

ROA SCASDP Grant Application

Docket DOT-OST-2017-0155

December 2017



SUMMARY OF GRANT APPLICATION

Two-year initiative would deliver new nonstop service to Dallas / Fort Worth.

Roanoke-Blacksburg Regional Airport (ROA) meets the criteria of Docket DOT-OST-2017-0155. The Roanoke Regional Airport Commission is requesting **\$750,000 in federal assistance** to implement a two-year initiative in the amount of \$1,890,000. **The initiative would be via a public-private partnership for new service on American Airlines (AA) between ROA and Dallas / Fort Worth International Airport (DFW), for which AA has provided a letter of support.** Although DFW is ROA's top priority and the primary focus of this application, the Commission duly requests the designation of both Denver (DEN) and Detroit (DTW) as alternatives should AA be unable to start DFW as hoped.

The partnership would fund 60% (\$1.14 million) of the total proposed program. The partnership's non-airport funding sources would provide 48% of the cash (\$775,000 out of \$1.625 million) and an additional \$45,000 of in-kind services.

Description	US DOT	Airport		Non-Airport		Total
	Cash	Cash	In-Kind	Cash	In-Kind	
Airline Incentive Program						
Revenue Guarantee	\$750,000			\$750,000		\$1,500,000
Marketing Campaign		\$100,000		\$25,000	\$45,000	\$170,000
Fee Waivers			\$220,000			\$220,000
Total	\$750,000	\$100,000	\$220,000	\$775,000	\$45,000	\$1,890,000

ROA has never received a SCADP grant. In fact, ROA is the only commercial service airport in Virginia that has applied for, and never received, a grant.

Project Goal – This initiative will improve public access to the national air transportation system with a nonstop flight from ROA to DFW. The service would connect ROA to one of its top unserved markets. It would also remedy its deficient connectivity to the western region of the U.S.

Public/Private Partnership - [Roanoke Regional Airport Commission](#) and the [Roanoke Regional Chamber of Commerce](#) have formed a public-private partnership. The Partnership is a joint venture between governments and more than 200 private sector businesses whose aim is to grow SW Virginia.

Public Benefits - ROA serves as the Roanoke Valley's primary airport, serving over 800,000 residents in SW Virginia. Improved air service would provide material benefits to a broad segment of the traveling public, including the numerous businesses, educational institutions, and other enterprises highlighted on this application's subsequent pages.

THE ROANOKE VALLEY REGION

A place where people and business thrive.

The Roanoke Valley area enjoys high quality of life and low cost of living. The region offers a wide variety of recreational opportunities and activities.

Active Lifestyle

- **Roanoke** is the *largest metropolitan area in the Blue Ridge Mountains*. It is the largest city to have the Blue Ridge Parkway and Appalachian Trail traverse it.
- **Roanoke** has greenways, hiking trails, bike trails and blue ways that surpass all others in the region, allowing for an active lifestyle and making it *a great tourist destination* with its multitude of festivals and festivities.
- **Roanoke** and the surrounding area has a music scene that is unparalleled for a region its size.
- **Roanoke** is home to the Virginia Tech / Carilion Medical School and Research Institute.
- **Smith Mountain Lake** is the largest body of fresh water in the region and is celebrating *50 years as a significant recreation and tourist destination*.



Roanoke has been named a Top Mountain Town and Top Trail Town by Blue Ridge Outdoors Magazine.

Franklin County, next door to Roanoke is the Moonshine Capital of the United States.



VIBRANT BUSINESS COMMUNITY

The ROA catchment area is home to a diverse and vibrant economic base.

The regional market served by ROA encompasses Roanoke and surrounding counties in Virginia, West Virginia, and North Carolina. ROA's catchment area is the center point for the region's finance, transportation, and state and federal government services and has an MSA GDP growing at 3.3% year-over-year.

Roanoke is the *second leading growth economy in the Commonwealth and the fourth largest metro economy in Virginia.*

Economic Highlights

- **Gross metropolitan product is over \$13 billion**
- **Forbes.com Rankings**
 - Top 10 best small cities for jobs
 - Top 100 best places for business and careers
 - Top 15 most affordable places for doing business
- **Key Economic Sectors**
 - Advanced manufacturing
 - Life sciences
 - FIRE – Finance, Insurance and Real Estate
 - Transportation manufacturing
 - Printing and packaging

Top employers in Roanoke County.

EMPLOYER	ESTIMATED EMPLOYEES
Roanoke County Schools	2,000-2,499
Wells Fargo Operations Center	1,500-1,999
County of Roanoke	500-999
Kroger	500-999
Richfield Recover & Care Center	500-999
Friendship Retirement Comm	500-999
Allstate Insurance Company	500-999
Wal-Mart	250-499
Medeco High Security Locks	250-499
Integrity Windows & Doors	250-499
Harris Corporation (ITT Exelis)	250-499
TMEIC Corp	250-499
Hollins University	250-499
Americold Logistics	250-499
Lowe's	250-499
Berkshire Health Care Center	250-499
Plastics One	250-499
Catawba Hospital	100-249
Optical Cable Corporation	100-249
Cox Communications	100-249
Precision Fabrics Group	100-249
Home Shopping Network	100-249
Valcom, Inc.	100-249
Delta Dental	100-249
New Millennium Building Sys.	100-249

Roanoke County Top Employers

Other major private sector employers

Private sector employment exceeds 90,000 in the Roanoke Valley



ON-GOING NEW INVESTMENT

Business expansion is driving the need for more commercial air service.

The community is working to link its educational assets with innovation and entrepreneurship to encourage economic expansion in the automotive, biotech/biomedical and high-end manufacturing sectors, indicating a *strong economic future for the catchment area*. This growth could, however, be threatened if the community is unable to effectively address its air service deficiencies.

