

WORK SESSION MINUTES

**ECONOMIC DEVELOPMENT AUTHORITY (EDA)
OF JAMES CITY COUNTY (JCC)
BUILDING C CONFERENCE ROOM, 101 MOUNTS BAY ROAD
3:00 PM, TUESDAY, APRIL 17, 2007**

1. CALL TO ORDER

The meeting was called to order by Chairman Rinaldi at 3:00 PM.

Chairman Rinaldi asked that a moment of silence be observed in memory and honor of victims of the April 15 Virginia Tech Tragedy.

2. ROLL CALL

Following the moment of silence, a roll call identified the following members present:

Mr. Vincent A. Campana, Jr.
Mr. Douglas M. Gebhardt
Ms. Virginia B. Hartmann
Mr. Mark G. Rinaldi
Mr. Thomas G. Tingle
Mr. Marshall Warner

Also Present:

Mr. M. Anderson Bradshaw, Board of Supervisors (BOS) Liaison to the EDA
Mr. Adam Kinsman, Assistant County Attorney
Mr. Douglas Powell, Community Services Manager
Ms. Marcè Hunt Musser, Economic Development Assistant, EDA Recording Secretary
Mr. Steven T. Yavorsky, JCC Asst. Economic Development Director, Asst. EDA Secretary

Absent:

Mr. Brien Craft

3. ACTION ITEM

a. James River Enterprise Zone Grant Request

Mr. Powell explained that figures presented to the EDA for approval for James River Enterprise Zone Grants in February were based on the wrong assessed values (estimated rather than actual), and in fact were lower than the amounts presented. In addition,

machinery and tools benefits for Keystone and Coresix were omitted from the amounts presented.

Mr. Tingle moved that the EDA approve amended James River Enterprise Zone Grant amounts and machinery and tools benefits as follows:

Wal-Mart in the amount of \$663,860.97

Keystone Auto in the amount of \$18,711.81

Coresix in the amount of \$13,952.70

The motion was seconded by Mr. Campana and passed unanimously.

4. DISCUSSION

a. Newport News/Williamsburg International Airport Regional Funding Request

Mr. Rinaldi gave a brief overview of the presentation attended by Mr. Keith Taylor, EDA Secretary, and himself in Newport News. Private funding of incentives for air carriers at the Williamsburg – Newport News International Airport has not come to fruition as planned. Area Economic Development organizations and departments are being asked to commit to funding for the next four years.

There was extensive discussion on the background and history of the request, recent work at the airport, etc. There was a short review of the proposed fiscal year 2008 EDA budget, after which the Directors came to a consensus that \$13,000 could be earmarked by the EDA for the Airport Funding Request for one year subject to an acceptable agreement governing the terms of the EDA's payment and expectation for voting authority. Subsequent funding would be evaluated each year

5. ACTION ITEM

a. Fiscal Year 2008 Proposed Budget

Mr. Marshall and Ms. Musser gave an overview of the proposed and answered questions. It was decided to amend the proposed line item for interest revenue from \$50,000 to \$100,000 under Income, and add a line item for the proposed Newport News – Williamsburg International Airport Carrier Funding under Expenses.

Mr. Campana moved the budget be adopted as amended, which was seconded by Ms. Hartmann and passed unanimously.

6. DISCUSSION ITEMS

a. Comprehensive Plan (Comp Plan) Update

Mr. Rinaldi asked Mr. Gebhardt to give an overview of the County's Comp Plan Update (attached), which was followed by discussion. The Directors agreed that Mr. Rinaldi would write a letter to the BOS asking that the EDA have input throughout the process, and the importance of having a seat on the Steering Committee. There was also some interest in scheduling a joint EDA/Planning Commission Work Session.

b. Non-Residential Use of Rural Lands

Mr. Yavorsky presented handouts specific to agricultural and horticultural land use statistics for James City County, and gave a synopsis of materials gathered by Ms. Musser and available to the EDA for study and information. Mr. Bradshaw stated that the Non-Residential Use of Rural Lands initiative should precede the Comp Plan Kick Off and subsequent procedures. He reminded the EDA that the BOS puts a high priority on investigating Agri Business, Agri Tourism and Eco Tourism. He handed out a suggestion for how to look in to each subject.

Mr. Bradshaw agreed with Directors that specific EDA representation on the Non-Residential Use of Rural Lands Committee is necessary, but stated Directors need to look specifically at economic development uses, not all uses.

7. **ADJOURNMENT**

There being no further business, Chairman Rinaldi entertained a motion by Ms. Hartmann to adjourn. The motion was approved by unanimous voice vote, and the meeting adjourned at 5:46 PM.



Mark G. Rinaldi, Chairman



Steven T. Yavorsky, Assistant Secretary

IMPROVED AIR SERVICE AS ECONOMIC DEVELOPMENT A PROPOSAL

Air service is widely recognized as an important factor affecting a region's success in economic development. Those regions that have the most dynamic economies inevitably have airports providing high levels of air service. To some extent, this is a self-perpetuating phenomenon. Regions with large, dynamic economies attract high levels of air service. High levels of air service promote economic health and vitality.

Air service is particularly important in order to attract and retain certain types of economic activity. These air travel-sensitive economic sectors include:

- Corporate headquarters
- International firms
- Multi-plant/multi-division companies
- Defense and other contractors and consultants, plus the military itself
- Science and technology and
- Tourism

These sectors are especially well represented on the Peninsula and surrounding counties, thus generating a significant need for high-quality air service.

Companies with their corporate headquarters here, such as Wolseley North America and Smithfield Foods, rely on convenient air service for executive travel to and from the corporate office. Lack of air service is a primary reason why corporations are reluctant to locate their corporate offices on the Peninsula. International firms, such as Siemens and Howmet, rely on air service to major international hubs for travel to their home countries. The lack of international flights or direct connections to international flights makes foreign companies think twice before choosing the Peninsula over other regions, such as Atlanta.

The region has several large manufacturers, such as Anheuser-Busch and Canon, whose executives and management must periodically fly to their parent company offices. Similarly, defense contractors, such as Northrop Grumman and Lockheed Martin, use airlines to travel both to their customers and to their home offices. Both the military and the scientific community at NASA Langley, Jefferson Lab and the Virginia Modeling Analysis and Simulation Center rely on air travel to attend conferences and meetings and to bring in people to the region's national laboratories and military bases. Finally, tourism--particularly the Historic Triangle--benefits greatly if inexpensive air service can increase the number of tourists visiting the area.

The consequences of substandard levels of air service for economic development on the Peninsula and its surrounding counties are: dissatisfied elements of the business community, lost productivity, lost markets and a disincentive for new companies in the sectors listed above to locate in our area. This would eventually result in a less dynamic economy, particularly within those sectors that are most sensitive to air service. This, then, leads to a "vicious cycle" of sluggish demand for air travel resulting in declining levels of air service. Furthermore, the demand for convenience and low-fares tends to increase over time, meaning that if the level of air service at Newport News/Williamsburg International Airport (NN/WIA) does not continue to improve, business travelers would eventually perceive a reduction in the quality of air service.

Typically, similar and mid-size communities have needed to provide economic incentives to airlines to attract better service. This is particularly true with regard to low-fare carriers. Wichita, Kansas and Fort Myers, Florida are examples of communities that have taken this route. Communities with small commercial airports that do not offer economic incentives, by and large, have to contend with higher fares and more limited service.

