

McClellan-Palomar Airport

AIR SERVICE SITUATION REVIEW

Review of Air Service Situation and the Potential for New Service

Prepared for:

McClellan-Palomar Airport

Prepared by:

SH&E International Air Transport Consultancy



July 2007

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McClellan-Palomar Airport

Report Narrative



Carlsbad Air Service Situation Review

Background

SH&E completed an air service study for Palomar Airport in January 2004 entitled “Scheduled Airline Service – Situation Review.” The objectives of that study were to provide an assessment of the potential air service expansion opportunities at Palomar, as well as identifying threats to its existing services.

Since the completion of the 2004 study, there have been a number of developments which may directly impact air service development at Palomar Airport. These include:

- ⊕ Palomar Airport is about to undertake significant development of its airport and terminal facilities. A new terminal development plan has been approved and construction is expected to begin later this year with a completion date of October 2008. The terminal will significantly improve the attractiveness and convenience of the airport for its passengers. Importantly, a federal inspection facility that will permit service to Mexico is included in the terminal plan.
- ⊕ The two major airlines that provide scheduled service to Palomar through their regional airline partners have been reorganized through Chapter 11 bankruptcy proceedings since 2003. America West, which serves the Palomar-Phoenix route with service by Mesa Airlines, has acquired US Airways and as a result has a much larger and more complex domestic route system. United Airlines serves the Palomar-Los Angeles route with flights operated by Skywest Airlines. .
- ⊕ At the time of the last review, turboprop services were declining nationally and in California. However, there has been a resurgence of the use of new larger turboprops with longer operating range by carriers such as Alaska Airlines/Horizon Air and Frontier Airlines and other carriers.

These and other factors, including the growth of the Carlsbad/Palomar market area, raise the need to update the prior Palomar air service study.

Carlsbad Air Service Situation Review, *cont'd*

Study Objectives

The objective of this study is to update the evaluation of Palomar's air service potential, particularly in the context of recent changes in the airline industry. The study assess three main areas of opportunity:

- ⊕ **Domestic Service Potential:** especially to identify the potential to expand schedule turboprop service in new markets, as well as increase service in existing markets.
- ⊕ **Mexico Service Potential:** to review the potential to attract turboprop service on a scheduled or charter basis from Palomar to points in Mexico
- ⊕ **Future Regional Jet Service Potential:** to examine the potential for regional jet service at Palomar, assuming a runway extension. For this assessment, a suitable runway is assumed to be available by the end of 2012.

Recent Economic, Demographic and Industry Trends

In contrast to the situation in 2003, the airline industry has recovered from downturn which occurred in 2001 and worsened over the next few years. The U.S. economy has strengthened, with real GDP increasing by 3.5% per year over the past 3 years, as compared to only a 1.6% annual growth rate in the prior 3 years. U.S. domestic air passenger traffic has grown by 15% since 2003, and at the end of 2006, exceeded pre-2000 traffic levels. Importantly, for the first time since 2002, no major U.S. network airline is in bankruptcy.

The Carlsbad/Palomar airport market area has also grown, and is projected to continue to grow at rates that exceed the entire San Diego region and Southern California. Six of the 10 fastest growing cities are in Carlsbad's market area and this area has higher average income levels than the overall county.

However, the Palomar Airport experienced significant service and traffic decline since its peak in 2000, when it generated just over 200 passengers per day each way as compared to an average 147 per day in 2006. The decline is attributed largely to the reduction in flight frequency and seat capacity in its two

Carlsbad Air Service Situation Review, *cont'd*

scheduled service markets – Los Angeles and Phoenix. However, in 2006, service was increased in the Los Angeles market, which is now served with 7 daily flights with 30-seat turboprop aircraft. The vast majority of Palomar's passengers flying to/from Los Angeles and Phoenix make connections at those hubs to other destinations.

In summary, although traffic and service at Palomar is less than its 2000 peak, traffic has grown over the past several years and service levels have been reasonably stable, resulting in improved load factors for the carriers. With the economic growth in the area, Carlsbad is poised for growth. But, there is, of course, the limitation that the airport presently can accommodate only turboprop aircraft, and not regional or mainline jets.

Overview of the Carlsbad/Palomar Airport Market Area

The Palomar Airport's market area is essentially the "North County" of San Diego County – an area comprised of six principal communities (Carlsbad, Oceanside, Vista, San Marcos, Escondido and Encinitas), which has a population of close to 600,000. This represents nearly 20% of the entire 3 million population of San Diego County.

Currently, the vast majority of air passengers generated by Palomar's market area use San Diego's Lindbergh Airport, which is approximately 40 miles from Palomar Airport. Depending on the specific community in the market area, time of day and driving conditions, driving times to Lindbergh Airport generally range from one to one and a half hours.

Therefore, although the Carlsbad/Palomar market area has a large air travel demand, the frequency of flights and relative proximity to San Diego pose significant competitive challenges for any new services at Palomar Airport.

Carlsbad Air Service Situation Review, *cont'd*

Regional Turboprop Service in California

There are four primary regional carriers associated with major network carriers that operate turboprop service in California. These are Skywest (United Express), Horizon Air (Alaska Airlines), American Eagle (American) and Mesa (America West /US Airways.) Each of these carriers, except for Horizon Air, operate 34-seat or smaller aircraft and generally fly relatively short-haul routes, averaging about 200 miles. However, Horizon Air operates new generation, 70-seat turboprop aircraft (Bombardier Q400) over routes that are much longer than other regional airlines operating smaller aircraft. Many of Horizon's routes at LAX and other California airports range from 500 to 725 miles, (such as Los Angeles-Redmond, OR at 725 miles or Los Angeles-Boise at 675 miles. Horizon's average flight segment at California airports is 455 miles, or approximately the distance from Palomar to the San Francisco Bay Area, Sacramento, or Reno.

The introduction of this new larger, longer-haul turboprop aircraft potentially opens up a number new nonstop markets for Carlsbad/Palomar that previously were not practical to consider with smaller turboprops.

Domestic Potential Turboprop Service Market Analysis

SH&E analyzed Palomar's market potential by first considering total O&D traffic in city-pair markets under 750 miles, using the combined San Diego/Carlsbad traffic as reported in the DOT O&D passenger survey. We then assumed a "capture rates" of 10% to 15% of the overall market, well below the nearly 20% population share. At the lower 10% rate, four markets emerged as leading candidates for new service with estimated traffic potentials of more than local 100 passengers per day each way. These were: the San Francisco Bay Area, Las Vegas, Sacramento and Phoenix (for additional service).

