



EXECUTIVE SUMMARY

INTRODUCTION

“... vital air transportation link ...”

Since its origin in 1961, the Sault Ste. Marie Airport has provided the vital air transportation link to the people and businesses of Sault Ste. Marie and the District of Algoma.

Assuming ownership and control of the Airport from the Federal government in 1998, the Sault Ste. Marie Airport Development Corporation (SSMADC) has strived to improve air transportation services for the community in a socially and fiscally responsible manner, while being progressive in its efforts to promote, develop and upgrade the Airport's lands and facilities.

In order to provide a blueprint for the future development of the Airport, the Corporation retained Marshall Macklin Monaghan Limited to undertake a comprehensive Business and Master Plan Study.

STUDY OBJECTIVES

The purpose of the study was to prepare a Business and Master Plan, spanning a 10-year horizon, which would provide the Corporation with a framework for the future development of the Airport's lands, operation and facilities.

The study's specific objectives were:

- to carry out a consultation process with the general public, community and business leaders, and Airport users, tenants, staff and service providers;
- to develop a land use plan and appropriate zoning controls for the Airport which foster development opportunities while protecting the existing and future on-airport operations and surrounding land uses;
- to create a development master plan which optimizes the potential use of the lands without affecting increases in core aviation related activities and promotes new tenants/users in order to enhance Airport revenues;
- to identify and assess potential new and innovative sources of revenue, enhancements to existing revenue sources and strategies to retain and expand the current tenant base; and
- identify business development and marketing strategies which will allow financial self-sufficiency within a five-year period.





“... to make the Airport the best, regional air transportation facility in the country...”



THE CORPORATION

Under the Federal government’s National Airports Policy (1994), ownership of the Airport was offered to provincial and local governments, airport commissions, private businesses or other interests, in that order. In response to this policy, the SSMADC, an independent, not-for-profit, community-based entity incorporated on April 26, 1996, took over ownership and operation of the Airport on March 28, 1998.

Of the 23 regional, local or small airports in Ontario which have been transferred from the Federal government, the Sault Ste. Marie Airport is the only airport which is not directly affiliated with a municipality.

The SSMADC’s mission statement is to make the Airport the best, regional air transportation facility in the country through a philosophy of community-based control and self-sustaining operation, and by providing positive benefits to the people and commerce of Sault Ste. Marie and the District of Algoma.

THE AIRPORT

Situated on approximately 733 ha (1811 ac.), the Airport’s major facilities include:

- two, 1,828 m (6,000 ft.) by 61 m (200 ft.) asphalt runways,

- a network of connecting asphalt taxiways,
- a concrete aircraft apron sized to accommodate a minimum of six large jet aircraft (i.e. B737),
- a 2,275 m² (24,500 ft²) passenger terminal building,
- airport administration and operations building with rooftop control tower,
- fire hall and maintenance garage,
- public parking facilities and access roads, and
- hangars owned by various companies and individuals.

The Airport provides most of its own services such as emergency response and fire fighting, water supply, sanitary sewage treatment, snow plowing, vegetation control, and facility maintenance and repair.

In general, the Airport’s facilities are well utilized and in good condition, with the exception of the runway and taxiway surfaces which require extensive rehabilitation over the next two years (estimated cost of \$4.5 million).

The current municipal zoning by-law assigns the Airport property under a named use. In an effort to make the Airport lands more responsive to attracting development, the SSMADC will be applying to amend the designation to a zone more compatible to the approved Airport master land use plan.



“...given the Airport’s strategic location, there is potential for longer haul and dedicated cargo opportunities.”

The Airport currently serves a number of:

- scheduled air carriers;
 - charter operations;
 - government agencies (i.e. Minis Resources);
 - based and itinerant general aviation;
 - fixed base operators offering aircraft painting, maintenance, and flight training.
- “...market to attract an AMO operator to the Airport.”*

The Airport is strategically located with Jet aircraft can serve major US midwest cities such as Chicago, Detroit, Minneapolis, as well as Toronto, in about one hour flight times. In addition, the Airport is close to major highway, rail and seaport infrastructure making it a prime location for inter-modal distribution.

In 1998, the Airport handled a total of 170,500 passengers and well over 63,000 aircraft movements. Of the aircraft movements, about 25% were attributed to commercial itinerant traffic, about 50% to local traffic and the remainder to other itinerant traffic. Given the Airport’s potential for passenger growth through innovative air service development and marketing, the “target” forecast projects the Airport’s passenger volume to increase by about 3% per annum through to 2010. Likewise, itinerant movements are projected to increase



by 4% per annum since new scheduled service is likely to utilize smaller aircraft.