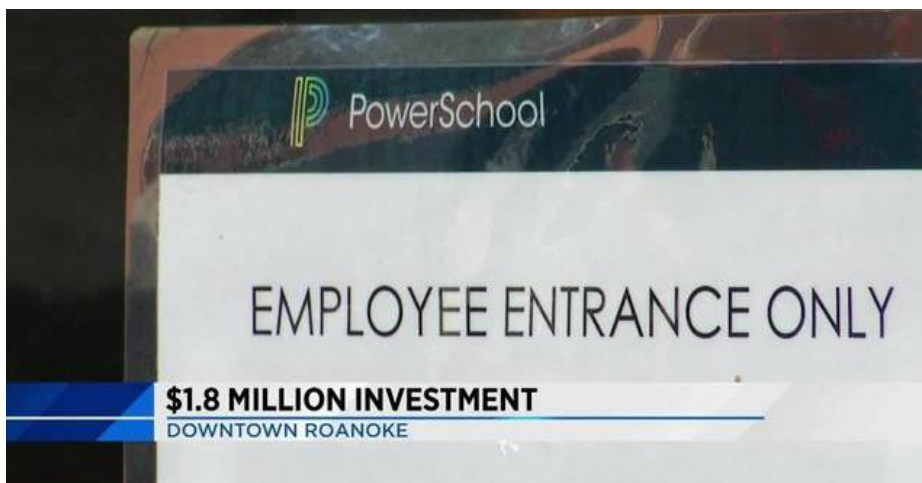
Recent economic development headlines:

August 2017 - Ballast Point Brewing opened a new \$47MM east coast brewery, distribution and tasting room and added over 200 jobs.

August 2017 - Deschutes Brewing opened a tasting room in downtown Roanoke. Scheduled to open east coast brewery in Roanoke in 2020.



September 2017 - PowerSchool announces \$2MM investment to expand Roanoke operations and hire 95 more employees.



MORE ECONOMIC DEVELOPMENT HEADLINES

October 2017 - Altec Industries announces \$30MM investment to expand local production and hire 180 more employees.

October 2017 - The Virginia Tech Carilion Research groundbreaking on a 139,000 sq. ft. biomedical research facility. The \$90MM facility will have 25 new research teams and employ at least 250 people.

October 2017 - Virginia Tech's endowment fund surpasses \$1BN.

November 2017 - American Electric Power (AEP) will hire 102 new engineers and technical experts in downtown Roanoke.

January 2018 - ELDOR Corporation scheduled to open new \$75MM manufacturing facility and add 350 jobs.



International Business is Also Thriving in the Region

Luxembourg based Ardagh Group invested \$93.5 million in a state-of-the-art metal can manufacturing facility in Roanoke County.

Germany based McAirlaids doubled its Franklin County, VA high tech manufacturing facility to 145,000 sf. to support the growth of its products to the health care and food packaging sectors.

Oregon based Humm Kombucha, selected Roanoke for its east coast production and distribution center. This will be a \$10MM investment and add 100 jobs. Humm is backed with over \$12MM in venture capital and private equity funding.

Kombucha is a carbonated tea containing fermented bacteria and yeast. It's one of the fastest-growing segments of the beverage market.



EDUCATION AS AN ECONOMIC DRIVER

ROA is a center of higher education, research and innovation.

There are 21 colleges and universities located within 60 minutes or less of ROA. **The Roanoke Valley is home to a University market of over 103,000 students and 12,200 staff.**

The region is home to some of the nation's top universities

- Virginia Tech University*
- Radford University
- Washington and Lee
- Virginia Military Institute
- Hollins University
- Roanoke College
- Ferrum College
- Liberty University
- Lynchburg College

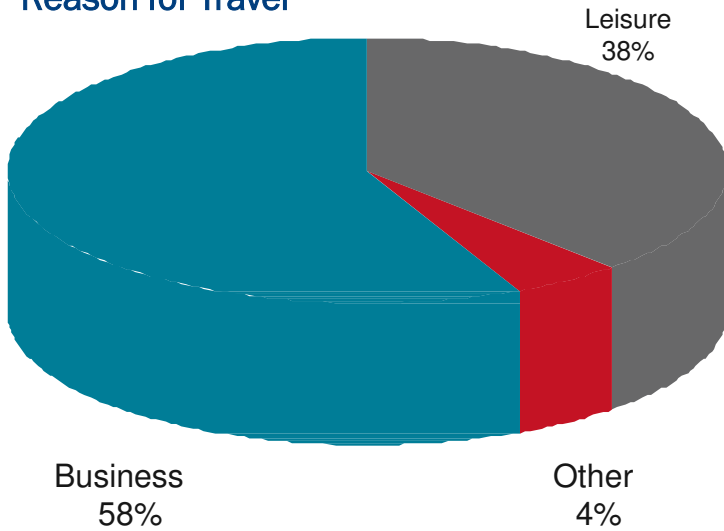


**Virginia Tech, located in Blacksburg, VA, welcomes over 1.2 million visitors annually and enrolls over 31,000 students from 44 states and 110 countries. Known worldwide as a leading research university, Virginia Tech is nationally ranked in research spending and patents received per research dollar with expenditures of \$450 million.*

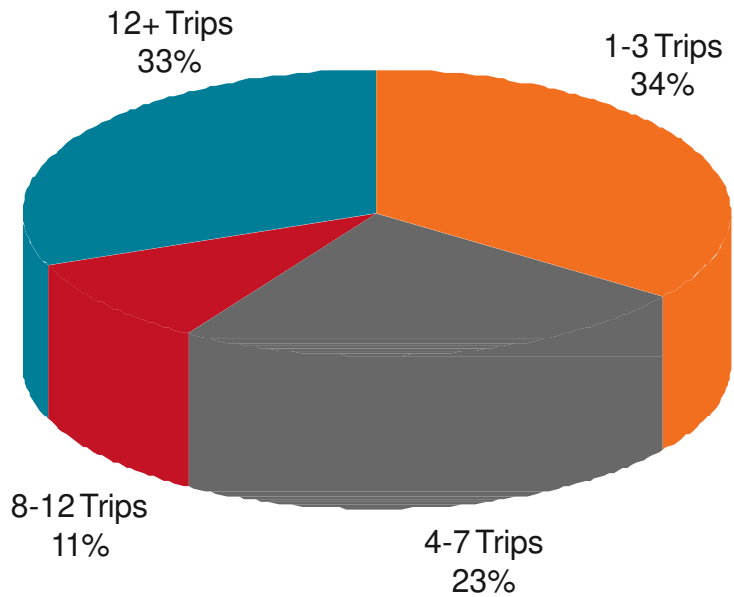
BUSINESS-ORIENTED MARKET

Most ROA passengers travel for business.