The Bay Area, which could be served through any of three airports (SFO, OAK or SJC) is a strong candidate for new service with 70-seat turboprop aircraft. Based on local O&D traffic alone, the market could support 4 daily roundtrips by capturing 6.7% of the SAN/CLD region's local O&D passengers; and 6 daily roundtrips at a 10% share of the market. The service could be supported with a lower share of local traffic if the carrier's service offered connections to and from points beyond the Bay Area.

Carlsbad Air Service Situation Review, *cont'd*

Las Vegas is also a strong candidate for new service and is within range of the smaller 30-seat turboprop aircraft. This market could support 4 daily frequencies with a capture rate of 7.6% and 6 daily flights at 11.4% market share. (A new independent, low-cost regional carrier, Vision Air, inaugurated nonstop Carlsbad-Las Vegas service with two weekly roundtrips beginning June 13th.)

In summary, our analysis indicates that Palomar has the potential to support new turboprop service to the Bay Area, Las Vegas, additional service to Phoenix, and possibly service to Sacramento.

Mexico Air Service Market Analysis

This study focused on Mexico markets within range of turboprop aircraft, which essentially limited potential markets for Palomar to the five most northern states in Mexico, including the resort areas in the Baja California Peninsula.

Mexico in general, and the Pacific Coast resort areas in particular, are fast growing markets, but are primarily served by mainline and regional jet aircraft from Southern California (LAX and SAN) due to the flight distances, which are predominantly in the 500 to 800 mile range to the principal destinations. Although it may be possible to serve some of these markets with turboprop aircraft, there are only a few U.S.-Mexico routes over 500 miles that are served with turboprops, and none from Southern California.

The existing traffic demand from the Carlsbad/Palomar area is difficult to establish from existing published traffic statistics and would, therefore be difficult to persuade the larger scheduled regional carriers to enter such markets.

The near term potential for Carlsbad-Mexico service is likely to be from general aviation jet charter services, or smaller regional airlines that are able to provide less than daily service, catering mainly to specific segments of the leisure travel market. However, with the rapid growth in these markets, the prospects for new service are likely to improve over time.

Carlsbad Air Service Situation Review, *cont'd*

Future Regional Jet Service Potential at Palomar

Our analysis of potential new services at Palomar with regional jet aircraft is made in the context of future travel demand in 2013, and assumes that the airport's runway is extended to safely accommodate RJ aircraft. The performance characteristics of regional jets essentially open up the possibility of service in markets of approximately 1,500 miles and possibly longer for RJ service with 50 to 70-seat aircraft.

With the ability to accommodate regional jet aircraft, the potential new service market are greatly increased. Palomar could potentially be linked to a number of network carrier hubs in the Western U.S., and also support service to larger O&D destinations that are not connecting hubs. SH&E evaluated the potential RJ markets by assuming 4% annual growth to 2013, a 10% share of the SAN/CLD traffic, and accounting for connecting traffic as a percent of local O&D passengers at different rates appropriate for the different hub/local markets. The result of this analysis indicates more than 10 markets that could support over two daily flights, most of which are connecting hub airports. These include connecting hubs such as Denver, Dallas/Ft. Worth, Salt Lake City and Houston, and strong primarily local O&D markets, such as Seattle. This is not to imply that all markets meeting the above criteria would be served, but rather that there would be the potential for significant service expansion at Palomar with regional jets.

Summary of Study Findings and Recommendations

The historic air services at Palomar Airport have been limited to a large extent by the minimal airfield and terminal facilities at the airport, which in turn, have limited its service potential to only a few short haul turboprop markets, mainly Los Angeles and Phoenix. However, with the advancement in new turboprop aircraft, capable of serving longer distance markets, Carlsbad's potential service markets expands significantly. If able to accommodate regional jets, the potential markets that may economically support scheduled air services increases dramatically.

However, air service development at small airports in markets that have not previously been served generally pose substantial business risks for an airline. Airlines are often unwilling to assume this risk

Carlsbad Air Service Situation Review, *cont'd*

without demonstrated support from the community that new services will be patronized. Therefore, it will be important for the Carlsbad/Palomar area to actively promote its market opportunities to prospective airlines, and to encourage usage of the airport and its air services within the community, and also to assure that the airport facilities can accommodate the expected growth in traffic.

In summary, the opportunities to develop regional airline services at Palomar Airport are significantly greater than they have been in the past due to the increased flight range capabilities of regional carriers and growth in the Carlsbad area market. To realize the airport's service potential, it is essential that the community and airport stakeholders take an active role in the strategic planning and marketing of airport.

It is recommended that Carlsbad form a "Task Force" or similar airport committee to further consider steps and actions that should be taken to promote airline services, recruit additional carriers and to assure that facilities meet the needs of the airlines. At many other airport communities, such a task force, which typically has representatives from both the private and public sector, have been effective in providing the leadership, planning and continuity that is necessary to develop additional airline services. It is also essential to recognize that the development of regional jet air service will require an extension of the existing runway and safety areas at the airport. These airport infrastructure projects are generally eligible for federal funding, but require significant planning and coordination with federal, state and local government agencies.

The Study Assesses Three Areas of Opportunity

⊕ **Domestic Service Potential**

- Update of Palomar's Historic Air Service, Traffic and Relevant Trends Impacting Air Travel
- Identify Potential Domestic Markets for Expansion of Turboprop Services

⊕ **Mexico Service Potential**

- Review of Possibilities to Attract Scheduled Turboprop Services, and Charter Services, from Palomar to Mexico Given the Planned FIS Facility

⊕ **Future Regional Jet Service Potential**

- Review of Possibilities for Regional Jet Services from Palomar in the Context of Projected Traffic Demand for 2013

McClellan-Palomar Airport

What Has Changed Since 2003



What Has Changed -- The Economic Environment Has Improved

➤ Economic Environment

- Industry no Longer in “Recovery Period” in Terms of Traffic
 - *Average Annual GDP Growth Rate of 3.5% from 2004-2006 vs. 1.6% for the 2001-2003 period*
 - *U.S. Industry O&D Traffic 15% Higher than 2003, CLD traffic up 19% from CY 2003*
- United Airlines Has Successfully Emerged from Bankruptcy and US Airways/America West Has Merged
 - *United reported an operating profit of \$447mn in CY 2006; first profit since 2001*
 - *US Airways reported an operating profit of \$558mn in CY 2006, during year of consolidation*