To date, cargo volumes flowing through the Airport have been relatively small. Provided that cargo traffic at the Airport is dependent solely on the growth in the local and regional economy, growth over the next ten years is expected to be at about 1-2% per annum. However, given the Airport’s strategic location, there is potential for longer haul and dedicated cargo opportunities.

Should the number of based aircraft at the Airport increase and Sault College, as expected, expand its aviation program, the number of local movements is expected to increase 1-2% over the next ten years. General aviation (itinerant) traffic at the Airport is expected to grow by 1% per annum over the next ten years which is consistent with the market forecast for North America.

CONSULTATIONS

A key component of the study included consultations with the general public, community and business leaders, and Airport users, tenants, staff and service providers in order to solicit their comments and thoughts with respect to:

- the importance of the facility to the community;
- the general condition of existing Airport facilities and services;



- the future direction of the Airport; and
- business development opportunities which should be explored.

In addition, the study team conducted:

- a public forum on July 13, 1999 to discuss the intentions of the study, solicit input regarding the Airport and to call for a session to debate the future of the Airport; and
- a survey of 171 departing passengers and 30th, 1999 to solicit comments on travel patterns and Airport usage

“Explore reallocation of retail concession spaces to more strategic locations within the ATB ...”

The data accumulated through the consultation process were analyzed and taken into consideration during the creation of the Business and Master Plan.



KEY STUDY FINDINGS & RECOMMENDATIONS

A. Business Development

A number of business development opportunities for the Airport were identified through the passenger survey, consultation and interview process, airport case study review and study team working meetings. The identified opportunities were grouped into three categories - land

development, non-terminal commercial development and terminal commercial development – and evaluated against a broad set of criteria in order to determine the overall viability of the opportunity and, if viable, a recommended implementation plan for each including anticipated costs and proposed timing.

The following are the list of viable opportunities that are proposed to be pursued by the SSMADC:

- Following an assessment of existing tenants and users for aircraft maintenance, overhaul and certification (AMO) needs, market to attract an AMO operator to the Airport.
- Market for development of additional general aviation hangars by private owners/operators or third party developers either within the existing Southwest Commercial Area or, preferably, in an area northwest of the existing passenger terminal.
- Assist Spectrum Aircraft Refinishing Services Ltd. (an on-site tenant providing aircraft painting and refurbishment) in expanding their facilities and services (including air frame repair, routine maintenance, etc.) and/or in attracting a strategic AMO partner.
- Undertake conversion of the recently vacated fire hall either into an interim cargo facility or a rental vehicle wash/maintenance facility.



- Following an assessment to determine the most suitable location for a golf course development, issue a call for proposals to the industry.
- Market to attract cold weather testing/training, and aviation related manufacturing (i.e. assembly, components and parts).
- Market jointly with the City at *“...the Airport must be ‘Ready for Investment’.”* to attract an internet or distribution centre.
- Explore opportunities with Greenhouse (located immediate Airport) related to air shipment seasonal potted plants (e.g. poinsettias).
- Develop a ground floor service air terminal building (ATB) to accommodate users.
- Explore opportunities for reallocation of air carrier spaces within the ATB in order to accommodate an additional carrier (i.e. ticket counter, offices, etc.).
- Explore restaurant commercial expansion opportunities with the existing operator including joint marketing of the facility to the local populace.
- Explore reallocation of retail concessions to more strategic locations within the ATB including the holdroom area.



- Explore, with the existing carriers, the potential for development of a common use airline lounge and/or business centre/kiosk.

B. Marketing

The study identified three primary goals that the SSMADC’s marketing plan would need to address:

- The need to creatively enhance the Airport’s operations so that it may become financially self-sufficient within a 2-3 year timeframe.
- The need to solidify and further build the close link between the economy of the region and of the Airport.
- The desire to lever assets and land, not required for core airport operating purposes, as additional revenue sources to help subsidize operations.

The study proposes eight implementable actions, identified as those best suited for responding to the identified goals, which will form the nucleus of the SSMADC’s marketing plan.

1. Market to retain existing users.
2. Retain and promote scheduled, itinerant and local aviation traffic.
3. Create community awareness.



4. Leverage aviation related industrial/commercial development.
5. Identify non-competitive other uses.
6. Develop airport support services.
7. Expand marketing activities to target communities.
8. Promote air cargo activities.

The most important strategic implementation of the Business and SSMADC's Business Development Committee. The Plan sets out in detail or appropriate courses of action. Corporation might approve capital expenditures.