Reason for Travel



Trips per Year



Note: Because of rounding, percentages may not add to 100.

Source: ROA Regional Airport Commission Enplanement Surveys 2008 to 2016.

AIR SERVICE ENVIRONMENT

ROA is the primary commercial service airport for southwestern Virginia.

The Roanoke Valley is the largest metropolitan area in southwestern Virginia. With convenient access to Interstate 81, there are approximately **570,000 residents in the primary catchment area** and over 800,000 people in the greater Southwestern/West Virginia area.

Long Drives to Competing Airports

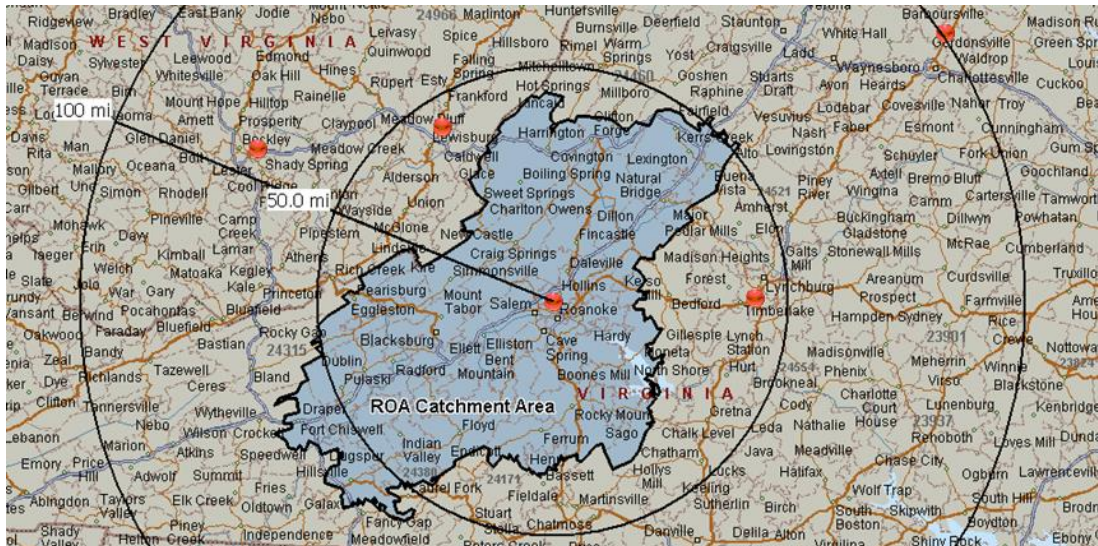
Annually, there are nearly **970,000 air travelers to and from the region**; however, only **62% of those passengers use ROA**. The other 38 percent drive to other airports to access air service, mainly due to more nonstop options and lower airfares. The high leakage of local passengers to other airports indicates that the ROA market is underserved.

ROA catchment area travelers drive hours to originate from either Charlotte Douglas International Airport (CLT) or Greensboro's Piedmont Triad International Airport (GSO). CLT is the nearest large hub airport and, without congestion, is approximately three hours away by car. GSO is nearly two hours away as shown at the right.

AIRPORT	DRIVE MILES	DRIVE TIME	HUB SIZE
Roanoke, VA (ROA)	5	0:08	Non
Lynchburg, VA (LYH)	49	0:57	Non
Greensboro, NC (GSO)	100	1:52	Small
Shenandoah, VA (SHD)	102	1:37	Non
Charlottesville, VA (CHO)	127	2:05	Non
Raleigh, NC (RDU)	146	2:47	Medium
Richmond, VA (RIC)	169	3:06	Small
Charlotte, NC (CLT)	201	3:09	Large
Washington, DC (IAD)	227	3:30	Large

Distance to alternate airports

Source: Mapquest.com from City of Roanoke, VA



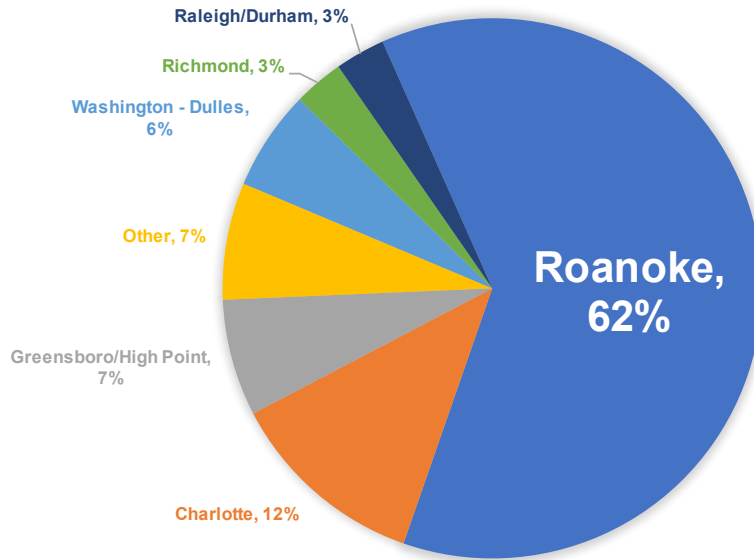
ROA primary catchment area

Source: US Census Bureau, Woods & Poole Economics, Inc.

