

Aviation Park I

From Concept to Reality

Mark Canty

9/22/2014

Submitted to Capstone Mentor, G.C. Hixson and Capstone Coordinator, Martha Louise Kelley

Economic Downturn and Loss of Revenues

Due to the economic downturn in 2008 which resulted in both the loss of some commercial passenger service as well as all scheduled cargo service, the Tri-Cities Regional Airport (TCRA) began to move forward with a plan to develop land on the south side of the airport in order to attract tenants to increase and diversify revenue streams. Because TCAC has a limited number of airlines and daily scheduled flights, the loss of any passenger service causes disruption in the budgeting process and delays and disrupts ongoing improvement projects. The need to create revenue streams to lessen dependence on the major commercial carriers became readily apparent. Commercial airlines were in a period of major upheaval - Northwest Airlines and Delta Airlines merged causing TCRA's direct service to Memphis and Detroit to be eliminated as a result – and the future for smaller, regional airports looked uncertain.

Reduced total seating capacity from commercial passenger carries resulted in reduced parking revenues, reduced landing fees, and reduced concession sales, among other things. Many people are unaware that parking often generates a major portion of an airport's revenue and business travelers tend to bring a higher car per traveler ratio than leisure travelers, so the impact of the loss of service to Detroit and Memphis (two major hubs for business travelers) was particularly negative for TCRA. The loss of scheduled daily cargo service from DHL, due to their decision to stop domestic courier service within the U.S. and focus only on international service, was also a huge financial hit for TCRA. Not only did TCRA lose landing fees from twice-daily scheduled cargo flights, but also lost revenue when DHL did not renew their lease at the Air Cargo Logistics Center. Indirectly, the entire regional business community suffered from this service loss as packages would now need to be trucked to a larger airport to be consolidated with UPS or FEDEX cargo. This resulted in earlier cutoff times and negatively impacted local

industry by delaying the transit time of outbound shipments. The concept of developing the south side of TCRA was expedited out of an immediate necessity and an understanding that regional airports would no longer be able to survive based on commercial passenger and scheduled cargo service alone.

Identifying a Potential Source for Revenue Growth and Diversification

The largely undeveloped section of the Airport consisted of 200 acres of mostly rolling hills and pasture land between Boone Lake and the Tri-Cities Regional Airport which was, at one time, intersected by Hamilton Rd. The development of a new air cargo facility, known as the “Air Cargo Logistics Center”, was completed in 2006, and as part of that development, utility installation, cargo apron construction, and grading work had been completed covering an approximately 40 acre portion of the south side. The entire 200 acre conceptual business park would be named Aviation Park and the 40 acre development in conjunction with the Air Cargo Logistics Center would be named Aviation Park I. Aviation Park I currently has direct runway and taxiway access, access to a cargo ramp constructed for heavy aircraft, all utilities, and is flat and ready for fine grading and construction.

Introduction to Tri-Cities, TN/VA and Tri-Cities Regional Airport

The Tri-Cities, TN/VA region consists of counties and cities in both northeast Tennessee and southwest Virginia. Northeast Tennessee and southwest Virginia have a long history of claiming political neglect by their respective states. Some of it is real and some of it is likely imagined or used as leverage. Southwest Virginians are often distrustful of Richmond and culturally at odds with northern Virginia and the DC area. Northeast Tennesseans often hear “where are the Tri-Cities?” when speaking with middle Tennesseans. Northeast Tennesseans believe, that to Nashville, the states ends in Knoxville. Culturally, northeast Tennessee and

southwest Virginia are a natural fit. Virginians cross into Tennessee to work at Eastman Chemical Company and other industries, and Tennesseans cross into Virginia to work and to shop – enjoying the lower sales tax rate. The cities of Bristol, VA and Bristol, TN are divided by State St., a popular retail and dining destination. Country and bluegrass music are cultural identifiers that tie the two regions together as well. East Tennessee State University in Johnson City, TN is home to a world renowned bluegrass program while Bristol, VA recently saw the opening of the Birthplace of Country Music Museum.

In other words, the two regions have more in common with each other than they do with the more populated areas of their states. TCRA is officially promoted as serving “Tri-Cities, TN/VA”. The City of Bristol, VA has representation on the board of the Tri-Cities Airport Authority - along with the cities of Kingsport, Johnson City, and Bristol in Tennessee as well as the Tennessee counties of Sullivan, and Washington. The entire region – as well as Western North Carolina and Eastern Kentucky – is served by the Tri-Cities Regional Airport.

