

Application Score Sheet

Proposed Project: City of Pensacola, Pensacola International Airport MRO Aviation Campus (#120)

Proposed Project/Program County: Escambia

Board of County Commission Support: Yes

Total Projected Project Cost: \$334,825,000.00

Match Provided: \$278,825,000.00

Triumph Funds Requested: \$56,000,000.00 (17%)

Triumph Funds Recommended by Staff: \$56,000,000.00

Score: A

Triumph Board Approval: Yes/No

Triumph Funds Approved by Board:

Date:

Economic Advisor Summary

The City of Pensacola proposal describes infrastructure improvements including hangars, runway, taxiway and apron improvements, warehouse and machine shop facilities, and an administrative building on the airport campus at Pensacola International Airport. The Triumph request of \$56 million represents 16.7 percent of the \$335 million total cost of the MRO campus.

The size of the commercial aircraft fleet is growing in the U.S. and internationally due to rising income levels that enable air travel and due to changing trade patterns in which high value-added products and services call for air transportation. The extensive MRO activities required for continued airworthiness over a multi-decade aircraft useable lifespan will generate high-wage employment opportunities for skilled technicians both in MRO hangars and across an extensive supply chain. Northwest Florida had not hosted substantial MRO operations for the commercial fleet until activities commenced in 2018 at a 400-person facility at the Pensacola airport. The proposed project will expand these activities to directly employ more than 1,725 people plus several hundred associated administrative, engineering and other jobs, in addition to several thousand new local indirect and induced jobs.

The City of Pensacola expects that the proposed infrastructure improvements will generate private investment and employment jobs at wage rates well above existing County average wages. The increased volume of commercial aircraft traffic as planes arrive to be serviced at the facility will in and of itself generate lower ticket prices and increased tourist travel to the region. The positive fiscal impact of the activities associated with the job growth at the MRO campus and through the supply chain will be seen in local tax revenues via ad valorem, sales and use, LOST (local option sales tax), and tourist development tax revenues. The project will help elevate the

function and visibility of the region in the important aviation/aerospace target industry sector. It will likely drive supplier relocation and expansion to the local community.

The MRO activities generate revenue from outside our region to generate payroll and supply chain activity in the local economy. Because the project is large, and the direct MRO jobs require high levels of skills and pay high annual wages, there will be large spin-off impacts. Because of the above-mentioned characteristics and the likelihood of supply chain co-location decisions due to the large size of the project, it is clear that the fully implemented project will be transformational for the local and regional economy. Further, these jobs are in the regional and state target cluster of aviation and aerospace. Triumph should consider these jobs as very desirable.

For these reasons, staff rate this program “A” in terms of economic impact to Escambia County.

Project Summary (based on information provided by the applicant)

The City of Pensacola (City) requests \$56,000,000.00 in Triumph funds towards the construction of Phase Two of the Pensacola International Airport Maintenance, Repair and Overhaul (MRO) Aviation Campus. The proposed MRO Aviation Campus will be situated on approximately 112 acres of land located at the Pensacola International Airport, an enterprise department of the City. Phase Two of the proposed project includes construction of a 173,000 sq. ft. MRO Hanger, two 191,000 sq. ft. MRO Hangers, 100,000 sq. ft. of warehouse and shop space, a 120,000 sq. ft. administrative office building, and associated roadways, taxiways, and aprons.

The land and buildings will be leased to a primary tenant, VT Mobile Aerospace Engineering, Inc. (VTMAE), subject to a long-term Real Property lease. The entire MRO development, including all roadways, taxiways, aprons, hangers and buildings; and all related infrastructure necessary to support this proposed project will be City owned assets of Pensacola International Airport. VTMAE began operating in June 2018 at Phase One of the Pensacola International Airport MRO Aviation Campus in a new 173,000 sq. ft. MRO hanger.

On November 14, 2017, the City and VTMAE signed a Memorandum of Understanding (MOU) to expand VTMAE's aircraft maintenance, repair and overhaul business operations at the Pensacola International Airport, Phase Two. A similar MOU signed by the City and VTMAE in December 2013 led to VTMAE's decision to establish its initial MRO business in a newly developed facility owned by the City.