ROA LEAKS SUBSTANTIAL PASSENGER DEMAND

Leakage exacerbated by higher fares, fewer seats vs. competitive airports.

ROANOKE LEAKS 38% OF ITS TRAFFIC TO OTHER AIRPORTS



ROA leaks nearly **500 daily** passengers each way to other airports.

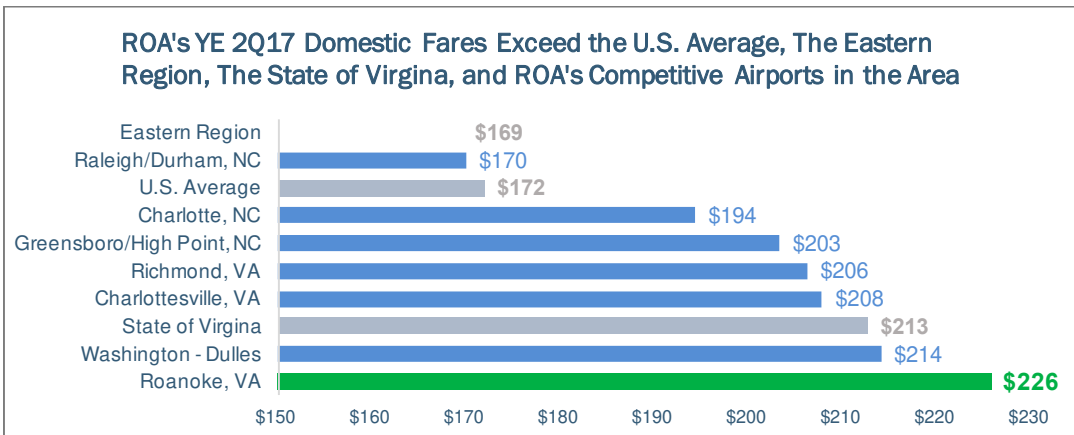
- ROA's true market size is nearly **1,300 daily passengers each way**.
- Service disparities are both a cause and effect of leakage (see next page).
- Significantly higher fares, also a by-product of less service, are also to blame.

Roanoke's Average Domestic Airfare Imbalance

31% higher than the U.S. average

6% higher than the State of Virginia

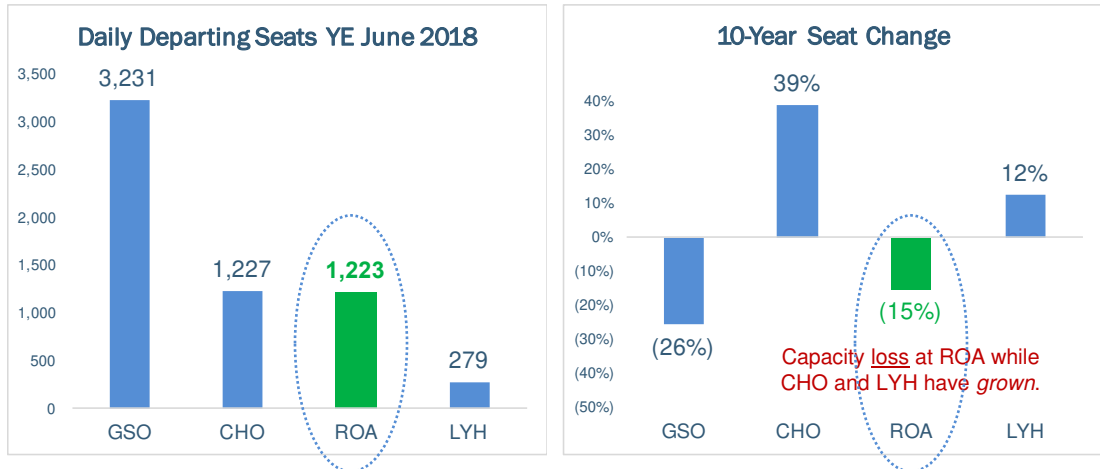
11% higher than ROA's closest competitor, Greensboro (GSO).



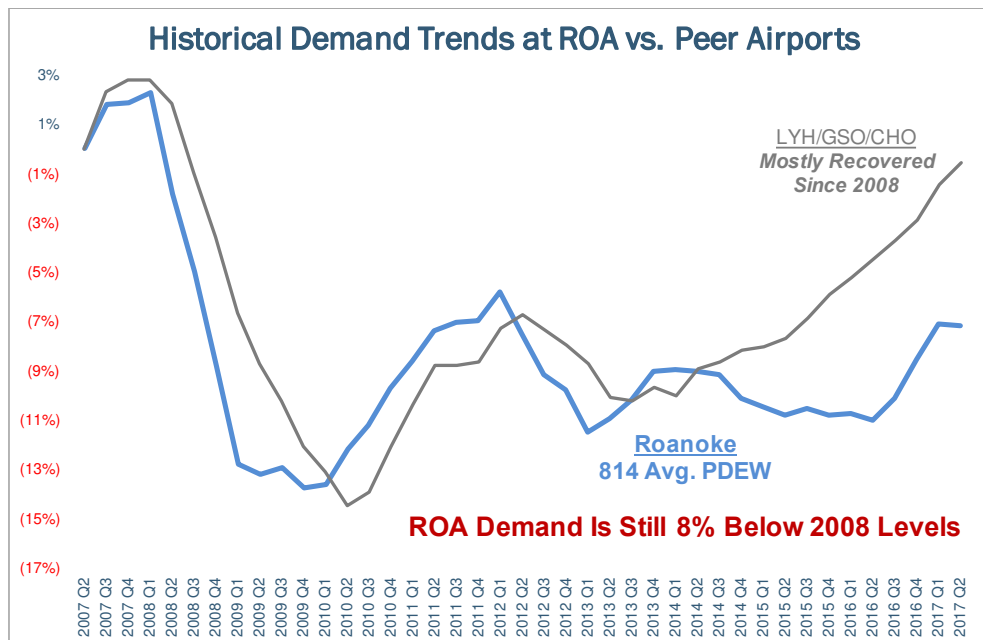
Source: DOT Data via Airline Data Inc; Mead & Hunt Leakage Study YE 3Q14

DEMAND ALSO HURT BY CAPACITY DISADVANTAGE

ROA's demand recovery since the Great Recession has lagged the average of its peer airports at nearby Lynchburg, Charlottesville, and Greensboro.



