



November 17, 2020

Madame Chair and Members of the Committee,

On behalf of the Wichita Metro Regional Chamber of Commerce, thank you for this opportunity to share a brief update on the state of the Kansas aviation industry.

The aviation industry has a rich history in the state of Kansas. It has contributed to the successful outcomes for the United States in world wars, assisted in creating a global economy and at home, here in the Sunflower State, it has created hundreds of thousands of high paying jobs that provide significant contributor to our state general fund operations.

Aviation jobs in Kansas pay an average of approximately \$70K per year. Many of these positions do not require a college degree. These jobs also come with great benefits such as health insurance and generous retirement programs. It is also worth noting that these are considered primary jobs; meaning they produce goods or services that bring outside capital into the state of Kansas. These jobs and the products they produce create real and substantial wealth and opportunity for our state and our citizens.

It is therefore no surprise that other states and nations seek to recruit Kansas aviation companies, their employees, and their innovation and technical expertise to grow their own aviation clusters. I realize I am not here today to discuss the competitive nature of the industry with our state and other states and nations. However, I raise the issue because after the last economic downturn in 2010 we experienced a slow and stunted recovery, while states such as Oklahoma, Georgia and the Carolinas benefited from significant growth, including places that saw triple digit growth. While we must focus on where the sector stands today and what policymakers may do to assist in the recovery, as we do so, we must also be mindful that competing states and nations will use the downturn as an opportunity to plunder our treasure.

The Kansas aviation industry is made up of many different types of firms. For the sake of the discussion, however, we will focus on two primary types. First, is the Original Equipment Manufacturer (OEM). OEMs are typically the larger aviation manufacturers such as Textron, Bombardier, Spirit and Boeing. The second type of firm is the supplier, of which there are literally hundreds. Suppliers are typically smaller and specialize in machining and the manufacturing of parts for OEM's on a contract basis. Some will refer to some in the supplier tier as machine shops, but this tier also includes many other types of companies.

Prior the onset of the pandemic, the Kansas aviation industry was already under tremendous stress due to the grounding of the Boeing 737 Max after two fatal crashes. Spirit AeroSystems is Boeing's largest supplier and they build fuselages in Wichita, Kansas, for Boeing. For a time, Spirit continued to produce fuselages for the 737 Max. However, as the grounding lingered and

airlines cancelled orders, production was halted and layoffs occurred. While Spirit supplies other products for other OEMs, Boeing is Spirit's largest customer and the 737 Max program was its largest. The resulting layoffs were not just limited to Spirit. The crisis resulted in layoffs at a large number of other suppliers and machine shops in Kansas that had contracts with Spirit related to 737 Max production. Nonetheless, Spirit was able to maintain substantial employment numbers. **Spirit's pre COVID-19 pandemic employment stood at 13,500. Today Spirit employs 8,000.**

I would point out that Spirit kept 1,000 people employed as they converted part of their manufacturing operations over to making ventilators. Spirit, with Vyair Medical, industrialized production of critical care ventilators by 50X from five units per day (baseline) to 500 per day at peak production.

In addition to the ventilators for the Strategic National Stockpile, Vyair/Spirit shipped about 10,000 ventilators to the following customers:

- o More than 5,000 ventilators to **USAID** for strategic delivery to global hotspots.
- o More than 400 ventilators to the **Veterans Affairs Administration**.
- o 500 ventilators to the **Defense Logistics Agency**.
- o Nearly 4,000 ventilators to **11 State governments** of Alabama, Delaware, Florida, Georgia, Illinois, Louisiana, Massachusetts, Minnesota, New York, North Carolina, Tennessee, along with **U.S. hospitals** and healthcare facilities.

This program was eventually cancelled by the United States government.

While commercial aviation has been hard hit due to the two Black Swan events (737 Max and COVID-19), so too has general aviation, although perhaps not quite as significantly and recovery appears to be, perhaps, a quicker proposition.

