

PRESTON CITY INTERNATIONAL AIRPORT

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The Preston City International Airport is a small municipal airport located in Southern Georgia that is facing solvency issues, due mainly to a downturn in the economy. A brief history of its origination and development is presented. There are strategic management, marketing, financial, operational and external environment issues presented. Additionally, economic, and major governmental factors influence the growth and profitable operation of the airport. These internal and external issues require students to make major decisions using operational information. The business is profitable and growing. However, external political, economic, environmental, and social factors are now major issues facing top management. These issues include increased government regulation, required future large capital expenditures, and the participation of external constituents in the management of the business.

INTRODUCTION AND HISTORY

Robert McMasters prides himself on being able to run a "tight ship". His ship, in this case, is Preston City International Airport. Mr. McMasters has managed the airport for as long as it has been operated by the city. An energetic, charismatic, "Lee Iacocca" type of manager, he feels his management style is well honed, streamlined, and very efficient.

McMasters's background in aviation included flying U.S. Naval fighter jets, serving with a major U.S. airline as Vice-President of ground operations, and serving as President of one of their subsidiary airlines. After an early retirement,

McMasters felt the need to be doing something with planes and airports; and thus, took his current position of Director of Preston City International Airport.

Since Preston City International Airport's creation, McMasters has felt that its mission is safety, first and foremost. Along with that, however, Mr. McMasters also wants the airport to be a resource for economic development and to increase commerce in the Preston City area over the long run. To that end, he would like to stay subsidy free and obtain better utilization of the airport and its surrounding industrial park.

An important factor in the continuing economic development of a region is its reasonable proximity to major transportation networks, including railroads, highways, waterways, and an international airport. Preston City, Georgia, is blessed with each of these transportation networks which has contributed to its growth since the lumber boom in the 1800's. This easy access to ground transportation provides Preston City with opportunities to grow into a regional transportation hub.

Preston City, located strategically among the the regions of southern Georgia, eastern Georgia, and south central Georgia, is a clearinghouse for produce, lumber, and employment from these regions. Preston City International Airport had its humble origin as a hayfield shortly after the beginning of the air age at Kitty Hawk in 1903. It was not until 1925 that any real development was done and the airport was named Buford Field. On August 5, 1931, the first commercial aircraft landed in Preston City by Delta. In August 1933, the famous aviatrix, Susan Dyson, visited Preston City during inauguration ceremonies for Georgia Airways, later to become South Eastern Atlantic Airlines.

In August of 1940, Preston City was notified that the Preston City municipal airport was to become a major South East Coast defense installation. As a result, the existing airport runway was lengthened from 5,500 to 10,000 feet to better accommodate military traffic. In addition, a control tower was erected and an additional runway was added, in an intersecting layout, to make better use of the air and ground space and prevailing winds. On January 1942, the airport was officially renamed Jones Field.

After World War II, Jones Field was activated and deactivated many times, until June 1950 when the Korean Conflict erupted. The Air Force kept Jones Field until 1968 when it implemented a plan to dispose of unnecessary facilities and sold Jones Field to Preston City for one dollar. The City acquired over 2,000 acres which included the runway system, taxiway, and ramp apron, the control tower, two 30,000 sq. ft. hangars, a Fire and Rescue facility (AARF), several buildings, and

new underground fuel tanks which allowed for the refueling of planes to be done in much less time.

A stipulation in the 1968 agreement between the Federal Government and the City of Preston City stated that Preston City International Airport could only lease, not sell or give away, any of the land or buildings within the Airport and adjacent industrial park. Preston City International Airport receives no City appropriations but supports itself by charging user fees, concessions, and rental fees from various enterprises in the Airport's industrial park.

INTERNAL CAPABILITIES

Preston City International Airport's runway system affords the airport the opportunity to execute air operations with significantly less congestion than comparable South East Coast international airports. This lack of congestion results in fewer flight delays, smoother customs clearances, and better overall passenger handling. In addition to the scheduled air service by South Eastern Atlantic Airlines, the airport and its surrounding area has the capacity to handle numerous non-scheduled flights that often get diverted to Preston City for various reasons. Many times, widespread storms virtually shut down all other South East Coast airports causing numerous trans-Atlantic flights to divert to Preston City International Airport.

This brings in an economic boost for the hotel and restaurant businesses in the area. In fact, during one December, Preston City International Airport took in almost \$80,000 dollars in additional revenues because it was the only airport in the Southeast not closed down because of bad weather. The bulk of these revenues were generated by the sale and servicing of aircraft fuel.