The Tri-Cities Regional Airport, located in Blountville, TN, is representative of the larger Tri-Cities, TN/VA region as a whole in that it is a cooperative effort spanning two states and several cities and counties. Regionally, TCRA is viewed as an engine for economic development and job creation both directly and indirectly. First time visitors are often surprised at how convenient and modern the airport really is. TRI’s property covers approximately 1,300 acres, including an 118,835-square-foot passenger terminal building, an Air Cargo Logistics Center, full-service fixed-base operator (FBO), corporate hangars, a Federal Aviation Administration (FAA) air traffic control tower and other aviation-related businesses. U.S. Customs & Border Protection Port #2027 and Foreign-Trade-Zone #204 are located at and operated from the Air Cargo Logistics Center.

The Timeline of the Development of Aviation Park I

For this particular project, it is important to understand the timeline and just how slowly the development efforts have unfolded. In 2001, the decision was made to prepare an area on the south side of the airport for a new air cargo facility. At that time, DHL had two scheduled flights daily into TRI and the old air cargo facility was a relic from a bygone era. Cargo bays and lift ramps no longer were appropriate for today's truck fleets and proper "pass through" operations (cargo from airplane directly onto truck via forklift operating in cargo center) was not a reality. A concrete cargo ramp capable of accommodating almost any cargo airplane was constructed. Gas, electric, water, sanitary sewer, and communications utilities were installed at the site, and approximately 40 acres was flattened to near grade. In 2005, after much deliberation by the Tri-Cities Airport Commission, construction of the Air Cargo Logistics Center began and Cargo Center Dr. was constructed to access the development area. The cargo facility was completed in 2006 and initial tenants included DHL, Tri-City Aviation (FBO), Foreign-Trade Zone No. 204 office, Customs Port No. 2027 office, as well as two freight forwarders and Customs brokers. Other milestones include the extension of Taxiway "R", a project still underway, the relocation of Hamilton Rd so that it no longer intersected developable land, and the certification of Aviation Park I under the Select Tennessee Certified Sites Program. It is important to note that the extension of Taxiway "R" the entire length of the runway will provide taxiway and runway access to the entire Aviation Park development area. In addition to work at the site, two residential properties existed on Aviation Park II and had to be acquired using grant money and subsequently demolished.

Aviation Park I Becomes a Select Tennessee Certified Site

In 2012, the State of Tennessee implemented the Select Tennessee Certified Sites program. Tennessee had lagged behind neighboring states and those around the country in offering prospects a certified, shovel-ready site. Alabama offered the Alabama AdvantageSite program, Georgia offered the GRAD program, Missouri had their Certified Sites Program, and South Carolina had well over 30 certified sites in a program implemented by a power provider. The TVA Megsites program focused on sites in several states, including Tennessee, but only extremely large sites were certified and we are short on large, flat sites in Northeast Tennessee. The Select Tennessee Sites Program was an opportunity to increase the profile of Aviation Park I both to prospects and to our own state economic development officials. The certification process was rigid and eye-opening. The level of detail required to satisfy the requirements of the process produced a greater understanding of the strengths and weaknesses of the site to TCRA staff. Aviation Park I was the first site in the Tri-Cities region to be certified and remains the only certified site in Tennessee with direct runway access. (at the time of this report). As a result of the certification process TCRA staff learned many things that are important to both site selectors and prospects. Not only are the obvious aspects important (acreage, utilities, ect) but weather events, workforce availability, and environmental and cultural aspects play in to the decision to locate at a site. The site certification process was a great learning experience for TCRA staff and a crash course in economic development.

Targeted Marketing Study

Achieving the Select Tennessee Sites seal of approval was affirmation that TCRA had the type of site staff had always suspected. This created a sense of renewed excitement to move full speed ahead with marketing efforts. TCRA staff decided to limit the target audience of its

marketing efforts to those firms involved in aviation and aerospace and that the direct runway and taxiway access was a major selling point of Aviation Park I. What wasn't understood was how to best market the site, and since this site was on an airport, the facility restrictions that would come with existing under FAA regulations. Airports have height restrictions, for example, that other sites wouldn't be subject to.

TCRA hired Ken Holt, of Holt Consulting, to do a targeted market study. The study would identify three types of aviation related operations that would be compatible with this particular site and the particularities of TCRA. The study would involve interviewing many of the major site selectors in the southeast to get input on website design, desired aspects of the site, and aspects that could be improved upon. The study also produced a matrix of all airports within both the state of Tennessee as well as a six hour driving radius from TCRA. The matrix provided a good look at what aspects of Aviation Park I would be advantageous as well as which aspects needed to be strengthened. The study was funded by NETWORKS Sullivan Partnership, the economic development agency of Sullivan County, TN where the airport is located. The study by Holt Consulting identified Maintenance and Repair Operations (MRO), Air Cargo Operations, and Aircraft manufacturing as the three industry types to target. The study also identified all of the key state and local economic development officials as the profile of Aviation Park I needed to be higher with all parties. The study also recommended trade shows to visit, one of which – National Business Aviation Association (NBAA) – TCRA staff is attending in October.

Targeted Marketing Strategy for Aviation Park I

TCRA strategy for marketing the site moving forward involves a few different phases. TCRA works very closely with NETWORKS Sullivan Partnership. It is in their interest to see Aviation Park I develop and of course it is in TCRA's interest as well. NETWORKS markets

Aviation Park I in trade publications and to site selection consultants whom they host annually at a site selection “red carpet” event, which was started just this year. In addition to working with NETWORKS, TCRA staff member Mark Canty becoming certified as a Tennessee Certified Economic Developer (TCED). The TCED certification process has enhanced personal and working relationships between TCRA staff and colleagues in similar positions and those with the State ECD. As counter-intuitive as it sounds, TCRA has also discovered the benefit of marketing Aviation Park I to State officials. Whether that is necessary or not, Northeast Tennesseans are sometimes inclined to believe that it is. So, TCRA has developed a good relationship with many in the State ECD including Aviation Project Manager, Alex Bertelli. TCRA staff members are also beginning to attend trade shows to market ourselves directly to Aviation and Aerospace related companies. It is also important to see what other airports across the country are doing to attract these operations. TCRA staff perceives a benefit in that many aviation companies with longstanding facilities in northern states are relocating to the South strictly due to the unique constraints that very cold temperatures place on flying.

TCRA staff does not heavily utilize trade publication advertising. TCED course instructors called into question the effectiveness of such advertising, and the belief at TCRA is that monetary resources could be used more effectively in a more targeted fashion. TCRA recently completed a high-end marketing presentation of the airport and the Tri-Cities, TN/VA region and sent the presentation on iPads to an aviation manufacturer for them to keep. The belief is that this type of marketing may reach a significantly smaller audience but the cost is similar and the impact is greater and leaves a more lasting impression.

Unique Challenges to Developing an Airport Site

Aviation Park I is unique for a few reasons – many of which are a result of being located at an airport. Because of this, comparing it to similar examples across the state proved to be difficult. Smyrna’s airport has a very good development effort underway and many acres of developable land surrounding their airfield. Their website and airpark branding are certainly models to emulate. Many larger airports are seemingly less concerned with land marketing and development and more focused on air passenger and air cargo service. Another reason Aviation Park I is unique is, as stated previously, TCRA restricted from selling land acquired through FAA grant money. TCRA can only offer long-term leasing options to a tenant. This is not necessarily unique in the strange world of airports but it is unique when comparing to other certified sites across the states. A specifically unique aspect of Aviation Park I is the regulatory environment that exists at an airport with FAA. Airports have height restrictions on buildings that other locations likely do not have. TCRA also has unique, airport-specific security requirements that other sites do not have to deal with. So, finding a comparable site within the state of Tennessee is a challenge. Of course that could be a positive thing should the right prospect come along.

Slow but Steady Progress through Trial and Error

As of today TCRA has not located a prospect in Aviation Park I. TCRA finished runner-up to Greensboro, NC on the HondaJet engine facility project – but in reality it was likely a distant second due to the land surrounding Aviation Park I being unprepared for development at that time (2006) as they were also interesting in securing additional land for possible future expansion. However, TCRA is currently working on a major project involving an internationally known prospect and hopes to build off of the marketing design efforts from this project when the

next prospect comes around. In total, the timeframe of developing Aviation Park I has been unfolding for nearly 15 years, beginning with the construction of the cargo ramp in 2001 and the prior geotechnical work done to prepare the site. It has been a slow process to get to the point of being ready to accommodate construction, simply because TCRA has relied on FAA and State grant money to prepare the site for development and those funds are limited on an annual basis. In addition airport business, such as runway rehabilitations and security enhancements mandated by TSA and FAA, have periodically funneled money away from the development project. TCRA's achievements thus far have not been the type to garner newspaper headlines - often infrastructure-related projects such as relocating Hamilton Rd, extending Taxiway R the length of the entire runway, or obtaining Select Tennessee Certified Site status for Aviation Park I. The certification project also happened to coincide with Tennessee Certified Economic Developer (TCED) training staff member Mark Canty was obtaining through the University of Tennessee.

The Impact of TCED Training

TCED training has been beneficial in some aspects that are likely unique to development projects at an airport. Most important has been the networking. It has been invaluable and has already benefited TCRA in the site certification process. TCRA staff was able to ask questions of people who were also involved in the process to whom they would otherwise have been unfamiliar. The "Managing Economic Development Organizations" course was particularly beneficial as TCRA deals with a plethora of economic development and governmental entities including the Foreign-Trade Zones Board – Dept of Commerce, the Tri-Cities Airport Authority and its Foreign-Trade Zone Committee, NETWORKS Sullivan Partnership, the Washington County Economic Development Counsel, Chambers of Commerce from five different cities, and many counties in Southwest Virginia and Northeast Tennessee who are part of the FTZ No. 204

Service Area. So whether it is work in Foreign-Trade Zone or efforts to help develop Aviation Park, many economic development agencies are consulted. The course on “Economic Development Finance” will be invaluable moving forward because of the transition from operating as an Airport Commission to an Airport Authority – a transition that will give TCRA more flexibility when it comes to the financing of buildings, construction, and infrastructure projects. The course on site marketing generates the most excitement among TCED course participants. It’s the recruiting aspect and the thought of catching a big fish that excites most economic developers. However, TCRA staff has learned, through trial and error, that it does no good at all to attract a company to an unprepared site. TCED training has provided TCRA staff with the confidence that comes with having a better understanding of the regulatory environment, the financial aspects of economic development, and the marketing tools to attract prospects.

Moving Forward Responsibly

An unofficial goal of TCRA staff is to see a building under construction for a quality, committed prospect by the end of 2016. TCRA is limited in that it has a specific, niche market to target. TCRA has even turned away prospects in the past that would have brought in revenue but may have detracted from the overall image of the airport by running an aircraft disassembly facility. TCRA considers itself to be the front door of the Tri-Cities so not only is TCRA targeting a defined industry sector, staff remain cognizant of who the tenant is and what activities they would conduct in plain sight of the public. TCRA’s need for tenants and additional lease revenues comes second to continuing to both be a source of pride for the region and leave a good first impression on visitors.

TCRA has recently implemented several terminal improvements, much of which are aimed at the business community and making a prospect's first impression of TCRA a great one. TCRA is undergoing a complete renovation of the outside entranceway of the airport as well as completely updating the baggage claim area. In 2013 a total renovation of the FBO was completed so that business and general aviation passengers would have a first class entrance into the region. 2016 will mark the year TCRA is required to re-certify Aviation Park I -perhaps a good opportunity to review the impact of the site certification at that time.

Summary of Opportunity and Challenges

TCRA hopes that landing a prospect at Aviation Park I will produce a domino effect and lead to future expansion and relocations. The increase and diversification of revenue streams will help TCRA weather the storms of future economic downturns while maintaining a first class facility for the traveling public. TCRA's Aviation Park I has many qualities that will be attractive to the right prospect out of a small pool of prospects from a specific industry sector. Strengths include the Select Tennessee Certified Site designation, direct runway and taxiway access, low to moderate air traffic, pro-business local governments, and a modern and convenient commercial airport on site. Challenges include overcoming lack of national recognition of both the region and the airport, limited marketing funds, and a workforce educated in aviation and aerospace. To combat the lack of aviation education in the region, Northeast State Technical Community College will begin offering coursework in Fall of 2014 and construction of a new Emerging Technologies Complex will begin adjacent to TCRA to house the new Aviation Education Initiative. TCRA is well-positioned to benefit from an economic rebound and resurgence in aviation and aerospace manufacturing.

Resources

Websites

www.tn.gov

www.triflight.com

www.networkstn.com

www.thrivenc.com

www.ncommerce.com

www.tnecd.com/sites

www.ded.mo.gov

www.tradeandindustrydevelopment.com

www.nbaa.com

Studies

Aviation-Related Industrial Procurement Campaign – Holt Consulting for TCRA

Course Manuals

TN Basic Economic Development Course

TN Business Retention and Expansion Course

TN Economic Development Finance Course

TN Entrepreneurship and Small Business Development

TN Managing Economic Development Organizations Course

TN Marketing and Attraction Course

TN Strategic Planning for Economic Development Course