➤ Regional Demographic Trends

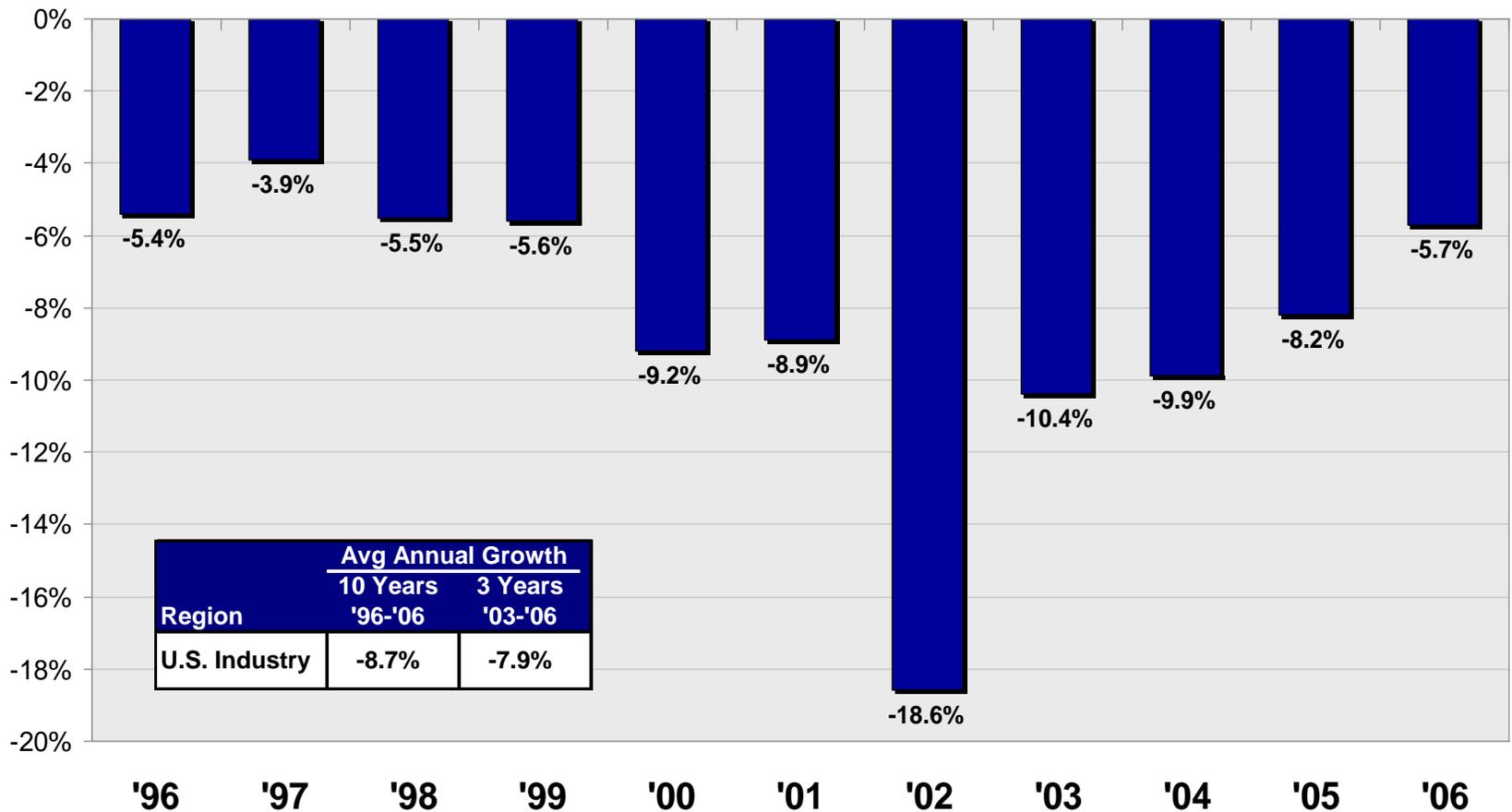
- Population and Income Growth from the Carlsbad Market Area is Projected to Outpace the Entire San Diego Region
 - *Carlsbad is expected to outpace regional population growth rates through 2020*
 - *6 of the 10 fastest growing cities in San Diego are located in the Carlsbad market area*
 - *Carlsbad and the North County region have higher household incomes than the overall San Diego region*

What Has Changed -- Carlsbad Palomar Airport is Poised for Growth

- ➔ **Carlsbad Service Levels Stable**
- ➔ **Carlsbad Traffic Is Growing**
- ➔ **New Airport Improvement and Expansion Projects Approved**
- ➔ **New Larger and Longer Range Turboprop Aircraft Have Been Acquired by Several Regional Airlines**

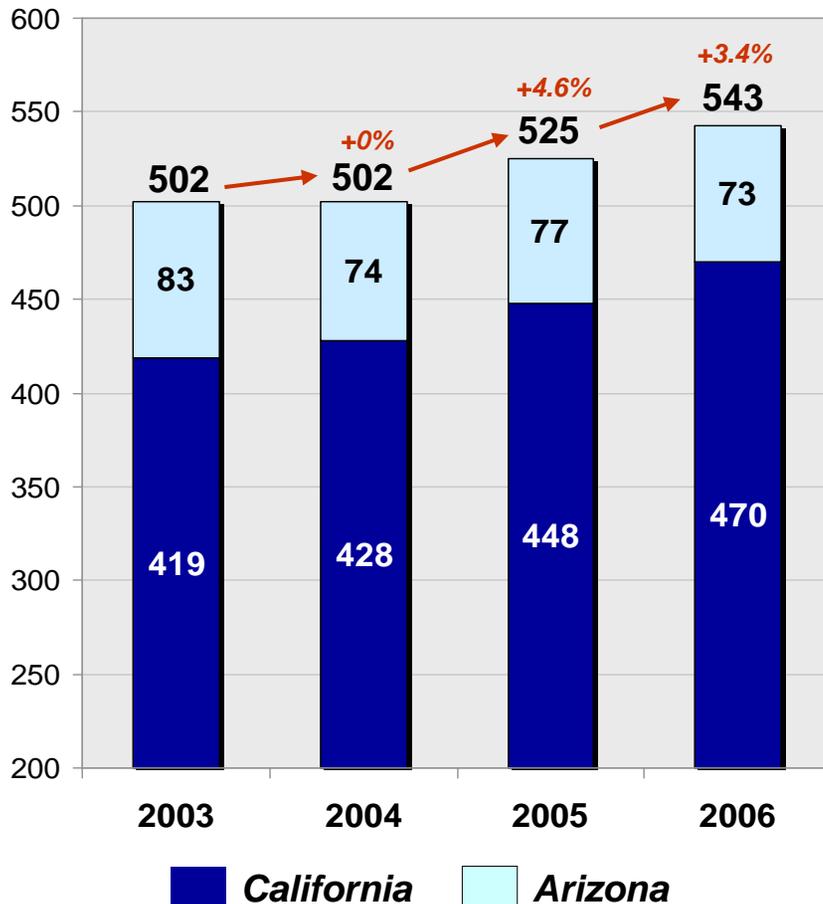
Regional Airline Turboprop Operations Have Been Declining Nationally Each Year Since 1995....