In addition, Preston City International Airport has a geographical location near the Great Circle routes (southern) where major trans-Atlantic air traffic flies. Along with the absence of curfews, there is also around-the-clock customs availability, immigration, and agriculture inspection stations.

The Airport has a good weather record combined with an award winning ground crew. This has surprised many pilots who thought the area was "farmland" and has prompted such quotes as "this is just a great airport to come into". Aircraft turnaround times are usually well under an hour. Maintenance, available from a private firm located on the premises, and airport service crews are knowledgeable and fully trained to meet airlines' requirements. This further emphasizes the benefits of Preston City International Airport as a superb diversion/alternate airport in the eyes of the airlines.

These revenues are, of course, supplemental to the scheduled service by South East Atlantic Airlines, which operates three daily round trips to Atlanta and three daily round trips to Charlotte where they provide connecting traffic to Delta and US Airways. In addition to the revenues received directly from the servicing of airplanes, there are fifty-one independent businesses within the office building on the Airport property which generate \$500,000 in tax revenue to Preston City and at least that much in rentals to the Airport. In return for this, and because it is run by Preston City, Preston City International Airport has the ability to borrow money long term at a lower rate of interest from the city government of Preston City.

AREAS OF CONCERN

A number of concerns facing Preston City International Airport have to do with Preston City and the surrounding area. Preston City is a remote, southern city with a close to stagnant population. This makes it difficult for Preston City International Airport to attract new carriers to the airport, which in turn, limits Preston City International Airport's chances for possible expansion in the future. Preston City International Airport's use as an air cargo port also suffers from Preston City's remoteness. Few air cargo carriers are attracted to Preston City because it has no major industry and is too far from any major cities or populations. Preston City International Airport's ambition to be a cargo port is further hampered by the lack of industry in the area.

Cargo carriers are only interested in locations that ship *and* receive cargo, as they need to make fees on both legs of the flight. This is one of the major reasons Preston City International Airport is bypassed and airports in Atlanta, Savannah, and Florida are used. Preston City International Airport's free trade zone, which was designed to help attract air cargo carriers, has had little effect on this situation thus far.

Because PCIA is located within the city limits of Preston, the airport is required to abide by the City of Preston's salary scale. As a result, the salaries of the Airport employees can only be increased when all of the City's employees receive increases. This makes it difficult for Preston City International Airport to recruit, reward, and keep the best employees. As a result of the 1968 agreement with the Federal Government, Preston City can only rent or lease the buildings and land on this facility. This agreement may discourage potential development within the airport industrial park by companies who may prefer the security of ownership.

Not only that, the limited ability to take advantage of land assets has left the airport in a difficult cash position. In 2011, the airport's expense budget was \$230,000, with revenues generated by leasing hangars, ground leases, and airport parking/tie-down rental totalling nearly \$205,000. This left the airport with a deficit of \$25,000

per year. This deficit was overcome by residential and commercial tax levies. This situation is not a satisfactory approach and may require management attention.

Another area of concern is the lack of volume in both planes and passengers. While large hub airports often face congestion with backed up planes and huge numbers of passengers, small airports try to enhance capacity by adding new models of planes to increase higher usage. Increasing passenger volume could be accomplished by using one large plane rather than two smaller planes. This increase in capacity per plane not only cuts environmental pollution, but also reduces refueling costs, lowers operational slowdowns, and increases the per load volume of freight.

FUTURE PROSPECTS

A recent consulting report by the Largon Consulting Company on the feasibility of cargo operations at Preston City International Airport pointed out that there is a sufficient basis for marketing Preston City as a major Southeast Atlantic Coast marketing gateway. The report also confirms that savings can be realized by exporters who ship goods to Preston City via ground transportation before shifting to air transport for the trip overseas.

Deregulation has recently occurred to bring about greater competition among airlines. This should give Preston City International Airport a chance to market itself and attract more carriers if the population and business base were to expand in the future. The decrease in the value of the dollar has increased the number of incoming overseas flights from Europe, which could increase Preston City International Airport's landing, maintenance, and refueling revenues.

The Preston City International Airport management team has recently been spending a great deal of time considering its financial situation. Both the FAA and the city council have been pressuring airport management to become more "self-sufficient", relying less on taxes and federal funds. One possible approach to this dilemma would be to create more opportunity to generate revenue. Since Preston City International Airport is unable to generate significant revenue from landing fees, it may be that increased fuel sales present a more attractive opportunity.