Textron Aviation in Wichita and Independence, Kansas, manufactures and maintains Cessna and Beechcraft aircraft. While Textron no longer manufactures Hawker aircraft, they do continue to service and support the line. Textron has a diverse line of aircraft from smaller piston airplanes, the King Air – a long distance turboprop, to small, medium and large business jets.

Textron has experienced a large decrease in deliveries in 2020 due to cancellations of orders such as Net Jets cancellation of its order of Latitudes, and a significant drop off in business travel as a result of the pandemic. **Textron employed 9,800 Kansans pre-COVID 19. Today they employ 9,000.**

However, Textron appears to be seeing light at the end of the tunnel. Piston aircraft are doing well and the Thailand Airforce just ordered 12 T-6 Trainers. Increased deliveries are expected in Q-4 of 2020 for some of Textron's other lines of diverse aircraft. In addition, the new King Air 360 was recently certified and that will allow for increased sales and deliveries soon.

Private aviation will see a quicker recovery than commercial aviation. Commercial aviation will continue to struggle for the next year or so, in part due to less business and leisure travel, but also due to the large amount of inventory. The FAA is expected to certify the 737 Max to fly again

maybe before the year's end. This is good news for Boeing. However, Boeing currently has 450 737 Maxs completed and sitting packaged in different parts of the world. Spirit has 128 737 Max fuselages wrapped and packed sitting at Air Capitol Flight Lines in Wichita, Kansas. Based on 2019 production numbers, that's a year's supply of aircraft. This inventory, therefore, delays the production of new fuselages at Spirit plants well into next year or possibly even 2022.

The supply chain and machine shops, as alluded to earlier, have also been hard hit resulting in thousands of layoffs. Several firms are now operating a single shift per day with reduced employment four or five days per week. Prior to the pandemic it was common for many of these firms to operate three shifts six and even seven days per week. Their recovery, understandably, is tied to the recovery and improvement in business conditions of the larger OEMs.

Industry Suggestions for State Action Related to Aviation Sector Recovery

Everyone recognizes there is only so much state policymakers can do to aide in the recovery of the aviation sector. Consumers need to be confident that flying is safe and businesses must resume business travel, both commercially and privately, in order to increase demand. It is difficult to impossible for Kansas policymakers to do much in this regard. However, there are things policymakers should consider that can make a difference, both in the near and long-term.

1. Increase the availability of testing – Aviation firms of all sizes and segments are voicing concerns to the Chamber about testing. Aviation sector employees work in open manufacturing settings and in close proximity to others. When there is a concern about exposure to COVID-19 an already stunted production line can be shut down until management is assured that everyone is healthy. We are hearing frustrations with it taking days for an employee to get tested and then several more days for test results to come back. This creates a hardship not just for the employer, and remember some of these firms are small business with limited resources, but also the employee. The situation with testing must be improved.
2. Allow negative balanced employers to share in shared work UI program – Currently state law does not allow an employer with a negative balance in the unemployment program to participate in the shared work program. This program allows an employee to receive a portion of unemployment benefits while also working reduced hours. It is my understanding that legislation is being brought next session by several business groups that change this prohibition while also protecting the fund and positive balanced employers.
3. Pass the Aviation Jobs Credit – As mentioned earlier, several states saw significant growth in aviation employment after the last downturn. Kansas saw single digit growth. This pandemic will come to an end. Not soon enough, but nonetheless, it will come to an end. Kansas must be prepared to compete with a with a business environment that attracts and retains talent. Additionally, despite layoffs and the current state of affairs, several aviation employers employ a workforce of up to 40% who are eligible to retire in the next five years. The Aviation Jobs Credit, which has passed the House twice in the last three years, offers tax credits for employers that assist with tuition or tuition reimbursement, as well as offers tax credits to qualified individuals that accept employment in Kansas that is in the field of aviation.

Thank you for this opportunity to speak with you today. I am happy to answer questions at the appropriate time.

Very truly yours,

A handwritten signature in black ink that reads "Jason P. Watkins". The signature is written in a cursive style with a large, sweeping initial 'J'.

Jason P. Watkins
Wichita Regional Chamber of Commerce