Initially, it is proposed that the Committee will take on all marketing functions. Consequently, there are no operating costs associated with the initiatives contained in this study, however, there may be associated capital costs.

It is suggested that a review of the marketing function of the SSMADC's Committee be reviewed in 2 to 3 years when operating surpluses are forecast. At that time, it is suggested that consideration be given to retaining a dedicated, full-time marketing director.



Before any marketing activities can be pursued, the Airport must be "Ready for Investment". There are three main attributes to investment readiness.

1. Those individuals that represent the SSMADC to potential investors and partners (i.e. airport staff and tenants) MUST be knowledgeable about the needs of private investors, the regulatory environment, the priorities of the community and the Airport.
2. Responses to investment opportunities MUST be quick and flexible.
3. The Airport MUST be prepared to devote time and resources (staff and money) to ensure that the economic potential of the facility can be met.

C. Air Service Development

For the Airport to achieve long-term sustainability, it is crucial that air service be retained, expanded and attracted particularly that of passenger service which generates the most significant portion of the Airport's revenue. The following strategies/tasks are proposed to be undertaken over the next five year period.



- Collect relevant market data to identify air service opportunities including a regular program of passenger, tenant and ticket lift surveys.
- Take advantage of industry affiliation current with industry trends and service. *“...promote the potential for new cargo service routes and air freight carriers.”*
- Work with the air carriers on an effort to improve scheduling and service.
- Explore opportunities for new passenger air routes including another centre combined with regional jet service, development alternative Toronto area airport such as Toronto City Centre Airport, and additional direct passenger capacity to western Canada via Winnipeg or Thunder Bay.
- Work closely with the City, local travel agents and associations, and operators of various tourist attractions to develop a tourism marketing strategy, aimed primarily at the US, which would promote the use of air transportation as the primary means for inbound travel. This could include joint marketing packages, creation of charter packages and group tours, and discounting opportunities with other vendors and businesses.
- Identify and study, along with local travel agents and associations, opportunities for direct outbound charters to North American destinations. Also, identify and study improved ways of offering group travel to outbound destinations that require transfer through a hub.
- Expand the Airport’s market reach by improving air service accessibility to outlying communities and by attracting passengers which frequent nearby competing airports, particularly in the Michigan Upper Peninsula.
- Retain and expand itinerant and local aircraft activity by making the Airport more “pilot friendly”, by providing aircraft owners/operators an opportunity to provide input as to their needs by conducting a comprehensive survey of aircraft owners/operators.
- Actively seeking to attract a permanent aircraft maintenance and certification company (AMO).
- Actively identify, study and promote the potential for new cargo service routes and air freight carriers. However prior to undertaking any initiatives, it is highly recommended that the SSMADC conduct a cargo market study jointly with the City.





At this time, the actual number of passengers travelling to US destinations from Sault Ste. Marie is small, and because of Northwest Airlines' dominant presence in Northern Michigan, it is proposed that short term marketing not be concentrated on attracting a US based carrier nor introduction of direct scheduled routes to US destinations.

As noted above, it is proposed that a cargo market study be undertaken focusing on the potential for regional, transborder cargo. For the Airport to reach beyond the natural growth in regional cargo demand is risky at this stage as it requires a significant investment in airside infrastructure and a cargo terminal. SSMADC lacks the resources to carry out such a large project, and would be looking to government funding sources.

D. Land Use

The Airport property contains a number of wetland areas, including one which has been categorized as "Provincially Significant" and is therefore subject to conditions of the Provincial Policy Statement for Wetlands that effectively nullify development in that specific area.

To protect airports from incompatible development, the Provincial Policy Statement and the City's Official Plan limit new residential development to those areas above a 30 Noise Exposure Forecast/Noise Exposure Projections. The noise analysis, carried out as part of this study, identified that a majority of the Airport's lands, with the

potential for future development, currently fall within this criterion and as such are unsuitable for residential development.

The Airport's federal zoning, originally enacted in 1969, includes for a future 609.6 m (2,000 feet) extension to each of the Airport's two runways. Since meteorological conditions at the Airport only warrant a cross-wind runway to serve light general aviation aircraft, the required cross-wind runway length need only be 1,200 m (3,940 ft.) or less. Therefore, it is proposed that the zoning for Runway 04-22 be amended to delete the extension provision and for a shorter operational length in order to effect capital and operational savings and to maximize development potential at the runway end. In addition, it is required that the Airport zoning be amended to update it to current Transport Canada requirements (TP312E).