Generally, most airports of Preston City's size rely heavily on Fixed Based Operators (FBO) to provide a multitude of services for the aircraft using their airport. Typically, FBOs sell fuel to the operators as well as needed services such as tire inflation, aircraft towing and lavatory servicing (Wells and Young 2005). Without such services, general aviation aircraft and business charters would bypass the airport for one providing these services. In the past decade – due primarily to

the slowing economy – many FBOs have fallen on hard financial times and have either closed or merged.

Preston City International Airport currently has two separate privately-owned FBOs, both of which are struggling financially. A significant cost to these businesses is the agreement between the airport and the FBOs for use of airport space and land. As airport concessionaires, these fees can be significant. McMasters and his team are considering the purchase of both FBOs and merging them under the airport banner. The financial benefits of this merger would result in annual fuel sales exceeding \$1,000,000. Of course, there are significant expenses associated with this revenue generation and management must consider these costs as well as the strategic benefit of owning these services.

CAPITAL PROJECTS

Preston City International Airport has enjoyed the benefits of being a military airfield for many years. The US government built a then state-of-the-art airport to service the country's men and women in uniform as well as the many aircraft types (both fixed and rotary winged) operated by the US military. McMasters gladly inherited these benefits when he took over as airport director some three years ago. Unfortunately he also inherited some significant infrastructure issues resulting from the age of the facility and the changing safety, regulatory and environmental landscape.

The airport runways, built from concrete, had only been refurbished once since 1968 and that was in 1990. Concrete runways are prone to cracking, spalling, and pitting. Re-concreting the runway will be necessary within the next three years. In order to coordinate the work, one of the runways will be re-fitted in each successive year, with the longest and most expensive runway scheduled for the upcoming year. Estimated cost of the entire runway project is \$3 million, with the Federal Government expected to contribute \$2.25 million in grant aid over that same period. Recent cuts in federal funding will probably reduce that amount, as McMasters has just learned that the Federal Aviation Administration's 2013 budget would be nearly 5% smaller than 2012.

Compounding this issue is the recent change in Grant issuing procedures. Prior to October 1, 2008, all funds were granted directly from the FAA to the particular Georgia airports on an "as needed" and federally prioritized basis. In 2008, Georgia joined nine other states as participants in the State Block Grant Program (SBGP). As such, all Airport Improvement Program (AIP) grants generated at the federal level from passenger service charges (PSC) at the nation's large commercial airports, now flow through the Georgia Department of Transportation. This adds an additional level of prioritization and delay to the process.

The FAA in its recent budget stated a greater emphasis on its Next Generation Air Transportation System (NextGen) which focuses on commercial passenger and airport security at larger, more traveled airports. While NextGen will help smaller airports, it is targeted at assisting larger metropolitan airports with their air traffic control, security, capacity, and logistics issues as well.

Changes in the Safety Management Systems (SMS) have also become a significant challenge for airports of all sizes since “safety is the FAA’s number one priority” and they want “to build on the “professionalism” of the industry and enhance its “safety culture” (Transportation Security Policy, 2011, 9).

Even more problematic for Preston City International Airport is the FAA’s proposal to establish a new \$100 per flight surcharge for air traffic services. While the \$100 per flight will add costs to all involved in the aviation industry, the larger airports with their greater passengers per plane will not be affected as much as the smaller airports, which don't have large numbers of passengers per plane.

While the FAA will provide monies to airports for updating their security systems and processes, the recent overhaul of airport security requires significant modifications to access and egress the airfield when large commercial aircraft utilize the airport. Proper fencing and check points are necessary and access to the AOA (Air Operations Area) is limited. McMasters forecasts a capital investment of nearly \$500,000 to meet these requirements, scheduled to be completed by July 1, 2014. AOA (Air Operations Area) includes runways and plane taxi ways, and excludes ramps, service roads and all air and ground parking areas.

EXTERNAL FACTORS

Preston City International Airport is classified as a smaller airport as defined by the size of the airport and traffic at the airport. Smaller airports fall into three different categories as classified by the FAA: 1) medium-hubs, 2) small-hubs, and 3) non-hubs (Whitman & Swelbar, 2013, 3).

Smaller airports, like Preston City International Airport, will experience more difficulties in the future due to stricter safety legislations, stricter environmental regulations, the need for larger spaces and more resources, and more fluctuations in revenues/demand due to rising fuel costs and economic woes facing the US in the past several years and the next few years (Chiang, 2013).

Survival in smaller airports will depend on sound fiscal management, flexible leadership, greater efficiency, and adaptability to the newly required legal and regulatory environment (Chiang, 2013).

