



ASHTON J. HAYWARD
MAYOR

Escambia County Board of County Commissioners
Written Communication
September 6, 2018

Re: Pensacola International Airport MRO and VT MAE Expansion

Thank you for giving us the opportunity to describe the proposed MRO Aviation Campus at Pensacola International Airport, and the proposed funding that will be needed from Escambia County to support the project.

BACKGROUND: On November 14, 2017, the City of Pensacola (City) and VT Mobile Aerospace Engineering, Inc. (VT MAE) signed a Memorandum of Understanding (MOU) to expand VT MAE's aircraft maintenance, repair and overhaul (MRO) business operations at the Pensacola International Airport. (VT MAE recently rebranded its MRO business in Pensacola to be known as ST Engineering (ST), and hereinafter this name will be used). This comes as ST has begun its initial operations at the airport's newly constructed 173,000 sq. ft. MRO hangar in June, 2018. That facility, developed at a cost of \$46 million, will result in the creation of 400 new high-wage jobs. Building on the current ST relationship and the growing demand for MRO services worldwide, the proposed expansion of the MRO Aviation campus creates an opportunity to add **an additional 1,325 high-income jobs** for Northwest Florida in the aerospace industry. When combined with the new jobs associated with the first hangar, total Aerospace sector jobs would be 1,725.

PROJECT DESCRIPTION: The proposed MRO Aviation Campus would include three additional hangars (one hangar at 173,000 sq. ft. and two additional hangars at 191,000 sq. ft. each), 100,000 sq. ft. of warehouse and shop space, 120,000 sq. ft. administrative office building, and all adjacent roadways, taxiways, aprons and infrastructure to support the development. The MRO hangars will be capable of accommodating aircraft as large as the Boeing 777/A300.

COST and FUNDING: The estimated total cost for the proposed Aviation MRO Campus at Pensacola International Airport is \$210 million. All of the assets to be constructed will be City owned property and infrastructure and will be leased to the tenant (rated Triple AAA by both Moody's and Standard & Poor) under a triple net land lease, thereby generating additional airport revenue of approximately \$1.0 million per year. Expected funding is as follows:

Triumph Funds	\$56 Million (approved, conditional on other funding)
Private Funds	\$35 Million (committed by ST)
FDOT Funds	\$50 Million (applied for)
Governor's Job Growth Fund-Year 1	\$4 Million (committed)

Legislative appropriation – FY 2018-19	\$3 Million (committed)
Governor’s Job Growth Fund-Year 2	\$20 Million (applied for)
City Funds	\$8 Million (applied for, action on September 10, 2018)
County Funds	\$12 Million (applied for, action on September 6, 2018)
EDA – Federal funds	\$17 Million (applied for)
Additional funding to be identified	\$5 Million

ECONOMIC BENEFITS – COUNTY AND CITY: Staff at Triumph have assisted us in evaluating the City and County economic impacts, using the REMI model typically associated with economic development projects. Using a number of 1400 jobs at buildout, and wage rates and supply chain structure appropriate for the NAICS code 488190 "other support activities for air transportation," which includes MRO operations, the estimated local (City and County) fiscal impact of the project is \$5.1 million per year. During the ramp-up period, the impact is \$3,643 per job, reaching the total of \$5.1 million at buildout. However, these numbers are based on state averages and are conservative in terms of the local revenue forecast. The calculations below detail an Escambia-specific gross fiscal revenue impact of \$6.6 million per year (not including the additional economic impact of LOST revenues from increased air traffic).

This impact comes from several sources that reflect the revenue structure of local government. Local government generates revenue via ad valorem property taxes and via local option sales taxes (LOST), along with other revenues that are less important, including gas taxes, 1/2 cent state revenue sharing, permits and fees. The \$5.1 million figure is reflective of the summation of all the various revenue sources, as it comes from the Census of Local Government, which reports overall revenues and expenditures for each government jurisdiction. Because Escambia's tax rates differ somewhat from state averages, this revenue impact will be larger.

The Florida Department of Revenue reports that total taxable retail sales in our two county metro area in calendar year 2017 were \$6.9 billion. Of those sales, \$1.5 billion were in tourism-related categories, leaving \$5.4 billion attributable to local residents rather than tourists. Dividing this by metro area population yields a per-resident taxable retail spending rate of about \$14,300 per person. These numbers are somewhat conservative because more taxable retail spending is done in Escambia than Santa Rosa. At current Escambia local option sales tax rates, this generates about \$214 per person, or \$450 per household, in LOST revenue on average.

The net new jobs associated with Project Titan, calculated using only the Escambia multipliers and new jobs is 3,151 net new jobs at buildout (the impact report submitted with the initial Triumph proposal used statewide multipliers and jobs figures, which is appropriate when applying for State incentives. Here it is better to examine only the Escambia effects since we are considering Escambia County and City of Pensacola local fiscal impacts). Analysis of Census commute pattern data suggests that Escambia residents hold about 64% of the jobs located in Escambia (Santa Rosans hold 18% and residents of other counties hold the rest). Applying this ratio suggests that 2,017 new households will be created in Escambia due to the impact of Titan. This number is conservative since it does not count the number of new jobs that will exist in Santa Rosa or Okaloosa for Escambia residents who are outbound commuters whose jobs are enabled by the new spending of the Santa Rosa and Okaloosa residents who will be employed by Titan.

Each of the new Escambia households will need housing and it is assumed that the location of these new households will create additional net new demand for homes. The median price of a new home

in Escambia in 2017 was \$221,000, and the materials used in construction of that home are subject to sales tax. These 2,017 new households represent two years worth of new demand for housing for Escambia. Previous reports (March 2018 report on Escambia housing market delivered to NW FL Homebuilders Association) shows this to generate a total of \$47.6 million in new nonrecurring local tax revenue associated with that construction due to sales tax on inputs as well as taxes paid throughout the housing construction supply chain.

The numbers presented above, which are similar to the increment to residential housing stock suggested by the REMI modeling, indicate a substantial increment to property tax revenue due to an expected addition to the local residential property tax base of \$446 million. Using standard figures for homestead exemption and for Escambia ad valorem tax rates shows that the number of jobs associated with Titan will result in \$1.43 million in per year in new property tax revenue to the City, \$2.06 million to the BOCC, and \$2.22 million to the School District.

The annual ongoing local sales tax collections due to the everyday spending of the new Titan households in Escambia is expected to total \$907,488 per year to the BOCC.

Thus, a conservative estimate of the incremental revenue to the City is \$1.43 million per year, to the County of \$2.97 million per year, and to the School District of \$2.22 million. This is in addition to the nonrecurring impact of \$47.6 million described above that is associated with the new home construction. While there will undoubtedly be new costs of service provision to each of these entities, they will be substantially less than new revenue.

Also, it is likely that there will be incremental visitor traffic into PNS due to the airlines tendency to avoid bringing in empty aircraft ("deadheading"). VISIT Florida estimates that every additional visitor generates about \$12 of additional local tax revenue. If there were 50,000 extra visitors per year driven by the lower ticket prices provided by airlines in order to fill the planes that would be serviced in Pensacola, that could be expected to generate \$600,000 annually (50,000 visitors times \$12 local tax revenue per visitor). Since this is primarily LOST revenue, as well as bed tax revenue, this would accrue largely to Escambia County rather than the City or School District.

	County	School District	City	Total
Ad Valorem revenue	2,060,000	2,220,000	1,430,000	5,710,000
LOST - New households	907,000			907,000
LOST - Increased air traffic	600,000			600,000
Total	3,567,000	2,220,000	1,430,000	7,217,000

ECONOMIC BENEFITS - NW FLORIDA: Beyond the purely local economic impact, there are several key quantitative measures that promote economic recovery, diversification and are truly transformative to the economy of NW Florida and the state. The following economic benefits further provide an excellent ROI and leverage of the publicly invested dollars. Upon full implementation of the MRO Aviation Campus, the total economic benefits to be realized in the region are as follows:

- The direct new jobs created in the Aerospace industry sector are 1,325 (not including the 400 new, high paying jobs already created with Hangar 1).
- The average wage associated with the direct new jobs is \$44,461, not including fringe benefits.
- Based on the above, total annual payroll to NW Floridians will be \$58.9 million associated with the proposed project.
- When combined with the new jobs already created from Hangar 1 (not part of the proposed project), total new Aerospace industry sector jobs will be 1,725 and total annual payrolls will be approximately \$69.0 million.
- According to The Haas Center report commissioned by the City, a nationally recognized MRO Aviation Campus would attract additional aviation industry businesses to Northwest Florida and significantly diversify the regional economy. In addition to the 1,325 direct new jobs, the planned expansion project would also create up to 3,400 indirect new jobs in the state of Florida.
- As a result of this significant job creation, statewide personal net income would increase by \$400 million per year, and the state's GDP would increase by \$600 million per year. The addition of an MRO Aviation Campus to the already robust tourism, military and financial services sectors of the regional economy will further strengthen Northwest Florida's economic resiliency and solidify Florida's reputation as a leader in meeting the growing demand for aviation services. This project creates a Center of Excellence in the MRO industry, which is consistent with the state of Florida and Northwest Florida FORWARD's growth strategy for the Aviation and Aerospace industry sector.
- This project provides a career path for aircraft mechanics and technicians exiting the military or retired veterans, and will retain or attract these individuals to our region. This project and the direct and indirect new jobs it will create will provide a "path to the middle class" for many.
- The creation of a MRO "Center of Excellence" and critical mass at Pensacola International Airport will likely be a magnet for other industry related businesses to locate closer to NW Florida.

CONSTRUCTION TIMELINE: The following is the anticipated timeline for the planning and construction of the Aviation MRO Campus. As the project would occur over a 4-year time period, the request for Escambia County funds will somewhat mirror the construction schedule.

- 1) Hangar 1 – Completed June 2018 (not part of funding request)
- 2) Hangar 2
 - a. Plans/Specifications/Bidding – January 2019 through June 2019
 - b. Construction – July 2019 through December 2020
- 3) Hangars 3 and 4, Support Facilities and Administration Building
 - a) Environmental – January 2019 through December 2019
 - b) Plans/Specifications/Bidding – January 2019 through 2020
 - c) Construction Hangar 3 – January 2020 through August 2021
 - d) Construction Hangar 4 – July 2020 through February 2022
 - e) Construction Administration Building – March 2020 through December 2021
 - f) Construction Warehousing/Shops/Support Facilities – October 2020 through March 2021

ESCAMBIA COUNTY FUNDING REQUEST: As noted previously, the City's initial request for new ESCAMBIA COUNTY funds is \$12 million. The City of Pensacola has budgeted \$8 million for the project (\$6 million in FY 2019 and \$2 Million in 2021) and this budget item is scheduled for approval by City Council at its Agenda Conference on September 10, 2018. Given the scale and scope of this project, we believe the \$12 million request is essential to support the entire project and the combined \$20 million local contribution is appropriate to reflect the local community strong support for this truly transformative project. As seen in the analysis above, the increased local tax revenues essentially will pay for the local investment in less than 4 years. Thereafter the increased revenues will support the community.

Given that this project will be occurring over several years, our request from Escambia County is as follows:

FY 2019-20	\$3.2M
FY 2020-21	\$2.8M
FY 2021-22	\$3M
FY 2022-23	\$3M
Total	\$12.0 M

If a different flow of funds is needed to accommodate the County budgeting process, we would be open to an alternative suggestion.

CONCLUSION: In summary, this project is truly transformational to the local community as it not only creates a significant new annual increase in local tax revenues, but it also creates 1,325 direct and 3,400 indirect new jobs, promotes economic recovery, provides for regional economic diversification and stability, leverages invested funds to drive annual net incomes and statewide GDP and establishes NW Florida as a leader in the global MRO industry.

We would be pleased to meet and answer any further questions or provide any additional details or documentation that you may request. We are very excited about this project and deeply appreciate your willingness assist.

Sincerely,



Ashton J. Hayward III, Mayor