Change vs. Prior Year Nonstop Daily TP Departures
10 Year History
August 1996 – August 2006



However, Turboprop Services from California and Arizona Airports Have Increased Since 2003

Daily Turboprop Departures
August 2003 -2006



➤ **Turboprop Departures, from California and Arizona Airports Combined, Have Increased Each Year Since 2003**

- Growth for the 3 year period of 2.7% per year

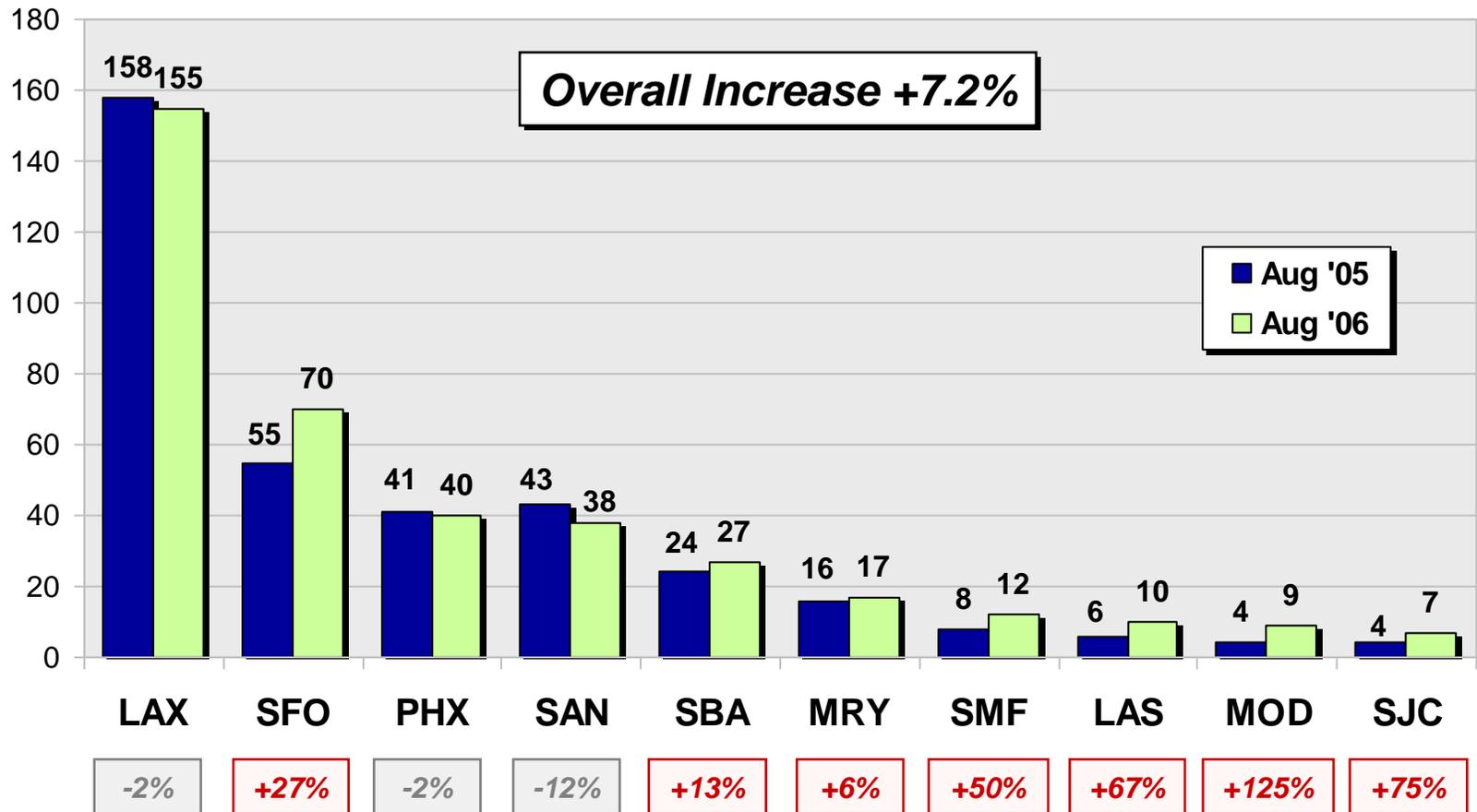
➤ **CA Airports Account for the Majority of Turboprop Service Growth**

- CA departures have increased by 3.9% per year since 2003; growing from 419 to 470 daily departures

➤ **TP Services from AZ & CA Still Remain 34% Below 2000 Levels**

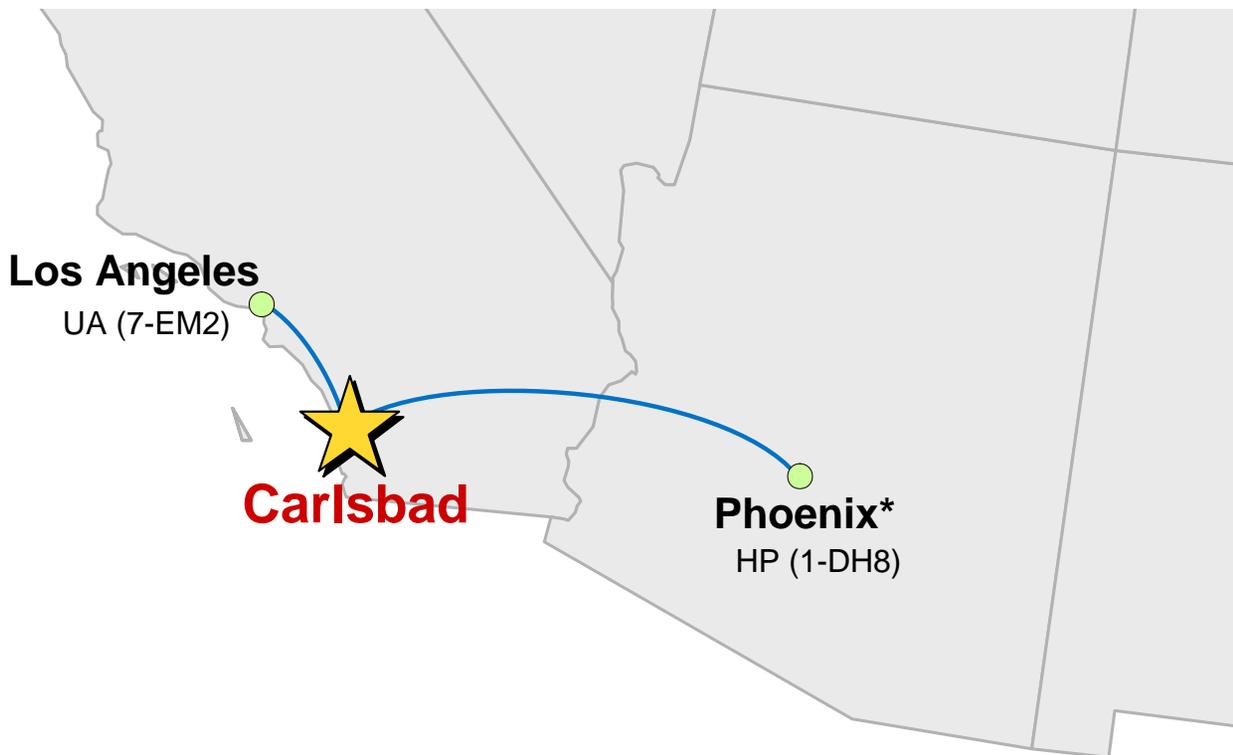
Scheduled Turboprop Services Have Grown at Airports Within Palomar's Turboprop Service Range