Overall, since 2008, revenues for airports have fluctuated and declined significantly. Revenues are slowly beginning to increase, but the projected five year average is only 1.8% growth (Chiang, 2013). Industry mergers have also fueled the shift away from small and medium-sized airports. Big airlines are increasingly focusing their services at big hubs in order to create cost-saving efficiencies. The discrepancy in revenues is widening by size of airport. For example, domestic flights from the 29 largest airports fell during 2007-2012 by 8.8% compared to a 21.3% drop at smaller sites (Whitman & Swelbar, 2013). These cuts are due to capacity cuts, as airlines are slashing seats to keep prices up in the face of drastically reduced demand. (Why Smaller Airports are Shrinking, 2013).

However, even with an upturn in the economy, the major airlines are not restoring many of their flights to small airports. The smaller regional airlines ferry passengers on behalf of the major airlines and provide the majority of air traffic to the nation's smaller airports. Revenues have fallen the most in the smaller airports while fares in the smaller cities have also risen the most, some as high as 16 to 18 percent while the national average increased only 6 percent.

Because of such high prices, passengers are often willing to drive for an hour or two to get a cheaper fare at a bigger airport. Regional airlines have also been restricted by labor contracts with the larger airlines that limit the size of planes that can be flown by the smaller airlines. United, for instance, cannot lease regional jets with more than 70 seats. Similarly, American Airlines is seeking to amend its labor contracts so its regional subsidiary, American Eagle, can fly jets with more than 50 seats. (Mouawad, 2012, A1)

The increased threat of terrorists has decreased the overall number of Trans-Atlantic flights from the U.S. to Europe. However, if the federal deficit continues to grow, interest rates will rise, strengthening the dollar and decreasing the number of travelers coming to the U.S. Overall reduction of demand for air travel is predicted for the next 20 years (FAA Aerospace Forecast, 2013). The increase of pre-inspection U.S. customs checks in other countries could further decrease that portion of Preston City International Airport's operations. And to make matters worse, insurance costs have doubled recently. For PCIA, insurance cost have risen from \$90,000 to \$180,000, and account for 2.5% of the entire Preston City International Airport budget.

Preston City International Airport is also facing the reality of an increase in the number of businesses leaving the area. The airport is very dependent on the entire airline industry, and the turmoil now present may very well have a negative affect Preston City International Airport's operations. Since the economic downturn in

2008, revenues have dropped because of fewer planes sold, maintained, and used at the airport. But while revenue has decreased significantly, the internal operating costs have increased. Not only have labor costs increased, but new federal regulations are requiring additional capital expenditures to remain compliant with federal law.

Smaller airports have typically used the following revenue sources in addition to intergovernmental aid: 1) Commercial land leases and rents; 2) T-hangar lease agreements; 3) Private hangar land leases; 4) Agricultural land leases; 5) Terminal concession rents; 6) Fuel flowage fees, and 7) Landing and ramp fees. Nonstandard types of revenues would be 1) Selling billboards; 2) Special rentals, and 3) Direct fueling of aircraft (Grothaus, Helms, Germolus, Beaver, Carlson, Callister, Kuukel, & Johnson, 2009, 8-9).

Many smaller airports are located in rural areas and until now, have been subsidized by the government, in the form of the Essential Air Service Program (EAS) to remain in operation. However, with budget deficits and looming debt ceilings, politicians are debating the cost effectiveness of the EAS. Some of the debates center on the following issues:

- Fewer airlines participate.** Due to high operating costs and/or lack of sufficient profit, only 10 airlines are in the program now compared with 34 in 1987.

- Number of flights.** Airlines are required to provide a minimum of two daily round-trip flights, six days a week, to a hub airport. Though the recession has decreased the number of passengers, airlines can't reduce the number of flights.

- Aircraft requirements.** Airlines are required to use planes with a minimum of 15 seats in flights to most communities. However, aircraft manufacturers are no longer building the 19-seat planes used on most subsidized routes. They're also costly to refurbish and operate, and have too much capacity for the needs of some communities.

- Unattractive airfares.** Fares for subsidized flights are 50% higher on average than for non-subsidized flights of similar distance.

- Unreliable flights and unattractive schedules.** Delays, cancellations, and route/schedule changes are common for subsidized flights. There are fewer connecting flights than at larger

airports, flight times are not as convenient, and flights aren't as frequent.