The City of Newport News, acting through the Economic Development Authority of the City of Newport News, Virginia (NNEDA), has, during the course of the past eleven years, provided significant financial support to bring higher levels of air service to NN/WIA. Beginning with the attraction of AirTran (then ValuJet) to NN/WIA in 1995, the City and the NNEDA have committed more than \$6 million to improving air service at NN/WIA. Of this amount, more than \$5 million was actually spent, with the remainder not needed because flights met their revenue-load goals. The City's support has occurred variously in the form of payments for flights, revenue guarantees and marketing support. The City has found these types of support to be both successful and efficient.

Current air service that was initially supported by the NNEDA's financial contributions includes AirTran service to Atlanta (4 daily flights), LaGuardia (2 daily flights) and Boston (2 daily flights), plus Delta service to Cincinnati. AirTran has added other flights without financial incentive. The lower fares and expanded number of direct flights that have accompanied the Airport's growth have benefited both business travelers and leisure travelers. Although funded by Newport News, these air service improvements have benefited the entire region. Still, in order for air service at NN/WIA to continue to improve, further financial support is needed to induce airlines to add new routes. This support needs to be regionally based.

Beginning in 2005 and at the request of Newport News, all Peninsula localities began providing contributions to an Air Service Development Fund established by the City of Newport News and its EDA based upon a per capita formula to augment the financial resources available to promote further air service growth. A total of \$322,675 had been contributed as of June 30, 2006 by the Peninsula localities. Summaries of the funds

available in the Air Service Development Fund as of June 30, 2006 and October 15, 2006 are attached.

From time to time, community support efforts through the Mayor's Blue Ribbon Commission and later the Airport Task Force attempted to involve the Peninsula business community in raising funds for the enhancement of the Airport's services. It has generally been difficult to convince businesses that they should pay for something, like expanded air service, that provides a benefit to those who haven't made a financial contribution. Therefore, most of the efforts to fundraise from the business community have involved a "membership" device that confers some exclusive benefit, such as reserved parking. However, benefits such as reserved parking are often perceived by businesses as having only marginal value. Perhaps due to this, the Airport Task Force has not been able to raise significant amounts of funding through an appeal to the business community.

Since quality air service is an important economic development component, a regional approach, led by the economic development community, may be a more effective approach going forward. One solution could be the creation of a Regional Air Service Enhancement (RAiSE) Fund to be used to attract new air carriers and/or to incent existing air carriers to add new routes that would not otherwise not be offered. The RAiSE Fund could be capitalized initially with the \$800,000 remaining in the Peninsula Ports Authority of Virginia's account from bond issuance and servicing fees. The Fund would further be enhanced with donations from each of the Economic or Industrial Development Authorities from Peninsula localities, as well as from those of Gloucester, Isle of Wight County and Suffolk.

Funds from RAiSE could be used for a variety of revenue support mechanisms, to be negotiated with each airline based upon the NN/WIA's knowledge of the industry and potential for new routes that best support the region. Typically, a portion of the RAiSE Fund would be dedicated to guarantying a revenue stream to an airline for a new or expanded route. If the airline reaches its revenue projections during any month, no payment from the RAiSE Fund would be authorized. If a route is successful, payments from the RAiSE Fund will be less than projected and, at some point in time, RAiSE's revenue guaranty would cease. The NN/WIA proposes that the first priority for use of the RAiSE Fund be the attraction of routes to major airports in the Midwest.

Funding authorizations from the RAiSE Fund could be governed by a committee comprised of EDA/IDA representatives from contributing localities, with voting proportional to the amount contributed. The subcommittee would provide a method for the contributing EDA/IDAs to maintain control and oversight of RAiSE without each EDA/IDA having to approve a resolution authorizing every commitment from the RAiSE Fund.

The next step in the process of creating a mechanism capable of enhancing air service at NN/WIA is for each EDA or IDA to recommend, in concept, the creation of a RAiSE Fund. A working group led by the Chairman of the Newport News EDA and composed of representatives of each of the approving EDA/IDAs will be formed to explore the concept and develop a plan. The working group would draft a detailed RAiSE plan of action and recommendation to the Mayors and Chairs of the Peninsula localities, plus Gloucester, Isle of Wight and Suffolk. This recommendation would then be taken to the various City Councils and County Boards of Supervisors. Upon approval of the RAiSE Fund by the Council's and Boards, and ratification by the EDA/IDA Boards, the RAiSE plan of action would be implemented.

AIRPORT TASK FORCE REPORT - Thru October 15, 2006

1 EDA Air Service Fund - Cash Flow Analysis Thru June 30, 2006 and Estimated Cash Remaining at End of Airtran and Delta Agreements

CASH BALANCE @ January 7, 2005	\$	568,442.60
Less AirTran Payment for November 2004 thru May 2005 shortfall		
Less Delta Marketing Funds Expended to date		
Add Transfer funds from IDA Land Sale	\$	149,100.00
Less Collins Waters and Bndgeman invoice		
Less Paid Top Flight Invoices		
Balance @ June 30, 2006	\$	<u>326,115.39</u>
Less AirTran MARKETING CONTRIBUTION - to be paid		
Less Remaining Delta Marketing Funds to be expended		
ESTIMATED TOTAL FUND BALANCE AVAILABLE	\$	<u>147,400.00</u>

2 Donations from Municipalities to Airport Task Force

Municipality	2005		2006		Total Received from Municipalities for 2005 and 2006	2007		Total Received from Municipalities for 2005, 2006, 2007
	Amount Budgeted	Amount Received	Amount Budgeted	Amount Received		Amount Budgeted	Amount Received	
Newport News	\$ 90,000.00	\$ 90,000.00	\$ 90,000.00	\$ 90,000.00	\$ 180,000.00	\$ 90,000.00	\$ -	\$ 180,000.00
York County	\$ 31,500.50	\$ 31,500.50	\$ 32,150.00	\$ 32,150.00	\$ 63,650.50	\$ 32,600.00	\$ 16,300.00	\$ 79,950.50
Hampton	\$ 73,218.50	\$ 75,000.00	\$ -	\$ -	\$ 75,000.00	\$ -	\$ -	\$ 75,000.00
James City County	\$ 25,000.00	\$ 12,025.00	\$ 13,000.00	\$ 13,000.00	\$ 25,025.00	\$ 13,000.00	\$ 3,250.00	\$ 28,275.00
Poquoson	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 12,000.00	\$ -	\$ -	\$ 12,000.00
Williamsburg	\$ 5,999.00	\$ 5,999.00	\$ 6,000.00	\$ 6,000.00	\$ 11,999.00	\$ 6,000.00	\$ 6,000.00	\$ 17,999.00
Totals	\$ 231,718.00	\$ 178,834.60		\$ 147,100.00	\$ 322,074.60	\$ 24,600.00	\$ -	\$ 348,234.60

Cash in separate Restricted account

Note: \$60,000 donation from Newport News sent to Peninsula Airport Commission. \$45,000 used for State Grant Matches. \$15,000 returned and deposited to fund 645 on 6/27/05.