Nonstop Daily Turboprop Flights
August 2006 & 2005



Carlsbad's McClellan-Palomar Airport Currently Has 8 Nonstop Daily Departures to Two Destinations

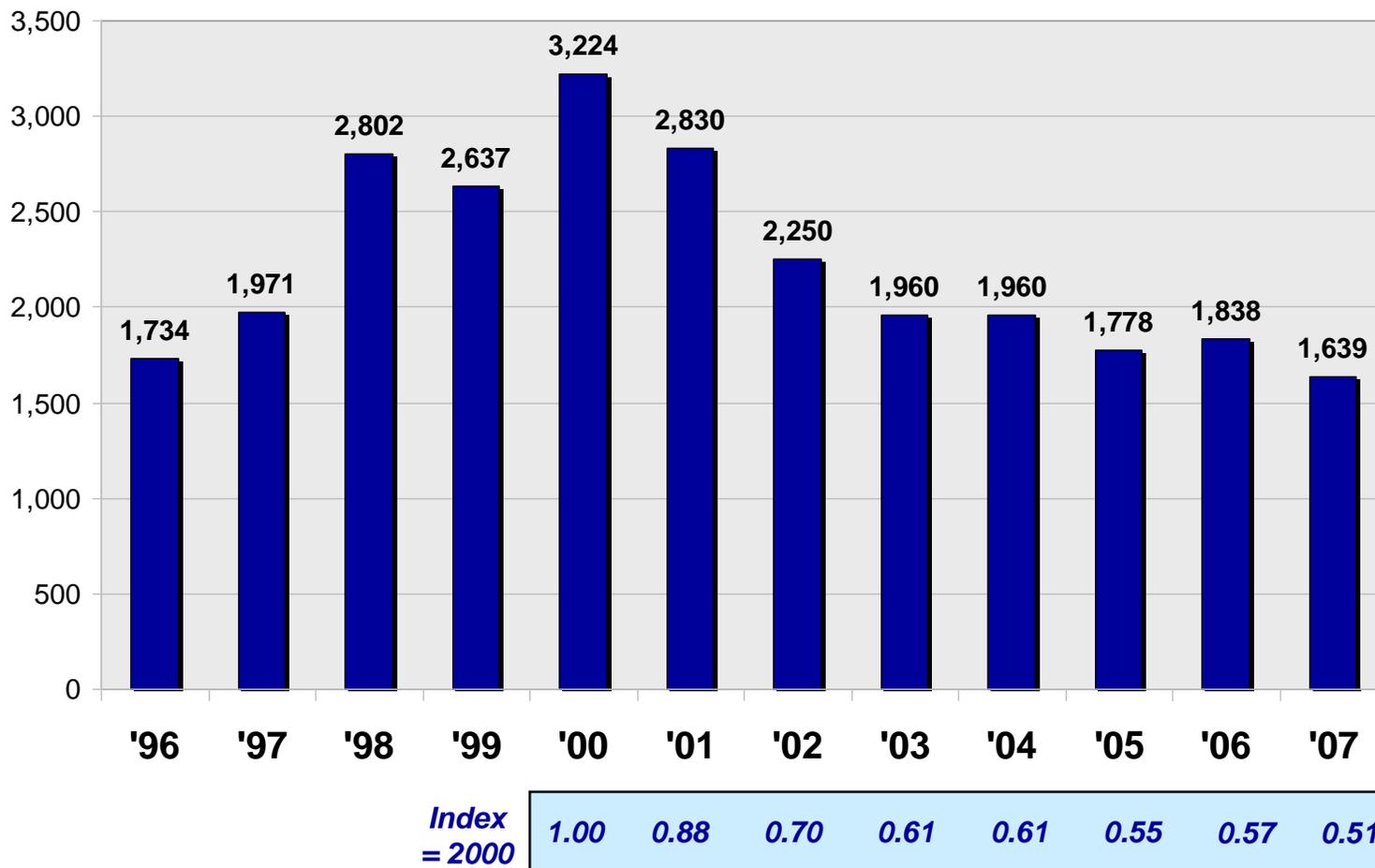
CLD – Nonstop Daily Departures May 2007



Historically, PHX service typically increases from 1 to 2 flights from April-November.
Source: OAG Schedules Tapes