•**A population shift from rural to urban areas.** This is particularly true in the Midwest and may be partly responsible for a passenger decline in some communities with subsidized flights. The Essential Air Service program requires that a community be at least 70 miles from a large or midsize hub airport to qualify for a subsidy. (Stoller, 2013)

While there appears to be an increase in student pilot training and flights, they bring added issues of integrating slower trainer planes, monitoring their practice takeoffs and landings (which take much longer than experienced pilots), and their sometimes erratic flying around the airport. Yet, the area of recreational flying does seem to offer an opportunity that needs research.

Another major issue facing small airports is the growing environmental issues facing the entire aviation industry. In its quest to decrease its carbon footprint by lowering carbon emissions and becoming carbon-neutral by 2020, the International Air Transport Association (IATA) has promoted the development and usage of new biofuels which increase flying costs per plane.

Additionally, governments, both local and national, are introducing more environmental legislation which will increase taxes based on high carbon emissions. The European Commission has already developed plans to charge planes based on their greenhouse gas emissions whenever the planes land in EC countries or approved airports.

These emissions issues deal with the pollutants common around airports such as airplane exhaust and carbon monoxide. Some studies have found pollutants were measured in the air and ground more than five miles around an airport, and many more miles downwind. Other environmental issues are noise, bird, and wildlife problems, and decreasing property values to lands, houses, and businesses adjacent to or near airports. Some airports have modified land around the airport to create natural noise barriers, helped local residents with soundproofing their houses and businesses, and have put up artificial noise barriers between the airport and other properties.

Preston City International Airport is unfortunately located in the direct path of many migrating birds. Recent changes in climate, including jetstream and global warming, have modified the migration path of large water fowl directly above the

Preston City International Airport airfield. Preston City International Airport is federally mandated to implement one of several bird-strike minimization concepts.

Costs could range from as low as \$50,000 up to \$1,000,000.00 depending on the methods used. Methods for reducing wildlife hazards are both legal/liability and operational. In the legal/liability area, airports can use wildlife logs, strike reporting, wildlife hazard assessment, wildlife hazard management plans, and wildlife hazard working groups. Operational issues can be handled by repellents, hazing, harassment, exclusion, shooting, and trapping (Grothaus, 2009)

Bird accidents, termed bird strikes, occur during takeoffs and landings; and nearly all are at low altitudes. Unfortunately for Preston City International Airport, most of the migratory birds, such as Mallards, Snow and Canada Geese, Teals, and Mergansers are mostly low altitude flying birds.

Another legislative hurdle to smaller airports is a new federal rule requiring newly hired pilots to have at least 1,500 hours of flight time in the US, which could result in a pilot shortage. Regional pilots with enough flight time may begin migrating to larger network carriers as older pilots retire. Additionally, federal sequestration may affect the ability of small U.S. airports to provide manned control towers for commercial air service. While the full impact of sequestration has yet to be felt, budget cuts will definitely be a big threat to small airports. Some airlines have already left airports due to deficient air traffic control facilities (Whitman & Swelbar, 2013).

Robert McMasters sat staring out the ceiling-to-floor plate glass window overlooking the runways, comfortable in his overstuffed chair, thinking of the past and envisioning the future. He thought of the many elements over which he had no control, yet these elements had a significant impact on the operations of the Preston City International Airport. He was thinking of ideas that would help him garner more funding from Preston City itself and how he could show the importance of Preston City International Airport. However, it seemed impossible when the while Preston City was facing financial shortfalls in taxes and increased demands from other city operations requiring significant capital expenditures. These expenditures included areas such as the city's educational system, its failing infrastructure, and growing employee retirement liabilities.

He listed in his mind other areas that he had to consider, such as the national economic situation, the growth of airline competition, the constant need to purchase new technology for the operations of the airport, increased security measures, and his need for funding for major capital projects.

The past decade and a half had been good to Preston City International Airport operations, but present times were hard and things were changing faster and faster. Robert McMasters was thinking about the meeting he had scheduled with the six MBA candidates from Clayton State University. The students, part of a growing Aviation Administration Major, were going to develop a five year plan for the Airport. Mr. McMasters wanted to give them a feel for the complexity of the situation he faced.

McMasters' three top priorities were to 1) improve the image of Preston City International Airport as an efficient refueling and alternative landing site, 2) increase the volume of U.S. Government chartered aircraft stopping at Preston City International Airport, and 3) provide additional revenue through the leasing of Airport owned land. How to achieve this within the political, demographic, and competitive environment was going to be a huge challenge. He hoped that the time spent with the Clayton State University students would be beneficial to all concerned.

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