3 Air Service Development and Enhancement Grant

State Funds - FY 2005	\$	20,000.00
Sponsor Funds - FY05 \$20,000 Required Grant Match		<u>20,000.00</u>
Total Funds	\$	40,000.00
Less Expenditures to Date		
Balance Remaining	\$	-

TOTAL AVAILABLE FUNDS

\$ 495,715.46

AIRPORT TASK FORCE REPORT - Thru June 30, 2006

1

EDA Air Service Fund - Cash Flow Analysis Thru June 30, 2006 and Estimated Cash Remaining at End of Airtran and Delta Agreements

CASH BALANCE @ January 7, 2005	\$	568,442.60
Less AirTran Payment for November 2004 thru May 2005 shortfall		
Less Delta Marketing Funds Expended to date		
Add Transfer funds from IDA Land Sale	\$	149,100.00
Less Collins Waters and Bridgeman invoice		
Less Paid Top Flight Invoices		
Balance @ June 30, 2006	\$	<u>326,115.39</u>
Less AirTran MARKETING CONTRIBUTION - to be paid		
Less Remaining Delta Marketing Funds to be expended		
ESTIMATED TOTAL FUND BALANCE AVAILABLE	\$	<u>147,490.96</u>

2

Donations from Municipalities to Airport Task Force

Municipality	2005		2006		Total Received from Municipalities for 2005 and 2006
	Amount Budgeted	Amount Received	Amount Budgeted	Amount Received	
Newport News	\$ 90,000.00	\$ 90,000.00	\$ 90,000.00	\$ 90,000.00	\$ 180,000.00
York County	\$ 31,500.50	\$ 31,500.50	\$ 32,150.00	\$ 32,150.00	\$ 63,650.50
Hampton	\$ 73,218.50	\$ 75,000.00	\$ -	\$ -	\$ 75,000.00
James City County	\$ 25,000.00	\$ 12,025.00	\$ 13,000.00	\$ 13,000.00	\$ 25,025.00
Poquoson	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 12,000.00
Williamsburg	\$ 5,999.00	\$ 5,999.00	\$ 6,000.00	\$ 6,000.00	\$ 11,999.00
Totals	\$ 231,718.00	\$ 175,524.50	\$ 147,150.00	\$ 147,150.00	\$ 322,674.50

Cash in separate Restricted account

Note: \$60,000 donation from Newport News sent to Peninsula Airport Commission. \$45,000 used for State Grant Matches. \$15,000 returned and deposited to fund 645 on 6/27/05.

3

Air Service Development and Enhancement Grant

State Funds - FY 2005	\$	20,000.00
Sponsor Funds - FY05 \$20,000 Required Grant Match		20,000.00
Total Funds	\$	<u>40,000.00</u>
Less Expenditures to Date		10,000.00
Balance Remaining	\$	<u>30,000.00</u>

TOTAL AVAILABLE FUNDS **\$ 470,165.46**

Summary of Air Service Development Agreements to Promote New Jet Service at Newport News/Williamsburg International Airport

Agreement, between Air Tran and IDA, dated 06/02/95

- AirTran to begin service at NNW Airport on or around 07/11/95
- Introduction of Jet Service to Atlanta, GA
- 3 round-trip non-stop flights a day, except for Tuesdays and Thursdays, which would have 2 flights a day
- Agreement for jet service from 07/11/95 - 12/31/97
- Agreement included a financial incentive payment schedule for a maximum amount of \$1,852,342.08
- Actual amount paid was \$1,641,409.57 — There were 3+ months where the minimum service was not provided

Air Service Agreement, between Air Tran and EDA, dated 02/29/96

- Additional \$10,000 per month to ensure 3 round-trip non-stop flights a day, with 4 flights a day being scheduled to Atlanta, GA
- Agreement for jet service from 03/01/96 - 01/31/01
- Agreement included a financial incentive payment schedule for a maximum amount of \$600,000
- Actual amount paid was \$600,000

Transportation Services Agreement, between Air Tran and EDA, dated 12/18/01

- Introduction of Jet Service to New York - LaGuardia on 03/05/02
- 2 round-trip non-stop flights a day
- Agreement for jet service from 03/05/02 - 02/28/03
- Agreement included revenue guarantee payments for a maximum amount of \$1,500,000
- Payments made based upon a Flight Operations Guarantee of \$4,800 per flight (make up shortfall between \$4,800 and actual gross passenger revenues)
- If the all-in aircraft fuel price for jet service operated by AirTran exceeded \$.95 per gallon base fuel price, the Flight Operations Guarantee of \$4,800 was escalated by \$8.00 for each \$.01 increase in AirTran's all-in fuel cost above base fuel price.
- Actual total of Flight Operations Guarantee payments made were \$1,057,022
- In addition to revenue guarantee payments, Agreement included an \$100,000 joint marketing contribution
- Air Tran also initiated two round-trip non-stop flights a day to Orlando, FL without any revenue guarantee

Transportation Services Agreement, between Air Tran and EDA, dated 02/28/03

- Continuation of Jet Service to New York - LaGuardia
- 2 round-trip non-stop flights a day
- Agreement for jet service from 03/01/03 - 02/29/04
- Agreement included revenue guarantee payments for a maximum amount of \$600,000
- Payments made based upon a Flight Operations Guarantee of \$4,697 per flight (make up shortfall between \$4,697 and actual gross passenger revenues)
- If the all-in aircraft fuel price for jet service operated by AirTran changed from \$.75 per gallon base fuel price, the Flight Operations Guarantee of \$4,697 was adjusted upward or downward for each \$.01 increase or decrease in AirTran's all-in fuel cost above base fuel price.
- Actual total of Flight Operations Guarantee payments made were \$216,261.31 (only three months had shortfall)
- In addition to revenue guarantee payments, Agreement included an \$150,000 joint marketing contribution
- Air Tran also continued two round-trip non-stop flights a day to Orlando, FL without any revenue guarantee

Transportation Services Agreement, between Air Tran and EDA, dated 05/27/04

- Introduction of Jet Service to Boston - Logan on 06/05/04
- 2 round-trip non-stop flights a day
- Agreement for jet service from 06/05/04 - 06/05/05
- Agreement included revenue guarantee payments for a maximum amount of \$600,000
- Payments made based upon a Flight Operations Guarantee of \$6,190 per flight (make up shortfall between \$6,190 and actual gross passenger revenues)
- If the all-in aircraft fuel price for jet service operated by AirTran changed from \$1.00 per gallon base fuel price, the Flight Operations Guarantee of \$6,190 was adjusted upward or downward for each \$.01 increase or decrease in AirTran's all-in fuel cost above base fuel price.
- Actual total of Flight Operations Guarantee payments made were \$600,000
- In addition to revenue guarantee payments, Agreement included an \$150,000 joint marketing contribution

Airport Task Force/EDA Authorization

- Delta Airlines introduction of Jet service to Cincinnati
- Approved \$50,000 in joint marketing funds
- Reimbursement to date as of January 31, 2007 - \$21,375



NEWPORT NEWS/WILLIAMSBURG INTERNATIONAL AIRPORT

Economic Impact Study

November 2006



Economic Impact Study

Executive Summary

The Newport News/Williamsburg International Airport is a major contributor to the local economy, generating significant local spending and creating new jobs.

Summary of Economic Activity – 2005

Total economic impact	\$376.1 million
Jobs created	5,340
Payroll	\$141.0 million
State and local taxes	\$21.1 million

During the past five years, Newport News/Williamsburg Airport has experienced rapid growth, which has produced a significant contribution to the area economy.

- From 2000 to 2005, commercial air passengers at the airport increased 125%, making Newport News/Williamsburg one of the fastest-growing airports in the nation, and easily the fastest-growing in the state of Virginia.
- From 2000 to 2005, the total economic impact increased by \$186 million and 2,200 additional jobs were created.

Past air service development efforts have been successful and, as the increase in economic impact value and jobs indicates, these efforts have paid large dividends to the area economy. Communities and states competing for new and/or improved air service recognize the importance of air transportation as a catalyst for economic growth and realize that financial incentives are a key part of any air service development plan. The challenge for Newport News/Williamsburg is to sustain its growth and market penetration in light of an increasingly competitive environment.

Newport News/Williamsburg International Airport Economic Impact Study

I. Introduction

Economic studies universally conclude that access to effective commercial air service is a critical factor in regional economic development. Having access to effective air service provides a strong inducement for companies to locate and invest in a particular region, and helps local businesses compete in the global marketplace. While this general principle is widely accepted, quantifying the economic value insures that civic/business leaders truly understand the important role air service plays in the local economy.