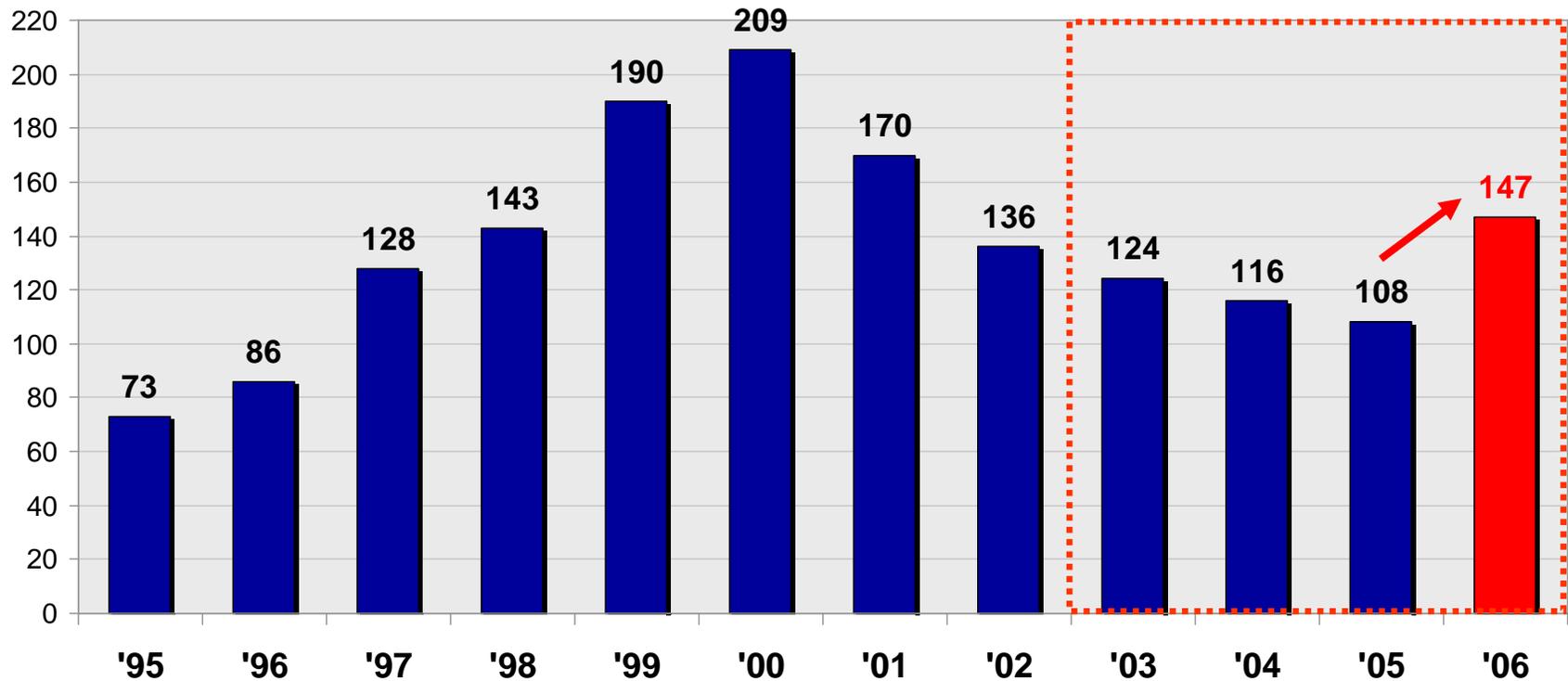
Palomar's Seat Capacity Is Down Moderately From 2003, and is Still Well Below its 2000 Peak

CLD Nonstop Weekly Seats
August 1996 – August 2006, May 2007



Following a 5 Year Declining Trend, Carlsbad's O&D Traffic Increased in 2006

O&D Passengers per Day in Each Direction
CY 1995 – YE 3Q 2006



Most of Carlsbad's O&D Traffic is Connecting to Destinations Beyond its Nonstop Hub Cities