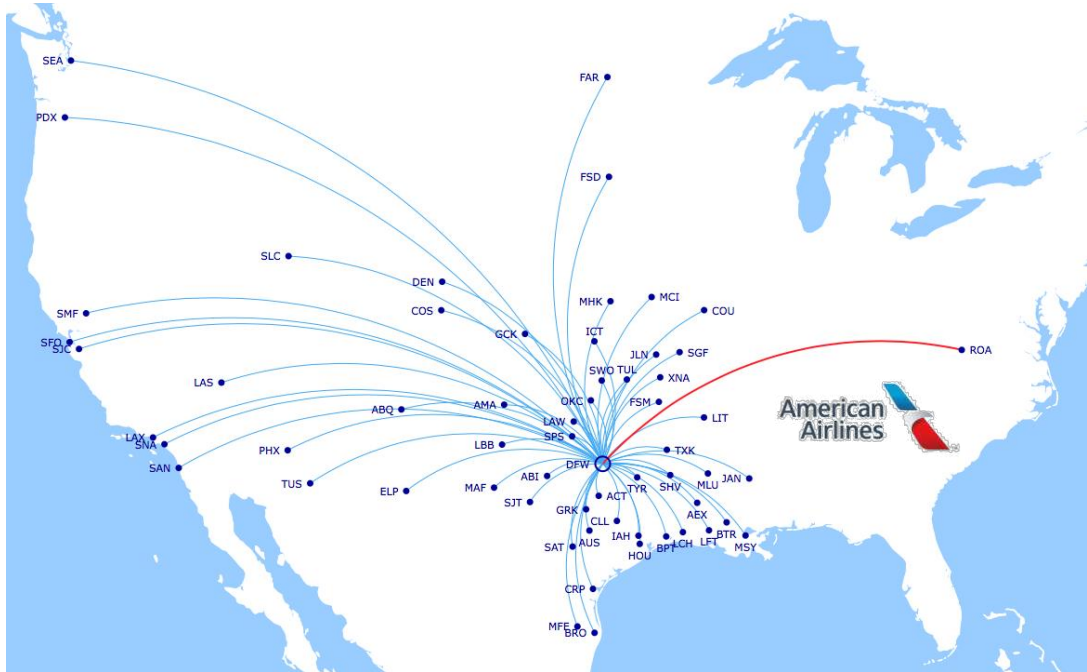
Among its peers, **ROA's capacity is smaller than all but Lynchburg (LYH)**, but that only tells part of the story. LYH and Charlottesville (CHO) have actually *grown* 12% and 39%, respectively, since 2008, while **ROA's capacity has decreased 15%**. GSO decreased mainly due to Skybus shuttering operations in 2008 and the loss of MEM and CLE hub flights after industry consolidation. However, it still has three times as much capacity as ROA going into 2018.



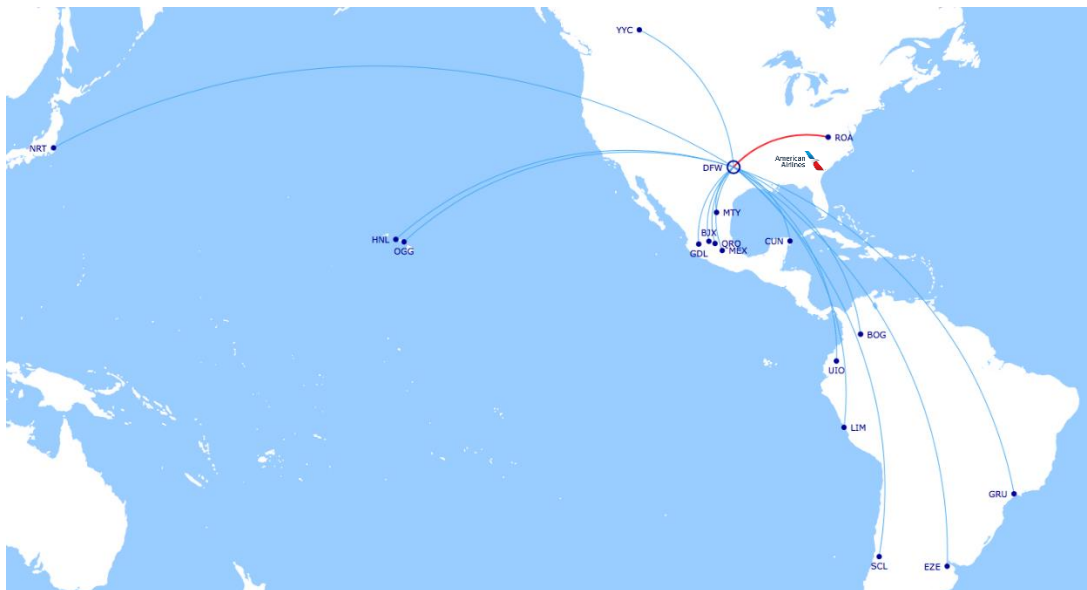
Source: DOT Data via Airline Data Inc

NEW DFW SERVICE ON AA WOULD CONNECT ROA TO THE SOUTH-CENTRAL & SOUTHWEST REGIONS

DFW would complement ROA's existing 2x daily flights to ORD on UA, which provide connections primarily to the Upper Midwest and Pacific Northwest.



