among the various sectors of the county's economy in 1996 and allows analysis of how activities in one sector affect activities in other, related sectors. Major outputs of the model include Dane County employment, output and personal income.

DCRA and related activities as discussed in Section II have been "characterized" in economic terms as discussed more fully in Section C below. The general approach used in this economic impact assessment has been to simulate the Dane County economy *with* and *without* DCRA and its related activities. In particular, employment, output and income for Dane County in 1996 is simulated *with* DCRA and related activities as they existed in 1998. Following this, employment, output and income for Dane County is simulated with DCRA and related activities

removed (without) from the base model. The difference between the two simulations is the estimated impact of DCRA and related activities. All model simulations are inflated to 1998 dollars using commonly accepted implicit price deflators. All dollar amounts reported in this study are stated in 1998 dollars.

B. Input-Output Model

The analysis employed in this study uses an IMPLAN input-output model that has been constructed for Dane County, Wisconsin for the year 1996. IMPLAN is a commercially available, trade-marked product of MIG, Inc. (Stillwater, Minnesota) and is referred to as "IMPLAN" (without reference to trade-mark) through the remainder of this report.

An input-output model, in general, records the sales and purchases of all economic entities in an economy at one point in time. As the name suggests, this allows the analysis of how the *input* stream (including labor) is affected each time *output* changes. In the case of this study, the input-output model allows DCRA and related activities to be viewed in terms of their economic linkages.

IMPLAN records sales and purchases for an economy using 528 *sectors*. Sector 437: Air Transportation, for example, contains information on the sales and purchases in Dane County by airlines serving the Dane County region. Sector 443: Electric Services contains information on how much electricity was purchased by DCRA and related activities in 1996. The "characterization" described in the following section provides greater detail on the IMPLAN sectors used for this analysis.

A particular strength of input-output analysis is the ability to track economic linkages within an economy. Three kinds of linkages are estimated within the input-output model. These linkages are *direct*, *indirect* and *induced* and are described briefly below.

Direct Linkage: The direct purchase of an input from another activity. For example, when DCRA purchases paper supplies from an office supply company, the expenditure on paper supplies is a direct linkage for DCRA.

Indirect Linkage: The inputs needed to meet the original direct purchase demand. For example, the paper supplier above needs electricity, office space and employees to supply the original paper supplies to DCRA.

Induced Linkages: All activities in a region require employees. As direct and indirect linkages take place in an economy, payments to labor increase and this money is, in turn, spent and re-spent throughout the economy, leading to induced linkages.

In the input-output model, the result of the three linkages above is creation of economic *multipliers*. These multipliers show the impact of each additional dollar that is spent in an economy and are expressed in terms of employment, output and income. For example, a recent Wisconsin Department of Transportation economic analysis of Wisconsin aviation showed implicit multipliers of 2.3 for output, 3.4 for employment, and 2.7 for income.² These suggest that output in the state would increase \$2.30 for each \$1 increase in output by the aviation sector; statewide employment would increase 3.4 jobs for each new job created in the aviation sector; and income in the state would increase \$2.70 for each \$1 increase in payroll to aviation sector workers. The multipliers reflect the fact that new spending caused by DCRA and related activities is spent and re-spent as it "trickles" through the Dane County economy.

²Robert Russell, "The Economic Impact of the Aviation Industry in Wisconsin: Summary", Madison, WI: Wisconsin Department of Transportation, undated.

C. Characterization of DCRA and Related Activities

The IMPLAN model is expressed in "economic" terms dealing generally with purchases (*inputs*) and sales (*output*). For purposes of this study, DCRA and the various related activities need to be described, or characterized, in equivalent economic terms. For firms selling their outputs in the marketplace, the only variable that is needed for economic impact assessment purposes is annual sales (in 1998). Using IMPLAN data and calculations it is possible to track the impact on Dane County output, employment and income as the sales of "private" firms respond to DCRA activities.

Economic entities that do not directly sell their outputs in the marketplace present a different requirement for economic impact assessment purposes. These entities would include Dane County government's operation of DCRA, the Federal Aviation Administration's air traffic services, and the Wisconsin Air and Army National Guard. The economic activities of this group of non-market entities is characterized by the purchases each entity makes of locally produced goods and services and the payment that is made to labor. For purposes of this study this means that the 1998 expenditures of each non-market entity needs to be characterized into one of the 528 IMPLAN sectors. Appendix A illustrates how the 1998 airport administration operating budget was characterized for use in the IMPLAN analysis.

It should be noted here that the economic impact assessment was conducted, to the extent possible, at the individual economic entity level. That is, efforts were made to determine appropriate sales or input purchase information for each individual firm or agency either directly or indirectly affected by DCRA operations. Understandably, much of this information is of a proprietary nature and, thus, all reporting of economic impacts that follows is aggregated to prevent disclosure of the operations of any individual private firm.

Several issues must be confronted in characterizing the activities of the various DCRA and related activities for purposes of the *with* and *without* economic impact assessment that was conducted. These issues are briefly described for each of the various DCRA-related sectors below.