Carlsbad (CLD) Top O&D Markets YE 3Q 2006

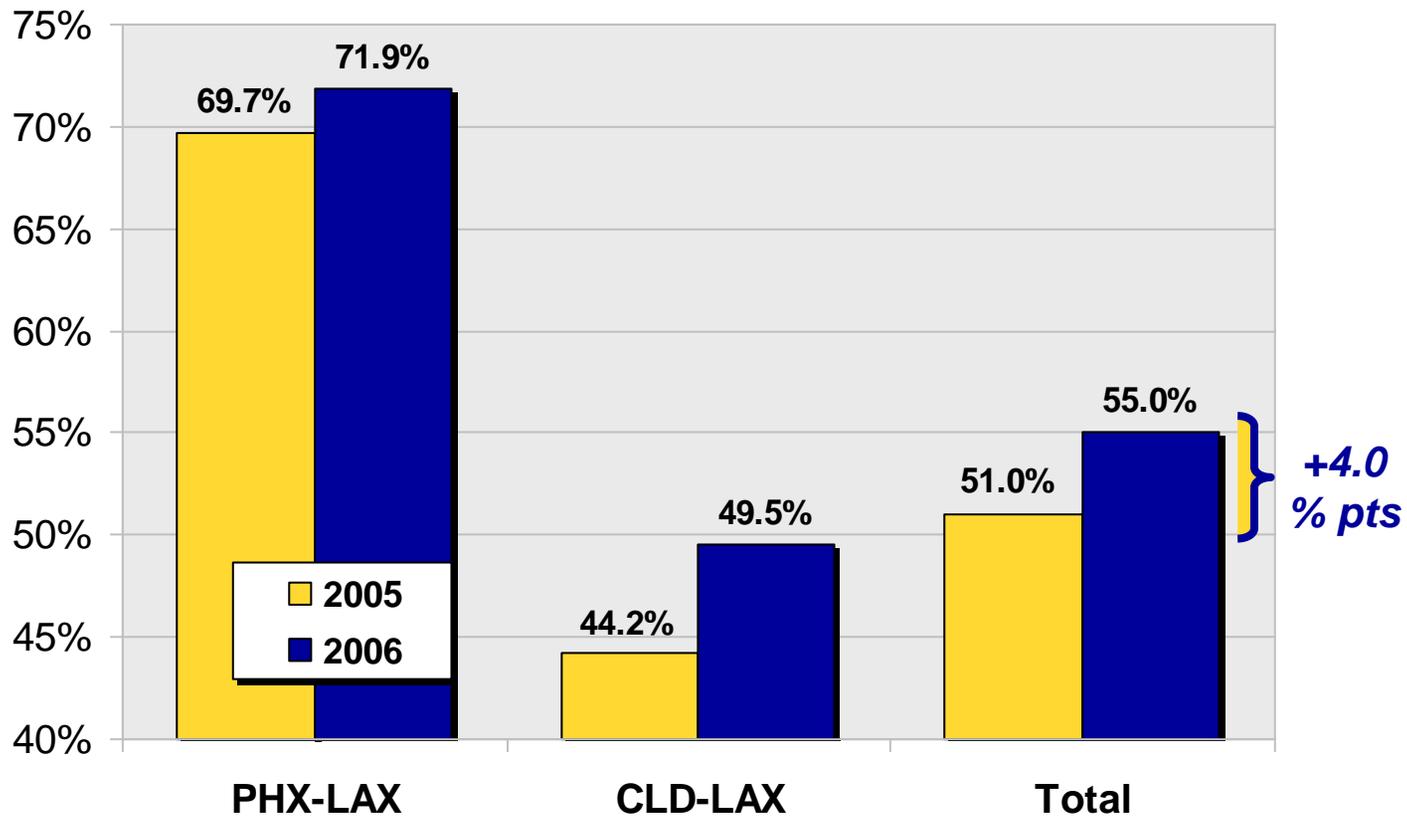
 CLD Nonstop Markets

***Nearly 80% of Carlsbad's
Passengers on the PHX and
LAX Routes are Connecting***

Rank	Market	Code	O&D Psgrs	Average Fare
1	Phoenix	PHX	12,130	\$89
2	Los Angeles	LAX	11,110	\$42
3	San Francisco	SFO	5,910	\$103
4	Washington	WAS	4,570	\$205
5	Denver	DEN	3,720	\$131
6	Chicago	CHI	3,490	\$154
7	Las Vegas	LAS	3,490	\$69
8	Seattle	SEA	3,480	\$134
9	New York	NYC	3,110	\$207
10	Orlando	ORL	3,080	\$174
11	Portland	PDX	2,650	\$115
12	Monterey	MRY	2,490	\$115
13	Boston	BOS	2,350	\$184
14	San Jose	SJC	2,350	\$105
15	Sacramento	SAC	2,200	\$95
16	Fresno	FAT	2,050	\$188
17	Dallas/Fort Worth	DFW	1,780	\$171
18	Oakland	OAK	1,760	\$94
19	Honolulu	HNL	1,750	\$203
20	Philadelphia	PHL	1,560	\$141
21	Baltimore	BWI	1,260	\$184
22	St Louis	STL	1,260	\$154
23	Tucson	TUS	1,230	\$95
24	Minneapolis	MSP	1,120	\$160
25	Colorado Springs	COS	1,080	\$144
	Subtotal Top 25		80,980	\$121
	All Other		26,140	\$167
	Total		107,120	\$132

Carlsbad's Load Factors Increased in 2006

Carlsbad Load Factors
CY 2006 vs. CY 2005



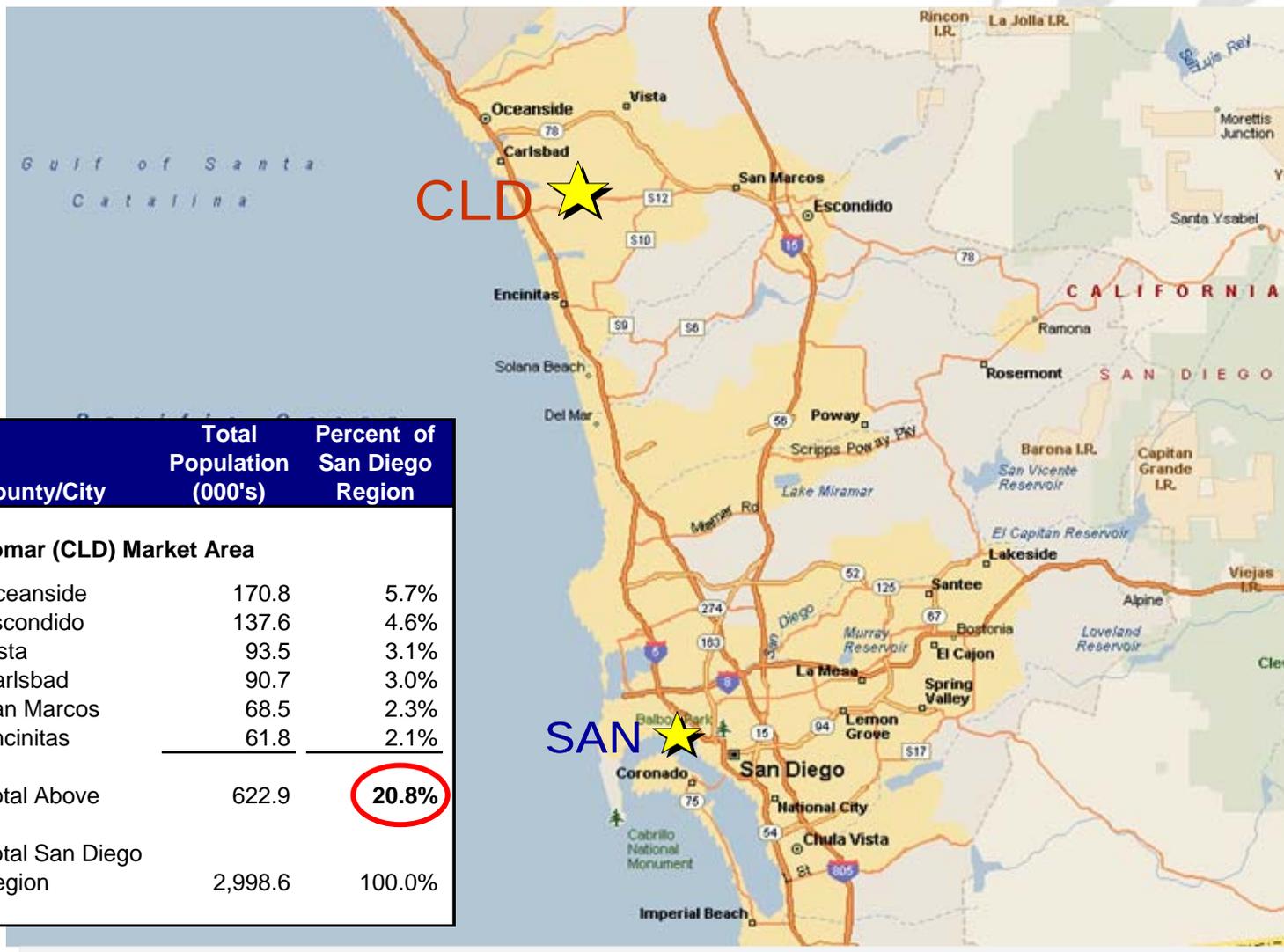
McClellan-Palomar Airport

New Service Potential

Domestic Turboprop Service



Palomar Airport is Conveniently Located to Serve 15-20% of the San Diego Region, However Its Current Share of the Region's Air Traffic is Much Lower



County/City	Total Population (000's)	Percent of San Diego Region
Palomar (CLD) Market Area		
Oceanside	170.8	5.7%
Escondido	137.6	4.6%
Vista	93.5	3.1%
Carlsbad	90.7	3.0%
San Marcos	68.5	2.3%
Encinitas	61.8	2.1%
Total Above	622.9	20.8%
Total San Diego Region	2,998.6	100.0%