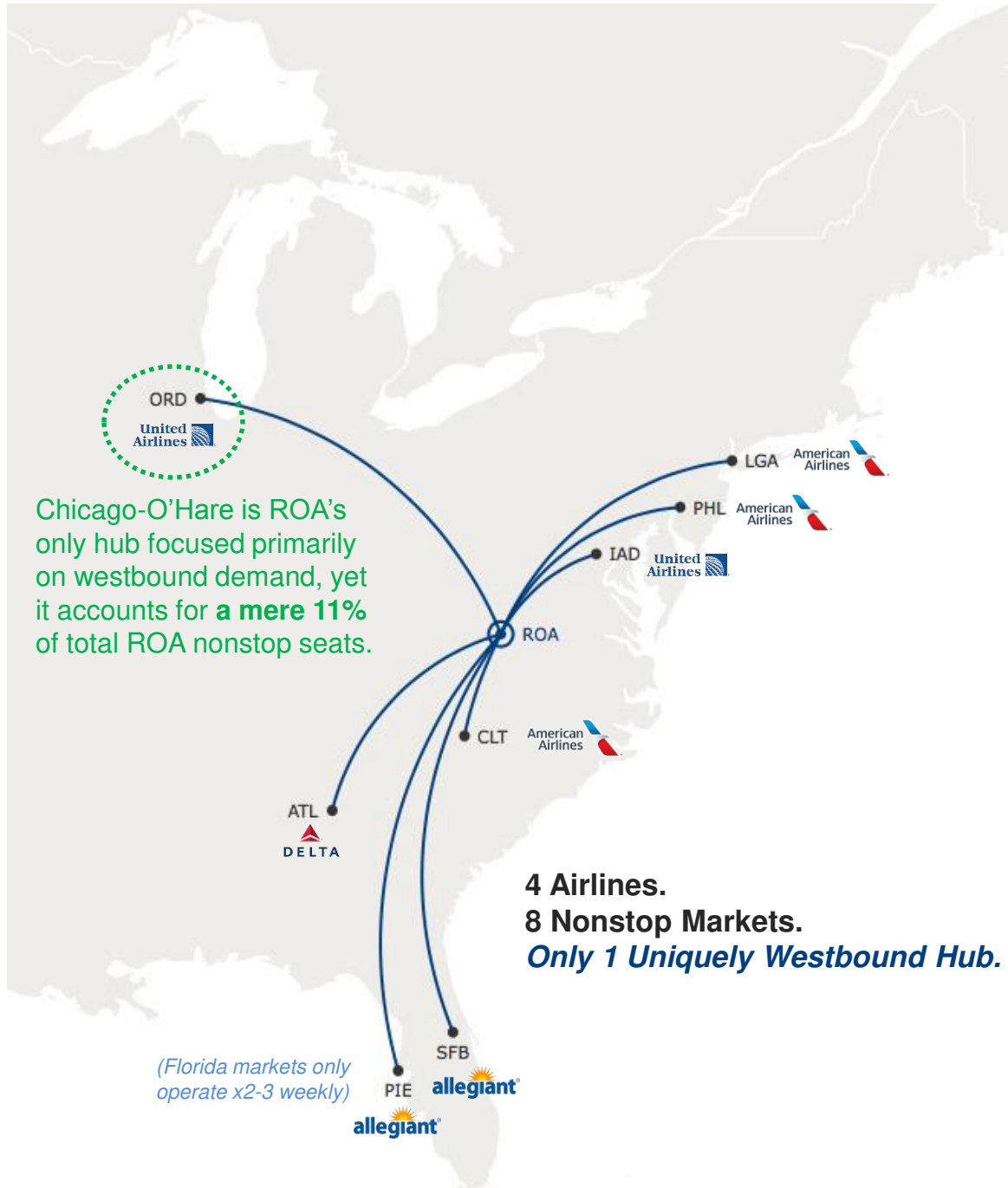
Beneficial connections to **61 domestic markets** and **14 international destinations**



Source: Schedules - Airline Data Inc,

LIMITED CONNECTING OPTIONS TO THE WEST

ROA connections via ATL/CLT compete with demand to points East of the Mississippi River and Florida, limiting the impact of these hubs to the West.



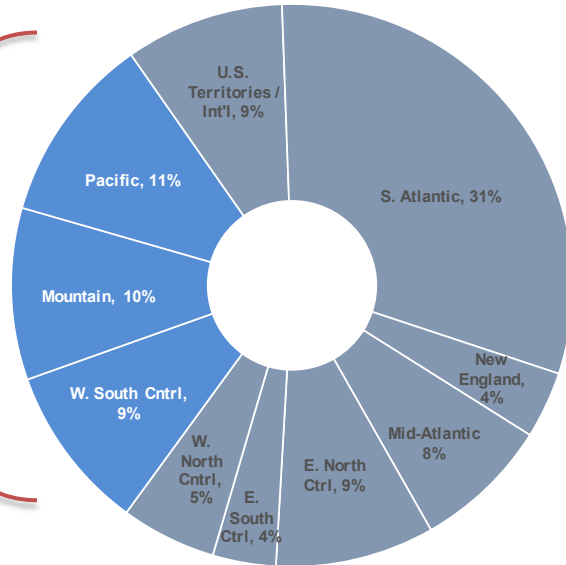
Source: Schedules - Airline Data Inc, Jan-Jun 2018

BECAUSE A LARGE SHARE OF ROA DEMAND HEADS WEST, IT NEEDS A SECOND HUB OPTION.

DFW is the logical choice to support (and grow) this westbound traffic.

ROA Traffic Mix by Region

30% of ROA passengers are already heading West, but must compete for limited seats and high fares via ORD, ATL, and CLT.



Top ROA Markets YE 2Q17

Rank	Mkt	PDEW	Avg Fare	Region
1	ATL	63.1	\$161	South
2	PIE	45.6	\$53	South
3	SFB	43.6	\$52	South
4	ORD	33.8	\$229	East
5	LGA	24.9	\$210	East
6	DEN	21.2	\$245	West
7	DFW	20.1	\$263	West
8	PHL	17.0	\$196	East
9	LAS	16.9	\$254	West
10	MCO	16.7	\$222	South
11	SFO	16.5	\$299	West
12	LAX	16.0	\$295	West
13	BOS	15.1	\$247	East
14	MSP	14.0	\$228	West
15	PHX	13.9	\$273	West
16	IAH	13.0	\$265	West
17	SEA	12.5	\$286	West
18	SAN	11.7	\$284	West
19	CLT	11.0	\$122	South
20	TPA	10.6	\$247	South

WHY DFW-ROA?