The Newport News/Williamsburg Airport serves as a gateway for Southeast Virginia air travelers. Commercial air service is provided by three airlines – AirTran, Delta and US Airways. Corporate and general aviation activity is supported by two fixed base operators (FBO's), who also provide air taxi and charter service. A flight school is also located at the airport. Additionally, while the airport facilities are available to the general public, the facilities are also available to the various military commands in the area, including the Air Force at Langley, the Coastguard at Yorktown, the Atlantic Fleet in Norfolk and the Army at Fort Monroe.

The Newport News/Williamsburg International Airport is a major contributor to the local economy, generating significant local spending and creating new jobs, both of which stem from the economic activity related to air service at the airport. The Airport's contribution to the local economy has been increasing at an impressive rate, especially during the past five years. Much of the increase can be attributed to the air service development activities of the Airport Commission.

Scheduled commercial air service at the airport is the largest and most visible component in the economic impact formula. The air service development efforts of the Airport Commission have successfully focused on improving scheduled air service. While past efforts have been successful, air service development is never finished. It is a continuous effort and one that is becoming increasingly competitive.

Competition is created by other communities who are also seeking to improve the air service they receive. To accomplish this, many communities are offering incentives (financial and/or marketing) to attract additional service. Like Newport News/Williamsburg, other communities recognize the significant economic value associated with improved air service. And in light of the economic health of the airline industry, incentives are often an integral ingredient in capturing new service.

The most immediate competitive threats come from Norfolk and Richmond, the neighboring airports in the Southeast Virginia region. Of the two, Richmond appears to be the more aggressive. Richmond's recent efforts in attracting both AirTran and jetBlue were well-funded and had high-profile political support.

The challenge facing the Newport News/Williamsburg Airport is to sustain its strong growth trends and increase its share of the Southeast Virginia market. In 2005, Newport News/Williamsburg accounted for 14% of the passengers traveling to and from Southeast Virginia. The 14% share is a marked improvement from the 7% share Newport News/Williamsburg captured in 1992.

Other communities recognize the significant economic benefits stemming from sustained growth and increased market share, so it is clear that the competitive environment will be difficult. Given the current trend of airports providing financial and marketing incentives for air carriers, it will also be expensive.

II. The Importance of Air Service – Summary of Economic Benefits to the Newport News/Williamsburg Region

a. Economic Impact

The growth in Newport News/Williamsburg’s air service has produced significant economic benefits for the region. Most economic impact studies focus on a single point in time – e.g. the economic impact for a year, such as 2005. In order to gain a perspective of the value and importance of growth, this study focuses on the economic impact of air service at Newport News/Williamsburg over a period of years. The incremental change over a period of years provides a clear insight as to the impact air service growth has had on the region.

The following table sets forth the economic impact in the region, resulting from air service at the Newport News/Williamsburg Airport for selected years from 2000 to 2005. (Note that 2001 and 2002 have been excluded from the analysis, as the effects of 9/11 would skew results.) Air service – which includes commercial and general aviation, as well as the related activities – contributed more than \$375 million to the Newport News/Williamsburg region in 2005.

Table 1

**Economic Impact of Air Service
Newport News/Williamsburg Airport**

<u>Year</u>	<u>Direct Impact (mil)</u>	<u>Total Impact (mil)</u>	<u>Change from Prior Period</u>
2005	\$106.3	\$376.1	\$46.4
2004	\$93.2	\$329.7	\$55.3
2003	\$77.6	\$274.4	\$84.3
2000	\$53.7	\$190.1	

Note: Total Impact reflects the cumulative effect of Direct On-Airport, Direct Off-Airport and Induced economic impacts. See methodology for full description of what is included in each category. All figures re-stated in 2005 dollar amounts.

The growth in the economic contribution the airport has made to the region is impressive by any standard. In the year 2000, the Newport News/Williamsburg airport produced a total economic impact of \$190.1 million. The impact of \$376.1 million in 2005, an increase of \$186 million, is almost double the 2000 amount, a compound growth rate of 14.6% per year for the five year period.

Looking at more recent periods, the incremental change from the year 2003 to 2004 was an increase of \$55.3 million to the region, resulting from the growth in air service at the airport. From the year 2004 to 2005, the incremental increase was \$46.4 million. Thus, in the two year period from 2003 to 2005, the economic impact to the region increased by \$102 million as a result of air service growth (commercial and general aviation) at the Newport News/Williamsburg airport.

b. Jobs Created

One of the tangible benefits for area residents is that jobs are created as a result of the economic activity associated with air service. Some of these positions are directly related to airport activity, such as customer service personnel for the air carriers, government workers screening passengers and baggage, and construction workers employed on new airport-related buildings, to name but a few. Jobs in service industries – such as travel, hotel, dining or entertainment – are also created to support the additional demand driven by passengers arriving/departing at the airport.

In 2005, 5,340 jobs in the Newport News/Williamsburg area were created as a result of the airport’s activities. As with the economic impact, the incremental increase in jobs occasioned by the air service growth is substantial. From 2000 to 2005, almost 2,200 jobs were directly created by air service growth at the airport and related off-airport activities – an increase of almost 70%.

Table 2

**Newport News/Williamsburg Region
Jobs Created by Air Service**

<u>Year</u>	<u>Direct Jobs</u>	<u>Total Jobs</u>	<u>Change from Prior Period</u>
2005	2,020	5,340	468
2004	1,843	4,872	785
2003	1,546	4,087	942
2000	1,190	3,145	

Note: Total jobs created reflects the cumulative effect of Direct On-Airport, Direct Off-Airport and Induced economic impacts.

c. State and Local Taxes

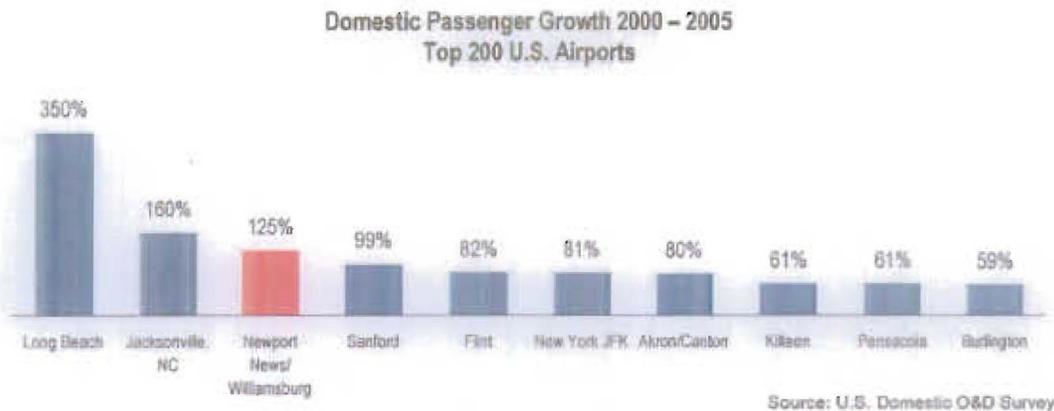
Both the state of Virginia and local communities benefit from taxes collected from the various expenditures contributing to the total economic impact. It is estimated that with a total economic impact of \$376.1 million, tax revenue of \$21.06 million, or 5.6%, would accrue to the state and localities within the Newport News/Williamsburg area.

d. Payroll

The payroll, or wages associated with the \$376.1 million economic impact, is estimated at 37.4% of the total, or \$141 million.

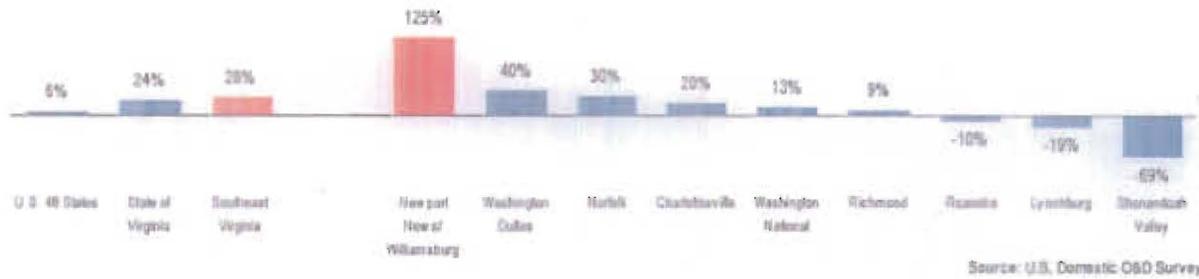
III. Newport News/Williamsburg Airport - Benchmarking Its Growth

The successful air service development efforts of the Newport News/Williamsburg Airport Commission have produced an attractive array of nonstop destinations, and equally important, attractive prices for the region's air travelers. The quality of the service and price options available at Newport News/Williamsburg Airport have made it one of the fastest growing air service markets in the nation, and the fastest growing within Virginia. It is this growth which has fueled the significant increase in the airport's economic contribution to the region.



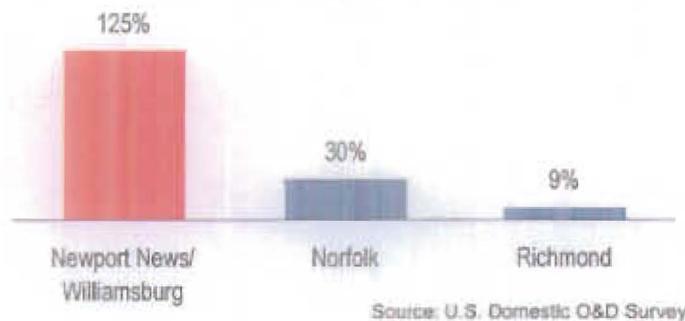
Within the state, Newport News/Williamsburg is easily the fastest-growing airport. Collectively, all Virginia airports grew at 24% over the five year period from 2000 through 2005. The state growth rate compares favorably to the 6% domestic U.S. (48 states). Within the state, Newport News/Williamsburg's 125% growth rate is more than three times the rate of the next fastest-growing airport in Virginia.

Domestic Passenger Growth 2000 – 2005



Looking at the three airports which comprise the Southeast Virginia region – Newport News/Williamsburg, Norfolk and Richmond – Newport News/Williamsburg is by far the fastest-growing of the three.

Domestic Passenger Growth 2000 – 2005

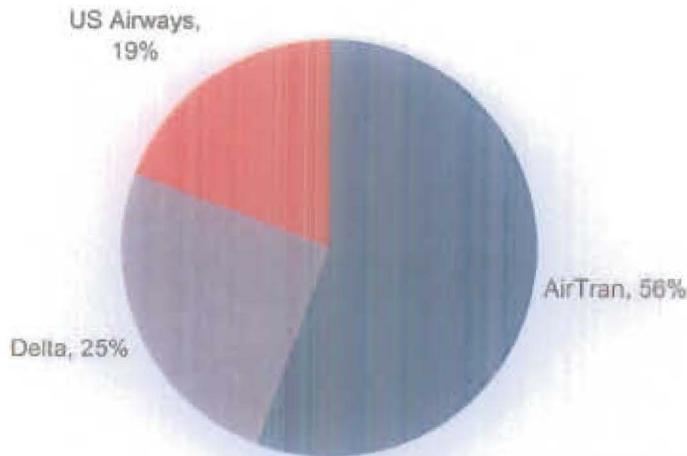


There are two factors which have produced these strong growth trends. One is the breadth of destinations available to Newport News/Williamsburg residents. With service to three major hubs – Atlanta, Charlotte and Philadelphia – as well as nonstop service to key destinations such as Orlando, New York and Boston, Newport News/Williamsburg has a good service base for area travelers. The second factor is price, and in the case of Newport News/Williamsburg, this has been a critical factor in driving the growth trend.

IV. Low Airfares – A Significant Benefit to Newport News/Williamsburg Region

Newport News/Williamsburg is served by three commercial carriers – AirTran, Delta and US Airways. AirTran provides nonstop service to Atlanta, Boston, New York (LaGuardia) and Orlando. Additionally, it will start nonstop Fort Lauderdale service in November, 2006. Delta serves Atlanta and Boston, while US Airways provides nonstop service to Charlotte and Philadelphia.

2005 Airline Share

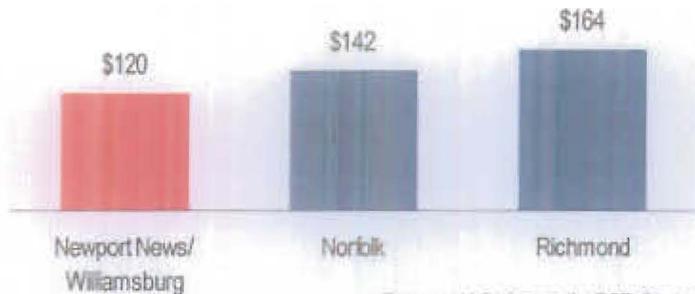


Source: U.S. Domestic O&D Survey

In terms of market share, AirTran accounts for 56% of the passengers with Newport News/Williamsburg as their point of origin or as the final destination for their travels. AirTran is followed by Delta at 25%, and US Airways captures 19% of the passengers.

Within the airline industry, major air carriers can be divided into two broad groups – (1) network carriers and (2) low cost carriers (LCC's). Both Delta and US Airways, as well as American, Continental, Northwest and United, fall into the network carrier grouping. AirTran, on the other hand, is a low cost carrier, as are carriers such as Southwest and jetBlue. The significance of this distinction (between network and LCC carriers), is that, as a general rule, the presence of LCC carriers in a market means lower and less restrictive prices than would be present with only network carrier service.

Average Domestic Fare Paid 2005



Source: U.S. Domestic O&D Survey

AirTran's leading position in the Newport News/Williamsburg market has had a very beneficial influence on prices. In 2005, Newport News/Williamsburg passengers paid an average fare of \$120 each way. By contrast, Norfolk passengers paid \$142 on average, while Richmond passengers were paying \$164.



The savings to Newport News/Williamsburg passengers are significant. The annual savings for the 980,000 Newport News/Williamsburg domestic passengers is \$21.5 million versus the average fare paid by Norfolk passengers, and \$44.1 million versus what Richmond travelers pay.

Clearly, these low fares are one of the primary factors driving the rapid growth at the Newport News/Williamsburg airport. The fares are beneficial for all segments of the traveling public – business as well as leisure. The low fares encourage business travelers to make additional trips to/from the Newport News/Williamsburg area. Business travel produces new opportunities and revenue sources, leading to new jobs and very likely higher income for the region.

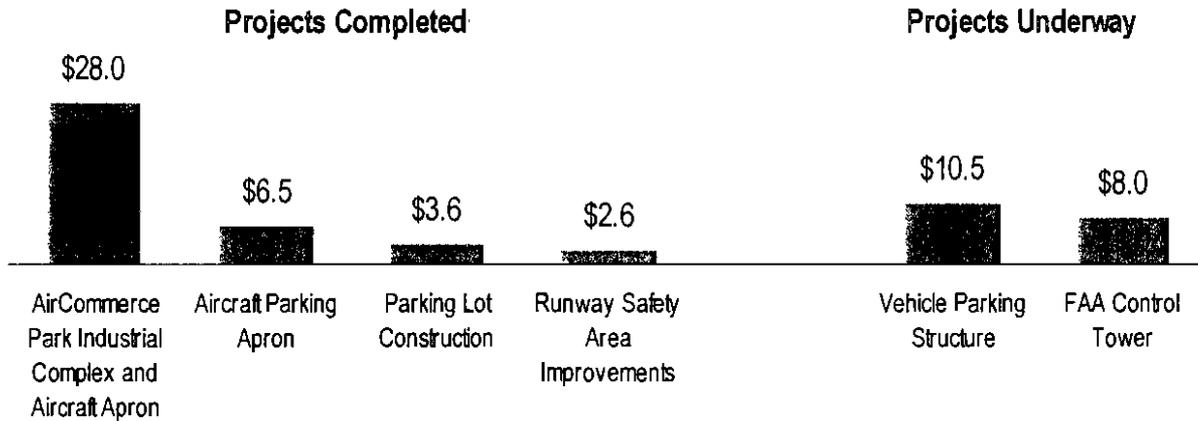
Attractive air fares also encourage leisure oriented passengers to visit the many attractions in the region, as well as visiting friends and relatives. These passengers contribute to the economic well-being of the region by spending for hotels, food, and other tourist activities.

Both the fares and the service are positive factors in economic development activities for the region, as air service and price are two of the key elements in attracting and retaining commercial activity.

V. Accommodating This Growth Has Required Additional Capital Spending at the Airport

One of the direct benefits of the increased activity at the airport is the need to update and improve facilities to accommodate current and expected demand for all areas – commercial as well as general aviation. In the most recent five year period, the airport has spent or committed \$60 million in capital improvement projects.

Capital Improvement Projects (in \$millions)



These capital improvement projects have produced 720 new jobs in the region.

The AirCommerce Park Industrial Complex is a noteworthy expansion of the Airport's role in the economic development in the area. Three factors point to the Newport News/Williamsburg Airport as an ideal location for the development of an industrial park. One is the quality of air service – breadth of destinations and low prices – that would be available to businesses located in the park. The availability of both of these elements is critical for business growth and development. The second factor is the economical rates charged by the airport. The rates are among the lowest in the area and should prove to be a competitive advantage for the park. The third factor is the location of the park. Newport News/Williamsburg is in the center of the rapidly growing and developing Southeast Virginia region. Additionally, the location is within 750 miles of 65% of the United States' population and seven out of ten of the largest metro areas. The logistics implication of the location is important, for the park would be within a one-day delivery zone of this large population base.

While the park is in the initial stages of development, the potential contribution to the local economy is significant, for the targeted goal is to create high-paying new jobs, which will of course provide a significant increase in expenditures in the local economy. Effective development of AirCommerce Park will provide a perfect complement to the air service development efforts at the Newport News/Williamsburg airport.

VI. Methodology

Economic Impact consists of two major categories. One category measures the Direct Impact, which includes both On- and Off-Airport activities. The second category measures Total Impact, which consists of Direct and Induced Economic Impacts.

- Direct On-Airport Impact - includes local expenditures at or near the airport by airlines, the airport operator, ground handling providers, and other firms involved in the provision of aviation services.
- Direct Off-Airport Impact – includes local expenditures by Travel Agents, Hotels, Restaurants, Convention Centers and Tourist Destinations.

There are numerous studies which have examined the impact of airport activity on local economies. Not surprisingly, the conclusions have varied widely. However, strong correlations exist between airport traffic and the value of Direct Economic Impact. This correlation, or factor, has been summarized below, where past studies have categorized this factor into three ranges:

Typical Economic Impacts of Airports per 1 million passengers

<u>Estimate</u>	<u>Economic Impact (mil)</u>
High	\$225
Medium	\$75
Low	\$35

Source: The Economic Benefits of Air Transport - 2000 Edition

In developing the Direct On-Airport and Off-Airport economic impact, Newport News/Williamsburg passengers were stratified based upon their anticipated spending levels. For example, international passengers would spend more and have a greater impact on the local economy than passengers who are merely making a connection to another flight and are spending very little time in the area. To best reflect these differences, passengers using the Newport News/Williamsburg airport were divided into four categories:

- 1) Domestic passengers starting or ending their journey at the Newport News/Williamsburg airport;
- 2) International passengers starting or ending their journey at Newport News/Williamsburg;
- 3) Domestic passengers using Newport News/Williamsburg as a connecting airport for another flight in their journey; and
- 4) General Aviation passengers.

This analysis uses the mid-range value (\$75) for domestic and general aviation passengers. The \$75 value per passenger (one-way, or \$150 round-trip) is a conservative average. Passengers living in the Newport News/Williamsburg and starting their trip from the airport would spend less than this figure, as their expenditures would be limited to items such as parking, concession items, etc. However, passengers arriving in Newport News/Williamsburg would spend more than this figure as they would be spending for hotel, rental car, dining expenses, etc. Thus, the \$75 value is an average expenditure per departing and arriving passenger.

The value associated with the international passengers (\$225 one-way, or \$450 round-trip) would be the greatest, as these passengers would have the largest expenditures, thus the high value was used to measure their impact. These passengers would have the longest stay in the area, and in addition to expenses such as hotels and meals, many of these passengers patronize the area attractions (Colonial Williamsburg, golf courses, etc.) as well.

The passenger category which would contribute the least to the Newport News/Williamsburg area is those passengers who are merely using the airport for connections to another flight. A low value (\$35) is assigned to these passengers.

As a test of reasonableness, the Direct Impact produced in this study for 2003, \$77.6 million, was compared with the results published in the 2003 study for the Virginia Airport System. In the 2003 study, the direct economic impact for the Newport News/Williamsburg Airport was measured at \$79.7 million.

For 2005, the Direct Impact is \$106.3, or 37% greater than the 2003 number. As noted throughout this study, the Newport News/Williamsburg Airport has seen significant growth in passenger volume. The growth in commercial passenger volume from 2003 to 2005 was 40% (700,000 passengers in 2003 and 980,000 passengers in 2005). With a passenger growth rate of this magnitude, the increase in direct economic impact for the airport in 2005 meets the test of reasonableness, and if anything, the 2005 number is conservative.

- Total Impact – Measure includes Direct impact plus Induced impacts which are the economic impacts resulting from the “multiplier effect.” An example of the multiplier effect is created when an airline employee spends his/her salary at a restaurant or hotel and thereby creates additional business revenue and local employment.

Various studies on the economic impact of airports use a wide range of multipliers to calculate the total economic impact. The multipliers range from a high (for midsized airports) of 8.6¹ to a low of 1.5 for a small West Virginia airport.

¹ The Economic Benefits of Air Transportation.

The multiplier used in the 2003 Virginia study (3.54) provides a reasonable and defensible total impact for the Newport News/Williamsburg Airport. The 2003 Virginia study reported \$148.1 million in economic activity. However, it did not include \$133.8 million in economic activity in a category identified as “Air Dependent Businesses and Their Spin-Off Impacts.” Arguably, this category should have been included in the total economic activity, which would have brought the revised total to \$281.9 million. Again, as a test of reasonableness, the \$281.9 million in the Virginia study compares favorably with the \$274.5 million estimate for 2003 in this study. The increase to the 2005 level of \$376.1 million is 33.4%, consistent with the increase in the Direct Impact.

Jobs Created

The various studies which were surveyed in assessing the economic impact set forth the following as typical of the jobs created:

<u>Estimate</u>	<u>Jobs/1 million passengers</u>	
	Direct	Total
High	2,000	8,000
Medium	1,500	6,000
Low	750	2,500

Source: The Economic Benefits of Air Transport – 2000 Edition

As with the economic impact analysis, the mid-range value of 1,500 jobs per 1 million passengers was used to estimate the number of jobs resulting from the airport’s activity. As a test of reasonableness, this methodology produced 1,546 direct jobs in 2003. The methodology used by Virginia in its 2003 study produced 1,545 direct jobs. Clearly, the methodology is reasonable.