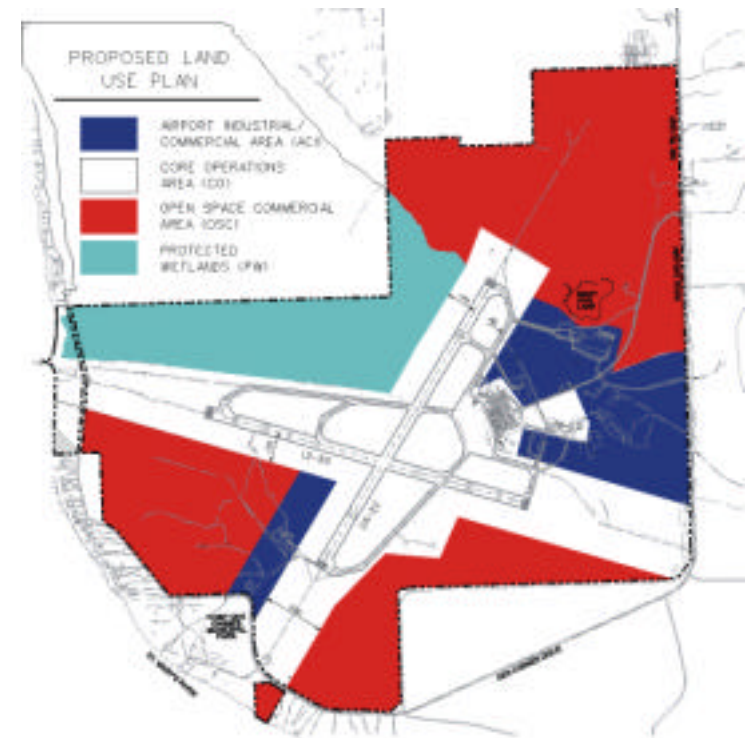
“... the target scenario can ultimately see the Corporation in a surplus situation by 2006.”

In order to facilitate the controlled and progressive development of airport lands while maintaining safe operations, protecting existing and future lands and facilities and optimizing the Airport’s economic potential, it is proposed that the SSMADC utilize an “Airport Business Park” (ABP) model as the Airport’s land use policy framework. The ABP model would include provisions for an airport core operations area, airport industrial/commercial area, open space commercial area and protected wetlands area, (as illustrated below) and would include a framework for a Development Control Agreement.

E. Financial Plan

The study’s financial plan provides an analysis of the financial implications of the business plan based on estimates surrounding present and future operations at Sault Ste. Marie Airport.

The analysis provides a realistic range of possible financial outcomes and investigates for both a “baseline” (1%) growth scenario, and a “target” (3%) growth scenario. The “target” growth represents approximately 220,000 annual passengers and 70,000 total aircraft movements by 2010.





“Because of the opportunities available, the long-term outlook for the Airport is positive.”



The financial operations of the Airport have improved since transferring and the Airport shows only a small net operating loss before transfer subsidies.

It appears, that a combination of transfer funding, capital funding revenue and passenger airport improvement fees will be sufficient to accommodate these major capital requirements.

On the basis of the cash flow analyses, the baseline scenario will not allow the SSMADC to realize an operating surplus before 2010 without regular increases in aircraft landing and terminal fees. However, the target scenario can ultimately see the Corporation in a surplus situation by 2006.

Even though significant capital investments will be required during the planning period (primarily related to rehabilitation of the airside surfaces), the SSMADC will realize a positive cash flow in both scenarios which grows to significant levels by 2010. This is primarily due to the passenger airport improvement fee. If the SSMADC’s marketing plan falls short of expected targets, the Corporation may need to “rethink” its capital improvement fee structure and/or institute an additional passenger fee to subsidize airport operations.

OUTLOOK

Since the Airport’s transfer, the SSMADC, through resourceful planning, has been successful in reducing

operating costs while maintaining a high level of services and safety. Despite planned capital expenditures of about \$4.5 million over the next two years that includes a major runway and related taxiway rehabilitation, SSMADC will attempt through its business and master plan, to initiate efforts to be in a break-even financial position within this period.

Given the Airport’s strategic location, capacity for future development and assortment of diverse tenants, the Airport is poised to lever these assets into new opportunities which will ensure the long-term viability of air transportation serving the community and the region. In order to capitalize on these opportunities, the SSMADC should establish strategic partnerships with the City, Airport tenants and the business community, and embark on a proactive marketing and business development program.

Because of the opportunities available, the long-term outlook for the Airport is positive. The Corporation is positioned to react to the challenges of this ever changing industry and be responsive to the needs of residents and businesses of Sault Ste. Marie and the District of Algoma.