- 50% of ROA's Top 20 markets are located West of the Mississippi and are best-served via DFW.
- DFW is ROA's 7th largest market and has strong fares.
- DFW is neck-and-neck with DEN as ROA's largest unserved market, but offers better economics than DEN due to its shorter stage-length.

Source: DOT Data via Airline Data Inc

x1 DAILY DFW-ROA WOULD BE SELF-SUSTAINING.

American Airlines has proffered a letter of support for the new service.

Mature Market Forecast

Years 2 & Beyond

DFW Locals:	29.3
Connects:	25.5
Total Onboards:	54.8
Annual Passengers:	40,016
Annual Available Seats:	47,500
Load Factor:	84%
Annual System Revenue:	\$11.5 million
Annual Segment Revenue:	\$8.86 million
Annual Segment Costs:	\$7.85 million
Projected Profit:	\$1 million

Margin: 13%

- Daily roundtrip on a 65-seat CRJ-700.
- Midday turn in ROA for optimal morning/evening connections at DFW.
- DFW locals would be 53% of the onboard traffic.
- Average one-way O&D fare of \$288.
- Year 1 loss of \$580k, but annual profit of \$1 million at market maturity.



Projected Top ROA-DFW Markets

Rank	Market	PDEW	Annual O&D Revenue
1	Dallas/Fort Worth	29.3	\$5,754,798
2	San Francisco	1.2	\$275,900
3	Phoenix	1.3	\$267,506
4	Las Vegas	1.4	\$263,402
5	Denver	1.4	\$247,241
6	Honolulu	0.6	\$237,814
7	Los Angeles	1.0	\$215,914
8	Corpus Christi	0.7	\$214,589
9	Albuquerque	0.7	\$179,515
10	San Diego	0.8	\$169,730
11	McAllen	0.4	\$169,366
12	Salt Lake City	1.0	\$168,869
13	San Antonio	0.8	\$159,539
14	Austin	0.7	\$131,754
15	Seattle	0.7	\$129,332
16	New Orleans	0.7	\$128,741
17	San Jose	0.4	\$119,972
18	Leon, MX	0.4	\$109,558
19	Orange County	0.5	\$108,636
20	Sacramento	0.5	\$103,505
	Other	10.2	\$2,380,155
	Total	54.8	\$11,535,834

Year 1 ROA-DFW Forecast

Month	Onboard Passengers	Load Factor	Segment Revenue	Segment Costs	Profit/(Loss)
June	2,148	55%	\$380,551	\$644,820	(\$264,269)
July	2,288	57%	\$430,666	\$666,314	(\$235,648)
August	2,413	60%	\$481,050	\$666,314	(\$185,264)
September	2,506	64%	\$554,981	\$644,820	(\$89,839)
October	2,762	69%	\$611,859	\$666,314	(\$54,455)
November	2,753	71%	\$609,868	\$644,820	(\$34,952)
December	2,960	73%	\$655,682	\$666,314	(\$10,632)
January	2,996	74%	\$663,654	\$666,314	(\$2,660)
February	2,794	77%	\$618,816	\$601,832	\$16,984
March	3,256	81%	\$721,242	\$666,314	\$54,928
April	3,400	87%	\$752,960	\$644,820	\$108,140
May	3,543	88%	\$784,831	\$666,314	\$118,517
TOTAL	33,820	71%	\$7,266,159	\$7,845,310	(\$579,151)

Source: DOT Data via Airline Data Inc

AIR SERVICE DEVELOPMENT EFFORTS AT ROA

Aggressive community making aggressive efforts to achieve realistic goals.

The Roanoke Regional Airport Commission (“Commission”) is the sponsor of this grant application. **Timothy Bradshaw, AAE, Executive Director, is the signatory party of the legal sponsor.** The **Commission** and the **Roanoke Regional Chamber of Commerce** have formed a public-private partnership in support of this SCASDP grant application.

The Roanoke Regional Chamber fosters the growth of our members and our community by offering relevant programs and events designed to address business needs, solve business problems, and increase opportunities for members. The Chamber promotes regional business by providing invaluable referrals and connections, as well as influencing public policy to benefit all businesses. The Chamber was founded in 1889 and represents more than 1,000 businesses with over 75,000 employees and an estimated payroll of more than \$1.5 billion.

Both public-private partners will be fully involved in the ROA-DFW initiative:

- *The **Commission** will execute federal grant offers, process reimbursement requests, manage the revenue guarantee, oversee grant administration, and coordinate the marketing campaign.*
- *The **Roanoke Regional Chamber of Commerce** will be responsible for assisting with the marketing campaign.*

Past ASD Efforts - The Roanoke community’s air service development efforts have been aggressive during the past several years (see below). They have successfully kept ROA’s incumbent carriers in place, but are still working towards the community’s primary goal: **new connectivity from ROA to the West.**

- ✓ Market leakage/retention studies to validate ROA’s opportunities.
- ✓ Consumer-preference studies.
- ✓ Monitoring of available airfares at ROA vs. competitive airports.
- ✓ Quarterly performance monitoring.
- ✓ Attending industry conferences to meet one-on-one with airlines.
- ✓ Outreach to community stakeholders, both to manage civic expectations and ensure maximum local support for ROA.

The Commission also has an established incentive program, including fee waivers and marketing, to encourage service by new carriers and existing service upgrades. The proposed SCASDP application for ROA-DFW would supplement these ongoing efforts with competitive funding for an airline revenue guarantee.