The number of total jobs created, which would include jobs resulting from induced expenditures, in addition to the direct jobs, was based on the RIMS II² multiplier of 2.644. The RIMS II multiplier relates specifically to transportation related jobs in the Newport News/Williamsburg area.

Survey of Area Businesses

As part of the overall economic impact study, a survey seeking information about area businesses (e.g. revenues, employment payroll, air travel expenditures, etc.) was sent to hundreds of firms in the area. In addition to the mailing done by the airport, local Chambers of Commerce sent the questionnaire to their members as well. Unfortunately, the response to the survey did not meet expectations.

² Bureau of Economic Analysis Regional Industrial Multiplier System, or RIMS II

One of the goals of the survey was to gather information to provide further validation for the direct economic impact in this study. Another goal was to develop a data base so that the economic impact could be allocated to specific localities within the region e.g. Williamsburg, Hampton Roads, etc. Information of this type (locality specific) would be of great interest to local officials. However, lacking sufficient responses to the questionnaire, any allocations would lack precision.

Without specific data from the survey, state and local taxes, as well as payroll were based on prior studies. The tax rate was based on a prior Dulles/National Airports study. Both airports are within Virginia and thus have a similar tax structure. Also, these airports have a large degree of tourism similar to Newport News/Williamsburg. Payroll as a percent of total impact was surveyed from other mid-sized airports as well as the prior Virginia study. Percentage rates ranged from the mid-30's to a high of mid-40. The prior Virginia study used a 37.4% rate for Newport News/Williamsburg – this is reasonable and in line with the other studies.

A copy of the questionnaire is set forth in Appendix B.

Appendix A

Economic Impact of Newport News-Williamsburg Airport by Passenger Type

Direct Impact	2000	2003	2004	2005
Domestic Passengers	\$28,932,774	\$49,781,751	\$62,775,881	\$73,788,750
General Aviation Traffic	\$22,679,405	\$24,233,511	\$24,773,720	\$24,984,000
International Passengers	\$1,749,774	\$3,222,120	\$4,620,215	\$5,789,250
Connection Passengers	\$345,295	\$315,273	\$994,196	\$1,724,065
Total	\$53,707,249	\$77,552,655	\$93,164,012	\$106,286,065

Total Impact				
Domestic Passengers	\$102,393,088	\$176,177,617	\$222,163,841	\$261,138,386
General Aviation Traffic	\$80,262,416	\$85,762,396	\$87,674,195	\$88,418,376
International Passengers	\$6,192,451	\$11,403,082	\$16,350,942	\$20,488,156
Connection Passengers	\$1,221,999	\$1,115,752	\$3,518,461	\$6,101,466
Total	\$190,069,953	\$274,458,846	\$329,707,439	\$376,146,384

Direct Jobs				
Domestic Passengers	656	1,057	1,298	1,476
General Aviation Traffic	520	470	512	500
International Passengers	9	15	21	26
Connection Passengers	4	4	11	18
Total	1,190	1,546	1,843	2,020

Total Jobs				
Domestic Passengers	1,735	2,794	3,432	3,902
General Aviation Traffic	1,376	1,243	1,354	1,321
International Passengers	23	40	56	68
Connection Passengers	11	9	29	49
Total	3,145	4,087	4,872	5,340

Appendix B

NEWPORT NEWS/WILLIAMSBURG INTERNATIONAL AIRPORT
ECONOMIC IMPACT ANALYSIS

Survey of Area Firms

Air service and the airport are key factors in any community's economic development efforts. The Newport News/Williamsburg International Airport is conducting a survey of area firms to help measure the economic contribution the airport and air service make to the region.

We are surveying firms in the area and are asking your cooperation in this important endeavor. All answers will be treated confidentially, and only data in summarized form will be disclosed. Specific company data will not be disclosed. If your company has multiple locations, all answers should pertain only to this location.

We appreciate you taking the time to complete this survey. We realize your time is valuable.

1. Business Name: _____
2. Business Address: _____
3. Website Address: _____
4. Which of the following best describes your company's function? (Please check only one)
 - Agriculture, Forestry, Fishing _____
 - Mining _____
 - Construction _____
 - Manufacturing _____
 - Transportation, Communications _____
 - Wholesale trade _____
 - Retail trade _____
 - Finance, Insurance, Real Estate _____
 - Services _____
 - Public administration/Government (excluding Military and Military contractors)
 - Federal _____
 - State _____
 - Local _____
 - Military, including military contractors/support functions _____
 - Education (including vocational training) _____
 - Other (please specify) _____
5. Is your business located
 - On the airport property _____
 - Adjacent to the airport (property touches airport property) _____

- Within 1 mile (highway mileage) of the airport _____
 - More than 1 mile from the airport _____
6. How many people are employed by your company (at this location)?
- Full time _____
 - Part time _____
 - Contract _____
 - Total _____
7. What was the total annual payroll for employees, including contract employees? Include wages, salaries, and benefits. \$ _____
8. On an annual basis, what were the total revenues for your company (at this location)? Use calendar year 2005, or specify the 12 month period covered. \$ _____
9. On an annual basis, what are your company's annual air travel expenditures to/ from this location only? \$ _____
10. What percentage of your total air travel flies through the following airports:
- Newport News/ Williamsburg Int'l _____ %
 - Norfolk Int'l _____ %
 - Richmond Int'l _____ %
 - Other _____ %
11. If you were to rank the importance of the airport to your business, would it be:
- a. Very Important _____
 - b. Important _____
 - c. Somewhat Important _____
 - d. Not Important _____
12. Did the existence of the airport have any influence on your company's decision to locate here?
- a. Yes _____
 - b. No _____
 - c. Other (please specify) _____
13. The economic contribution of the airport and air service is important to individual localities as well as the region as a whole. If possible could you define the percentage of your employees residing in the following locations:
- a. Hampton _____
 - b. Williamsburg/James City County _____
 - c. Newport News _____
 - d. York County _____
 - e. Other _____
- (percentages should add to 100%)

14. Please provide the name of a person to contact should any follow-up be required

Name: _____
Title _____
E-mail _____
Telephone _____

Thank you for taking the time to complete this survey. If you have any questions, please call Jim Evans at (757) 988-0690.

PLEASE RETURN THE COMPLETED FORM NO LATER THAN SEPTEMBER 30 TO:

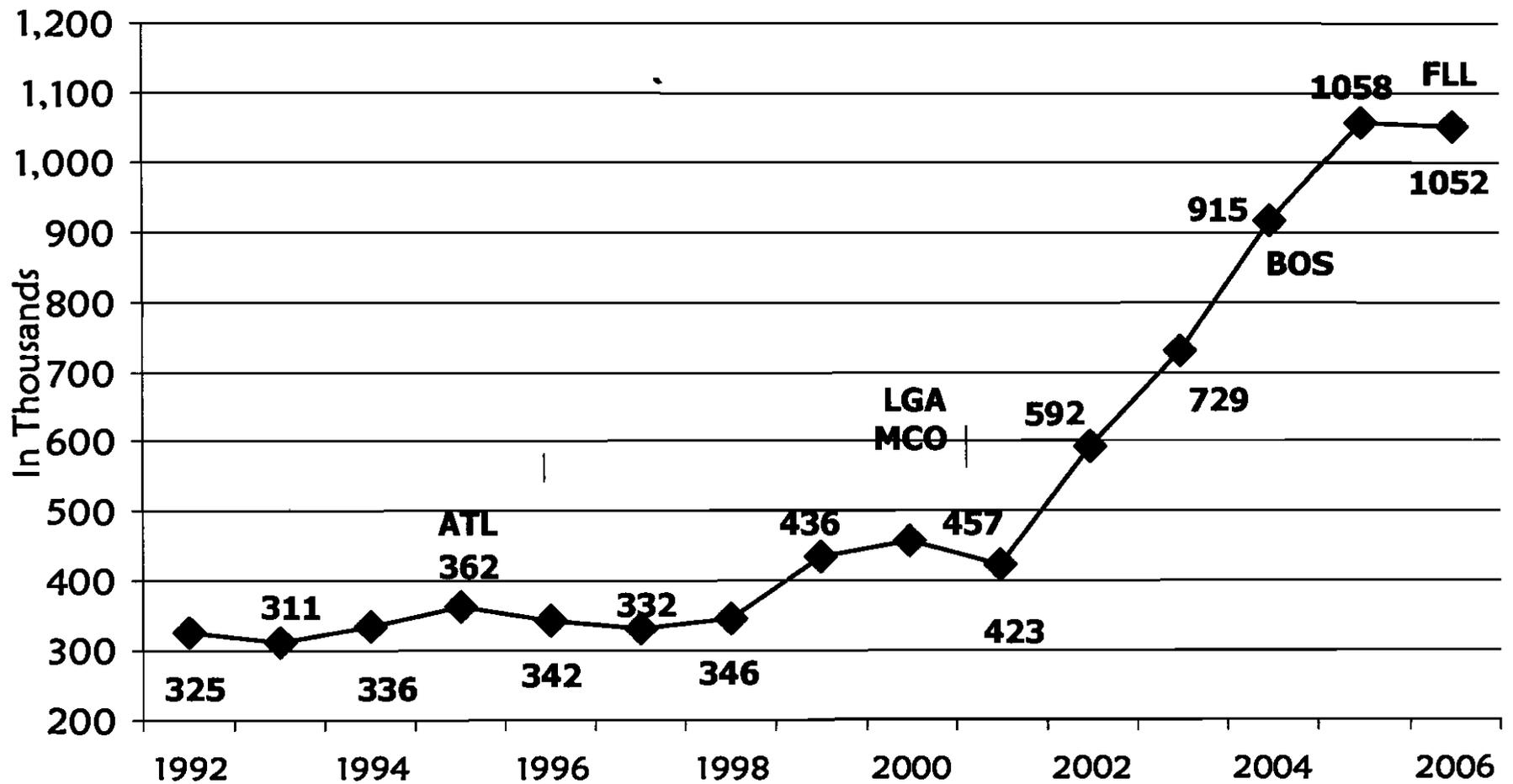
James H. Evans, Jr. (email: jevans@nnwairport.com)
Manager, Business Development
Newport News/Williamsburg International Airport
900 Bland Blvd.
Newport News, VA 23602-4319
Phone: 757-877-0221
Fax: 757-877-6369



Newport News/Williamsburg International Airport Air Service Development

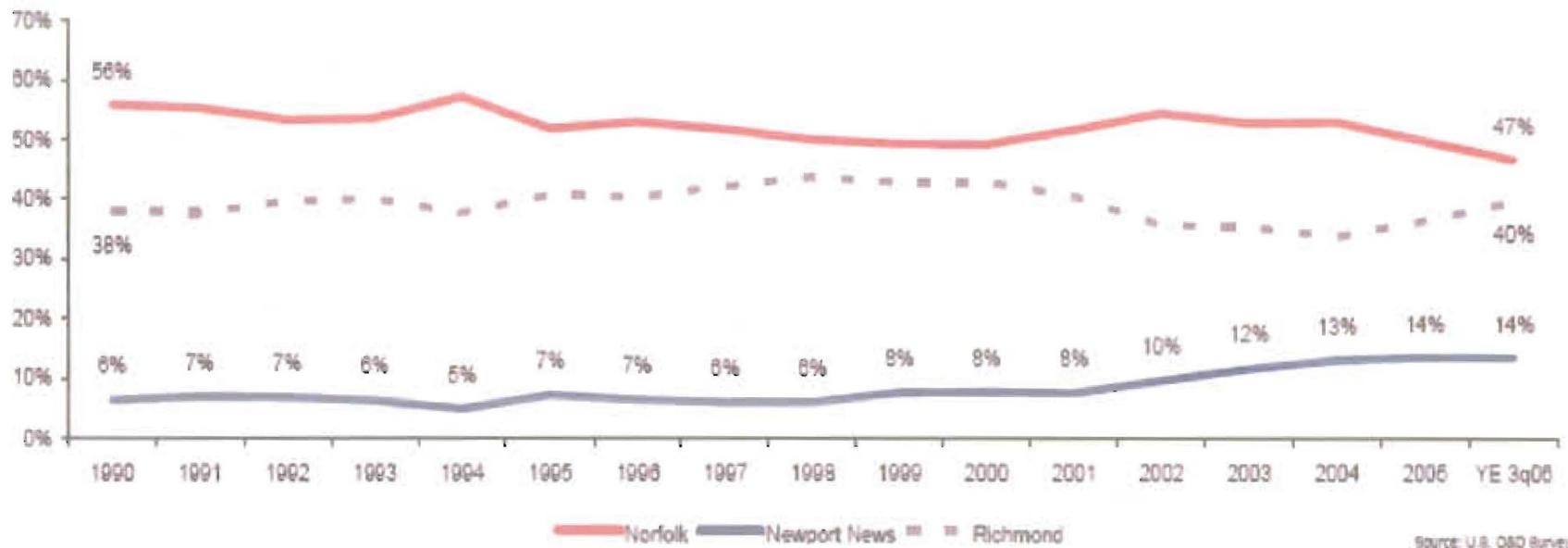


Newport News/Williamsburg International Airport Total Passengers 1992-2006



The Newport News Airport Is Getting a Bigger Piece of This Growing Market

Airport % of Region Traffic



Our Niche:

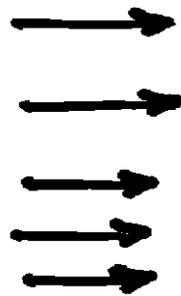
- The lowest average airfares in Virginia.
- Low airline costs.
- Low passenger Costs.
- Value and Service!



Challenges:

- ❑ To sustain growth and market penetration in light of an increasingly competitive environment.
- ❑ Obtaining incentives are an integral ingredient in capturing new service.





Destination	2005 TOTAL
Atlanta	513,040
Orlando	365,770
New York (LGA)	359,850
Chicago (O'Hare & Midway)	316,280
Boston	257,930
Dallas/ Ft. Worth	213,400
Ft. Lauderdale	181,600
Las Vegas	176,480
Tampa	175,380
Los Angeles	155,460
Jacksonville FL	152,670
San Diego	150,700
Houston (IAH + HOU)	140,220
Denver	116,070
Philadelphia	113,160
Detroit	109,600
Newark	105,010
Seattle	102,490
Minneapolis	102,270
BWI	90,510
Phoenix	90,440
New Orleans	89,980
San Francisco	89,030
Kansas City	85,060
Miami	79,370
Providence	79,070
Washington (DCA + IAD)	72,870
Cincinnati	70,030
Memphis	67,200
Pensacola	47,050
Milwaukee	39,020



Executive Summary:

Summary of Economic Impact Activity 2005

<input type="checkbox"/> Total economic impact	\$376.1 million
<input type="checkbox"/> Jobs Created	5,340
<input type="checkbox"/> Payroll	\$141.0 million
<input type="checkbox"/> State and local taxes	\$21.1 million