Phase Two of the MRO Aviation Campus will create at least 1,325 jobs at an average annual salary of \$44,461 plus benefits in the aerospace industry. When combined with the 400 new jobs associated with the first hangar, total aerospace sector jobs employed directly by VTMAE would be 1,725.

In addition to the total 1,725 new direct VTMAE jobs at the MRO Aviation campus additional full time equivalent jobs directly related to the aviation and aerospace industry will be located at the Pensacola International Airport. These include approximately 77 VTMAE administrative and engineering staff, 60 full time VTMAE customer airline engineering jobs on site to oversee the

repair and maintenance protocols associated with their aircraft, and an additional 16 vendor and auditor positions.

The project will also require non-aerospace jobs created associated with security, maintenance and janitorial services, estimated to be approximately another 25 full time jobs. And, under discussion, is the opportunity for establishing approximately 63 North America executive and senior administrative jobs at the Airport MRO Campus.

VTMAE will spend approximately \$35 million annually in the procurement of airplane and non-airplane components from approximately 1,200 vendors supplying the business. This supply chain activity will create enhanced economic activities in the region and may lead to the permanent relocation of key suppliers to the region, further building the critical mass in the aerospace industry for the northwest Florida region.

When combined, Phase One and Two of the MRO Aviation Campus will result in the employment of over 1,900 jobs directly related to the aerospace industry. As a result of these direct jobs and as indicated in a Haas Center report another 3,400 indirect jobs in various industries will also be created.

Upon completion of the MRO Aviation Campus, these facilities will be the 2nd largest MRO complex in North America, and #1 in North America for technical sophistication and smart technologies. In day-to-day operations, VT engineers, technicians, and mechanics will next generation technology including:

- Laser scan technology to fabricate parts
- 3D printing to fabricate parts
- Drones for remote aircraft inspection
- Composites for appropriate aircraft
- Robotics following the recent VT acquisition of a robotics company

With the evolution of the aerospace industry to these new technologies, the employees of VTMAE will be among the most highly skilled in the industry and will be in great demand. This reputation for being a technological leader in the MRO industry will be a magnet for future talent.

The employees who will be employed by VTMAE will be very well trained and technologically on the cutting edge of the aerospace industry. The skill sets they will acquire and maintain will support high paying jobs and long-term careers.

The ability to create an industry cluster and critical mass in the aviation and aerospace sector will elevate the region and Northwest Florida will become a magnet for talent and will attract other business enterprises to the region.

In addition to VTMAE as the primary tenant, much of the city-owned infrastructure proposed will have multiple users. All of the common usage aprons and taxiways will be utilized by general airfield traffic. Within the MRO hangars, a training center will be established for use by

a secondary education provider to offer aviation maintenance technology programs to prepare students for a career in the commercial aviation industry. Administrative offices will be used by multiple entities including airline representatives i.e. Delta, American, UPS and the Federal Aviation Administration.

The scale of this project will provide significant economic benefit and diversification across the entire region of Northwest Florida. Because of the critical mass associated with the levels of employment, all the counties in the region will enjoy increased levels of personal incomes, gross domestic product and growth.

When combined with the new jobs already created associated with the development of Phase One, total new direct aerospace industry sector jobs will be 1,725 with total annual payrolls of approximately \$69.0 million. Phase Two's direct total annual payroll will be approximately \$58.9 million. Upon full operation, personal net incomes in the state of Florida will increase by \$400 million annually and GDP in the state of Florida will increase by \$600 million annually.

The project is sustainable because the MRO business is a growing and technologically expanding industry. The anticipated global expansion of the MRO industry is expected to grow from total gross revenues of \$75.6 billion in 2017 to an estimated \$109.2 billion in 2027. As the leader in this industry, ST Aerospace and its subsidiary VTMAE will likely experience a similar growth pattern in the future. Based on the quality of the primary tenant and the expected growth and sustainability of the MRO industry, it is reasonable to expect this project will have long-term financial viability and sustainability.

Furthermore, the state-of-the-art facilities to be developed in the MRO Aviation campus will enable VTMAE to efficiently implement "Smart MRO" technologies as described below. This will further solidify their global industry leadership and long-term sustainability. This Smart MRO technology, such as robotics, aerial inspection and data connectivity to enhance workplace safety, productivity and quality of solutions adds value to their customers and enhances the technical skills of their employees.

The primary deliverable from the proposed project is the creation of new direct jobs at the agreed-to average annual compensation. It is anticipated that the real property lease between the City and VTMAE, as well as agreements with funding partners, will have terms and conditions that will require VTMAE to demonstrate it has met its obligations regarding minimum job and salary levels. Similar agreements were documented in funding commitments for the development of Hangar 1; and will serve as a guideline to measure outcomes and determine clawbacks if performance measures are not achieved for the current proposed project. The City will have the primary responsibility to verify that the deliverables, jobs at a stated average salary level, are being realized on an annual basis.

In addition to regional economic diversification and the creation of high-quality new jobs, an MRO campus further leverages the expanding Aviation and MRO industry opportunities along entire Gulf Coast. Through this project, the region will participate in the projected global growth of the MRO industry.

An additional benefit of the complete buildout of the MRO Campus will result in increased air service, an increase in Passenger Facility Charge revenue, a contribution to non-aeronautical revenue base, and a reduction in the overall cost per enplaned passenger.

The proposed project leverages and enhances existing workforce development programs through Washington High School (Aviation Maintenance Academy), George Stone Technical Center (Airframe & Power plant Technology) and Pensacola State College certification programs. It would be expected that each of these educational institutions will expand their programs and capabilities to respond to the increasing workforce development demands. In addition, this proposed project will assist in transitioning veteran military personnel to commercial aviation and aerospace jobs.

Additionally, a near-term strategic vision is the collaboration between VTMAE and local education providers to create an MRO Aviation Training Academy to develop the workforce needed for the available jobs and to maintain a pipeline of trained technicians for the future.

The development of the MRO Aviation Campus at Pensacola International Airport is a technically challenging and significant project. In accordance with the Master Plan for the airport, land adjacent to the airport has been acquired over the years with the intention of creating commerce related activities compatible with airport operations. The development of an MRO Aviation Campus is the culmination of years of planning and forward thinking.

In order to execute the development of an MRO Aviation Campus and bring VTMAE to Pensacola as its primary tenant, significant costs have been and will be required to be incurred for land acquisition and construction of facilities; as well as costs incurred by VTMAE to properly staff and equip the facilities for its MRO operations. Although not part of this specific request for funding, Hangar 1 was the first step in the development of the MRO Aviation Campus and was completed as of May 1. VTMAE commenced operations in June 2018.

In addition to the land that Pensacola International Airport and the City are providing, the State of Florida, City of Pensacola, Escambia County, the Florida Department of Transportation, the Governor's Jobs Growth Grant Fund and the Federal Economic Development Administration are expected to provide funding to support the project. VTMAE will also make a substantial investment to support the proposed project. Upon completion, VTMAE will have invested approximately \$75 million of its own funds to create what will be one of the largest MRO facilities in North America.

Provided that funding and lease terms can be successfully negotiated in the coming months, design work on the new facilities could begin in mid-2018 and construction of a second hangar could begin in early 2019. Design and construction of the other MRO campus facilities could conceivably be completed by the end of 2021.

Funding and Budget (as provided by the applicant)

5. Please provide a Project/Program Budget. Include all applicable costs and other funding sources available to support the proposal.

| A. Project/Program Costs: | | | |
|------------------------------------------------------------------------|----------------------|-----------------------|-----------------------|
| Example Costs (Note: Not exhaustive list of possible Cost categories.) | | | |
| | Hangar 1 | Project Titan | Total |
| Construction: | \$ 37,577,000 | \$ 176,463,000 | \$ 214,040,000 |
| Reconstruction: | | | |
| Design & Engineering: | 3,256,000 | 14,855,000 | 18,111,000 |
| Land Acquisition: | 4,835,000 | 31,335,000 | 36,170,000 |
| Land Improvement: | - | - | - |
| Equipment Supplies: | - | - | - |
| Salaries: | - | - | - |
| Other (specify): | - | - | - |
| Project Planning and Development | 915,000 | 4,174,000 | 5,089,000 |
| Contract Administration | 308,000 | 1,405,000 | 1,713,000 |
| FAA Nav Aid relocation | 763,000 | 2,000,000 | 2,763,000 |
| Professional Services | 555,000 | 2,532,000 | 3,087,000 |
| Construction Administration | 1,075,000 | 4,904,000 | 5,979,000 |
| Bridge Financing Costs | 750,000 | - | 750,000 |
| Owner Contingency | 531,000 | 2,423,000 | 2,954,000 |
| Testing and Parking Lights | 300,000 | 1,369,000 | 1,669,000 |
| Tenant Improvements | 2,500,000 | 10,000,000 | 12,500,000 |
| Relocation, training and recruitment, asset impairment - projected | 6,000,000 | 14,000,000 | 20,000,000 |
| Runway extension allowance | - | 10,000,000 | 10,000,000 |
| Total Project Costs: | \$ 59,365,000 | \$ 275,460,000 | \$ 334,825,000 |

| B. Other Project Funding Sources: | | | |
|-------------------------------------------------------------------------------------|----------------------|-----------------------|-----------------------|
| Example Funding Sources (Note: Not an exhaustive list of possible Funding Sources.) | | | |
| | Hangar 1 | Project Titan | Total |
| FDOT Hangar #1 | \$ 23,015,000 | - | \$ 23,015,000 |
| VTMAE Cash Contribution | 7,244,000 | 35,000,000 | \$ 42,244,000 |
| FDOT Airport grant #1 | - | 25,000,000 | 25,000,000 |
| FDOT Airport grant #2 | - | 25,000,000 | 25,000,000 |
| Governor's Job Growth Fund #1 | - | 4,000,000 | 4,000,000 |
| Florida Legislature allocation | - | 3,000,000 | 3,000,000 |
| Governor's Job Growth Fund #2 | - | 15,000,000 | 15,000,000 |
| Federal Economic Development Administration (forecast) | - | 17,000,000 | 17,000,000 |
| IRREF | 7,000,000 | - | 7,000,000 |
| City Funds | 3,971,000 | 8,000,000 | 11,971,000 |
| County funds | 4,800,000 | 12,000,000 | 16,800,000 |
| Other (specify): | | | - |
| Airport Funded Land Acquisition: | 4,835,000 | 31,335,000 | 36,170,000 |
| VTMAE Funded Tenannt Improvements | 2,500,000 | 10,000,000 | 12,500,000 |
| VTMAE - Funded Relocation, training and recruitment, asset impairment - projected | 6,000,000 | 14,000,000 | 20,000,000 |
| Airport Funded Runway Extension | - | 10,000,000 | 10,000,000 |
| Funding shortfall Funding TBD | - | 10,125,000 | 10,125,000 |
| Total Other Funding: | \$ 59,365,000 | \$ 219,460,000 | \$ 278,825,000 |
| | | | |
| Total Amount Requested: | - | 56,000,000 | 56,000,000 |
| | | | |
| Total Project Costs: | \$ 59,365,000 | \$ 275,460,000 | \$ 334,825,000 |

Note: The total amount requested must equal the difference between the costs in 3A. and the other project funding sources in 3.B.

Letters of Support

Andrews Institute Orthopedics & Sports Medicine
Baptist Health Care Corporation
CareerSource Escarosa
Greater Pensacola Chamber
The School District of Escambia County
First Place Partners
FloridaWest Economic Development Alliance
Navy Federal Credit Union
Pensacola State College
Sacred Heart Health System
The University of West Florida