COMPREHENSIVE STRATEGY WILL ENSURE SUCCESS

ROA will rely on a tried and true mix of marketing and funding efforts

The ROA public-private partnership proposes an **airline incentive program** to share the economic risk with American Airlines during its ramp-up of proposed new, nonstop, x1 daily service to DFW, including:

- **Revenue Guarantee**
- **Airport Fee Waivers**
- **Marketing Campaign**



Revenue Guarantee

Core to ROA's strategic plan to support new DFW-ROA service is a proposed revenue guarantee worth **\$1.89 million**. The guarantee would be \$1.14 million in cash and in-kind resources funded by the airport and local community, plus the **\$750,000 in grant monies requested in this application**. Although ROA believes DFW-ROA will ultimately be self-sustaining, the grant money will mitigate the customary risk associated with the first year of service in any new market.

Airport Fee Waivers

ROA's existing incentive plan would offer AA a waiver of certain fees worth up to **\$220,000** for daily CRJ-700 service. These waivers would cover: Landing, Baggage Make-up, Baggage Claim, and Loading Bridge charges.



2-YEAR MARKETING CAMPAIGN WORTH \$170K

ROA will leverage a diverse combination of digital, print, and TV mediums.

The DFW-ROA marketing campaign will spend \$100k cash the first year and \$50k the second year. The Commission has a long-standing relationship with a local advertising agency, which has also agreed to provide \$20k worth of in-kind contributions for creative services and public relations, for a total budge of \$170k.

Target Audience & Key Marketing Message

The target audience for this campaign would be mostly high income, business travelers. A secondary market would be the leisure traveler seeking lower fare options to the West. ROA would highlight DFW as a convenient, 1-stop connecting option to domestic markets west of the Mississippi. It would also highlight new options to Hawaii, Mexico, Asia, and Latin America.

Media Mix

Newspaper - *The Roanoke Times* is the primary newspaper for Southwestern Virginia. Bi-weekly advertisements would appear in its Sunday Business Section, as well as the Thursday Weekend Entertainment Section. There would also be a daily e-mail blast sent to subscribers.

Digital Marketing - Digital Marketing would focus on social media sites with targeted content that encourages passengers to book the new DFW-ROA service. ROA's marketing analytics would enable it to push additional targeted marketing to these same passengers via other websites they subsequently visit.

Television – In addition to regularly run ads for the airport, new commercials would appear on three local television stations. When American re-instated LGA in April 2013, ROA's agency produced an award-winning spot called "Around the Corner."

Public Outreach - ROA would use press conferences; newspaper, radio, and television interviews; speeches to local stakeholder organizations; and ROA-administered social media outlets to promote the new ROA-DFW service.

Media Source	Type	Frequency		Year 1		Year 2	
		Year 1	Year 2	Cash	In-Kind	Cash	In-Kind
Newspaper	<i>Roanoke Times</i> , Sunday Business Section	26 weeks	13 weeks	\$20,000	-	\$15,000	-
	<i>Roanoke Times</i> , Thursday Entertainment Section						
Digital Marketing	Paid social marketing, Search Engine Marketing	6 months	-	\$20,000	-	-	-
Television	Local Broadcast	8 months	4 months	\$40,000	-	\$24,000	-
Creative Services & Public Relations				\$10,000	\$20,000	\$6,000	-
Magazines	<i>Roanoke</i> , <i>Valley Life</i> , <i>Valley Business Front</i> , <i>Virginia Tech</i>	6x	3x	\$10,000	\$0	\$5,000	-
Total Financial Commitment to Marketing				\$100,000	\$20,000	\$50,000	\$0

MONITORING THE PROGRAM'S ACHIEVEMENTS

ROA will work diligently to ensure the new DFW investment is winner.

The public-private partnership has developed a realistic timetable to achieve the goals of the Strategic Plan. It would track the program's critical milestones, and implement a stringent monitoring program to track the progress of the project.

Project Milestones

Marketing Campaign Development and Initiation (March 2018) – The partnership would complete the campaign's development no later than March 2018 to ensure it would be ready for launch no later than 60 days prior to the start of new ROA-DFW service. The campaign would begin in earnest by April 2018 and continue throughout the first year of service into 2019.

Service Initiation (June 2018) – The service start date is the cornerstone of the the Strategic Plan's milestones. ROA expects its proposed DFW service would begin on or around the beginning of June 2018.

Revenue Guarantee Contract Completion (May 2018) – At the end of the first year of service, ROA would calculate the revenue guarantee according to the agreement's settlement terms. If DFW service were to start later due to airline circumstances and/or equipment availability, the revenue guarantee contract term would change accordingly.

Service Sustainability (June 2019) – If the Year 1 service performance of ROA-DFW fell below expectations, the public-private partnership would invest additional marketing in Year 2 to ensure the flight's long-term success.

Program Monitoring

ROA's plan to track and ensure the program's upward trajectory include:

- ✓ **Meeting** with local travel agents to gather ongoing market data trends.
- ✓ **Engaging** corporate travel representatives to identify nascent travel patterns that could impact, positively or negatively, the new ROA-DFW service.
- ✓ **Monitoring** Key Performance Indicator (KPI) trends in the air service market using DOT data and local community insights.
- ✓ **Updating** the Passenger Demand Analysis.
- ✓ **Continuing** regular fare monitoring and comparisons of competitive airports.

APPENDIX

Letters of support for proposed DFW-ROA service.

Selected Letters of Support

American Airlines

County of Roanoke

City of Roanoke

Carilion Clinic

GE Digital

Roanoke Regional Chamber of Commerce

Optical Cable Company

Roanoke College

TMEIC Corporation

Ballast Point Brewing Company

Lewis Gale

Hollins University

Virginia Tech

Virginia Tech Carilion Research Institute

Virginia Tech Carilion Medical School

Botetourt County Board of Supervisors

U.S. Representative Bob Goodlatte

U.S. Senator Tim Kaine

VA Representative Terry Austin

Application Prepared by:

