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Aerospace Industry Site Selection Shouldn't Be Top Secret

Specific labor force and infrastructure requirements often drive the aerospace company's location decision, with incentives helping the firm to keep its costs in check.

John Schuetz, Principal, The RHS Group (2013 Auto/Aero Site Guide)

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The MQ-1 Predator unmanned aircraft system (UAS) is manufactured by General Atomics in San Diego, California.

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New Spaces on Old Bases

The site selection process for aerospace companies can prove to be a great challenge or offer great benefits, depending on how well prepared a company is when it initiates the process and exactly what expectations it has. Companies really have to examine their operation and figure out what is the most important driver of the location search.

A Skilled Labor Force

One of the major challenges faced by aerospace companies is the availability

of precision skills among a potential labor force. A skilled labor force is paramount to the success of aerospace companies. These companies are often looking for people possessing deep skills and certifications that match the demands of world-class aircraft manufacturing and aerospace technology needs. If a potential location does not meet this requirement, its consideration by an aerospace company may be doomed before it ever really gets off the ground.

Another key consideration is a location's ability to establish a cooperative relationship with a nearby university or other institute of higher education with a strong aerospace department and research capability. A sophisticated training and education infrastructure can provide important industry support that, of course, is beneficial to the prospective company. Online aerospace training is advancing, and when hosted by a top-tier data center makes systems performance a non-issue. This type of arrangement also relieves customers of managing the back-end hardware and infrastructure issues that often require additional resources.

There also has been a recent trend toward creation of military and non-military applications of unmanned aircraft vehicles (UAVs). The MQ-1 Predator unmanned aircraft system (UAS) is manufactured by General Atomics in San Diego, California. The Predator and similar aircraft can serve in either a reconnaissance role or actively as a military platform firing missiles at qualified targets. UAVs and systems require much more software and control systems engineering than earlier generation aircraft. In these industries, computer hardware and software, electrical engineering, and other information technology skill sets are essential. Educational systems that strongly support these disciplines will help attract this emerging industry.

Use of Former Military Bases

Cost is less important, but still a factor in the site selection process for aerospace companies. Often, site-seeking aerospace companies can be attracted by free or low-cost available land, as well as by reuse projects and ample-sized buildings and hangars that are readily available. Former military sites, or those in the process of decommissioning, are sought after locations, as they often provide an aerospace company with everything it needs at a rock-bottom price.

Because military bases generally have adequate infrastructure to support aerospace manufacturing operations, they can commence operations quickly and cost-effectively. Any location that already has an aerospace infrastructure in place has a good advantage over other potential locations being considered.

For example, Kelly Air Force Base in San Antonio converted from a fully functioning air base in to a center of aviation maintenance and overhaul



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activity, employing approximately 550 people. Similarly, Williams Air Force Base in Mesa, Arizona, is now known as the Williams Gateway Airport. Williams Gateway quickly established itself as an international aviation and aerospace center, with more than 30 companies currently engaged on-site in aircraft maintenance and modification, avionics, flight training, and air cargo operations. Key aerospace tenants include Cessna Aircraft Co. and Hawker Beechcraft Services, Inc.

Another recent example of utilizing closed military facilities to establish an aerospace hub is Elmendorf Air Force Base in Anchorage, Alaska. With the unique asset of a space vehicle launch site on Kodiak Island, Alaska has formed the Alaska Aerospace Corp. to take advantage of the worldwide, centralized logistics provided by the Anchorage location. In March of 2012, Lockheed Martin Space Systems announced it would locate its Athena space program to the Kodiak site.

Aircraft maintenance for the domestic aviation industry is a skill in high demand. Fortunately there are many people coming out of the military who have these skills. This is another good reason for aerospace companies to locate near military bases. Northwest Florida has taken advantage of its geographic proximity to seven military bases and the unrestricted airspace of the Gulf of Mexico. Between 32,000 and 37,000 private-sector and non-military government employees work in more than 1,900 aerospace and defense establishments, including companies in the following industries:

- Aerospace and transportation equipment manufacturing
- Air transportation and support activities
- Aviation machinery and equipment distribution
- Chemicals and fuel manufacturing and distribution
- Computers, electronics, and electrical equipment manufacturing
- Engineering, testing, R&D, and industrial design
- Fabricated metals and machinery
- Flight training
- IT, systems integration, network solutions, and telecommunications

Plants dealing with electronics and parts do not necessarily have to be on an airfield, although they do need to be in locations where they can serve a customer base. Nonetheless, if an aerospace company like Boeing is manufacturing wing assemblies for planes, logistics is important. Manufacturing large parts like wing assemblies sometimes requires a location near a port for easy access and transportation needs. When European Aeronautic Defence and Space (EADS) selected Mobile, Alabama, over three rival bids from other locations in the South. Chairman Ralph Crosby said Mobile was chosen because it is "strategically located" on the Gulf of Mexico, and offers a skilled work force, airport runways, and a deepwater port.

Incentives Attract Interest

The reuse of former military facilities has been encouraged with the use of federal and state tax abatements. An aerospace company should look for any specially designated federal or state zones that give hiring credits (such as a state enterprise zone or a federal empowerment zone). In certain areas, aerospace companies can also get accelerated depreciation on their real estate.

Many municipalities will offer a discount on land or buildings. There are also the possibilities of local, state, and federal tax incentives. In many areas, if an aerospace company were to locate into a tax-exempt zone, it could pick up some impressive tax incentives. There is also what is



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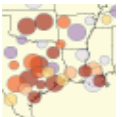
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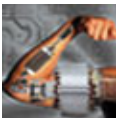
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known as Defense Economic Readjustment Zones program. This was established as a tool for business recruitment and job creation in adversely impacted defense-dependent communities. It is designed to provide assistance to communities, businesses, and workers impacted by, or vulnerable to, the closure or realignment of military installations and the reduction in federal defense contracting expenditures.

The incentives offered through a Defense Economic Readjustment Zone are similar to those offered through an enterprise zone program. An enterprise zone is an economic development tool that allows a community to partner with the state to offer a package of local and state tax and regulatory benefits to assist businesses seeking to locate, expand, or retain jobs in economically distressed areas. By locating in an enterprise zone, a company could receive state sales tax refunds for building materials, machinery, and equipment for up to five years.

Aerospace companies can also save on state franchise taxes, and in some states, like California, can take advantage of what are known as LAMBRAs (Local Agency Military Base Recovery Areas). The LAMBRA Act promotes economic development and employment opportunities in designated military base areas by offering bidding preferences of 1 to 9 percent on specified state contracts. The LAMBRA Act provides for two bidding preferences: work site and work force.

In the site selection process, aerospace companies must find a way to balance their search for incentives with locations that will support the core operations of the business effectively. In sum, the finalist location should satisfy the company's work force requirements; provide a transportation infrastructure with good access via rail, road, and sea; and may need to include a runway and tarmac with plenty of length, as well as ample area to accommodate production, hangar, and office space.

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John Schuetz, Principal, The RHS Group
John Schuetz brings over 30 years of negotiating, economic development, and marketing expertise to The RSH Group. Formerly, as the EVP of Location Management Services — an international leader in tax incentives and negotiations, compliance, site selection, and energy for the commercial real estate market — he managed corporate tax, incentive, energy, and site selection relationships with companies such as GE, Toyota, Home Depot, NBC Universal, and Mitsubishi International. His expertise resulted in a request for him to be a consultant to the White House Community Reinvestment Fund Program. Schuetz's analysis of current market trends in economic development are published regularly in numerous industry trade journals.



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