Profile of Existing Scheduled Turboprop Airlines Serving California



Measure	UA Express/ SkyWest	Horizon Air/Alaska	American Eagle	America West/ Mesa	Total
Aircraft Types	EM2	DH4	SF3	DH8/BE1	
Average Stage Length	157	455	148	234	204
Weekly Departures	2,290	222	406	93	3,011
Weekly Seats	68,700	15,540	13,804	2,451	100,495
Weekly ASMs	10,814,940	7,077,070	2,046,800	572,877	20,511,687
Avg Seats per Departure	30	70	34	26	33
Seat Share	68.4%	15.5%	13.7%	2.4%	100.0%

Horizon Air, with 70-Seat Q400 Aircraft, Has Extended the Range of Potential City-Pair Markets

Horizon's Long Range Q400 Turboprop Aircraft Could Unlock New Service Opportunities from Carlsbad to Northern California



Bombardier Q400 (DH4)	
Passenger Capacity	74 Coach
Length	32.9 m
Wingspan	28.4 m
Maximum Range	1,567 sm
Landing Field Length	4,221 ft
Takeoff Field Length	4,600 ft
Landing Field Length - 500nm sector	3,380 ft
Takeoff Field Length - 500nm sector	3,720 ft

Horizon Air Nonstop Markets Greater than 450 Miles Outbound from California Airports – May 2007

Market	Avg Stage Length	Weekly Depts	Block Hours
Los Angeles-Redmond/Bend	726	14	2.50
Los Angeles-Boise	674	14	2.33
Los Angeles-Medford	629	14	2.17
Santa Rosa-Seattle	616	7	2.25
Los Angeles-Arcata/Eureka	577	7	2.00
San Jose-Portland	568	7	1.98
San Jose-Boise	522	13	1.98
Los Angeles-Redding	501	7	1.92
Sacramento-Portland	478	7	1.67
Total Greater than 450 Miles	595	104	2.08
Total Less than 450 Miles	332	118	1.35
Total Horizon	455	222	1.69

Carlsbad-San Francisco = 423 miles

Carlsbad-Sacramento = 455 miles

The Potential Candidates for New Turboprop Service, are Mainly Short-Haul Markets in California, Arizona and Nevada

Traffic in San Diego/Carlsbad O&D Markets Under 750 Miles

Destination	Distance from CLD	Total CLD & SAN O&D Psgrs	O&D PDEW
Oakland	422	1,050,110	1,439
Las Vegas	237	808,560	1,108
Sacramento	442	781,030	1,070
San Jose	394	776,150	1,063
San Francisco	423	308,610	423
Salt Lake City	604	244,240	335
Tucson	374	189,380	259
Reno	462	151,040	207
Albuquerque	623	144,470	198
El Paso	641	64,230	88
Boise	724	63,450	87
Fresno	288	20,620	28
Monterey	353	17,220	24
Medford	708	16,680	23

Note: All markets <750 Miles from CLD; Excluding PHX & LAX
 Source: US DOT O&D Survey, via Database Products, Inc.

Six Markets Emerge as Potential Targets for New TP Service; In Addition to Expanding Current Service at Carlsbad

Carlsbad Estimated Traffic Potential Based on a Range of Capture Rates

Market	Distance from CLD	Total O&D PPDEW	CLD Potential Traffic at Various Capture Rates	
			10%	15%
New Service				
SF Bay Area	420	2,924	292	439
Las Vegas	237	1,108	111	166
Sacramento	442	1,070	107	160
Salt Lake City	604	335	33	50
Tucson	374	259	26	39
Reno	462	207	21	31
Increased Service				
Phoenix	304	1,101	110	165
Los Angeles	88	93	9	14

Horizon Air Could Potentially Support Daily Service from CLD to the SF Bay Area; Assuming a 5-10% Capture Rate

Traffic Demand Required to Support Potential Carlsbad-San Francisco Bay Area Turboprop Service

Assumes Horizon Air Service with 70-Seat Q400 Aircraft

Daily Round-Trip Flights	2	4	6
Average Seats per Flight	70	70	70
Total Seat Capacity	140	280	420
Load Factor Assumption	70%	70%	70%
CLD Traffic Requirement	98	196	294
Resultant Capture Rate	3.4%	6.7%	10.1%
CLD-San Francisco Bay Area Traffic at Estimated 10% Capture Rate			292

Note: Analysis does not included potential connecting traffic at Bay Area Hub

Carlsbad Could Potentially Support Daily Turboprop Service to Las Vegas

Traffic Demand Required to Support Potential Carlsbad-Las Vegas Turboprop Service

Assumes Daily Service with 30-Seat Aircraft

Daily Round-Trip Flights	2	4	6
Average Seats per Flight	30	30	30
Total Seat Capacity	60	120	180
Load Factor Assumption	70%	70%	70%
CLD Traffic Requirement	42	84	126
Resultant Capture Rate	3.8%	7.6%	11.4%
CLD-San Francisco Bay Area Traffic at Estimated 10% Capture Rate			111

Note: Analysis does not include potential connecting traffic at Las Vegas

To Summarize, San Francisco and Las Vegas are the Two Strongest Candidates for New Turboprop Service

➤ San Francisco Bay Area

- Horizon Air's Turboprop Aircraft Have the Range Capability to Serve the Carlsbad-San Francisco Market
- The Bay Area is Carlsbad's Largest O&D Market and Can Also Serve Connecting Passengers Beyond the Bay Area Airport

➤ Las Vegas

- The Local O&D Passenger Potential is Approximately 100 Passengers per Day in Each Direction, Assuming a 10% Capture Rate of the San Diego Market
- US Airways Express/Mesa or a Scheduled Charter Operator Such as Vision Air or Grey Eagle are Potential Targets for New Service

McClellan-Palomar Airport

New Service Potential

Mexico Turboprop Service



The Five Northernmost Mexican States Would Be the Target Region for New Turboprop Services from Palomar



Investment and Development in Real Estate and Tourism Sectors Continues to Fuel Economic Growth in Mexico

⊕ **Massive Development Projects Underway in the Gulf of California**

- \$2.2 Billion in Tourist Infrastructure Projects are Underway: La Escalera Nautica/Mar de Cortes Project lead by Fonatur

⊕ **Foreign Hotel Investors are Flocking to Mexico and The Baja Peninsula Region**

- Foreign Investment in Mexico Expanded by 941% Since 2000; U.S. Entities Invested \$609 million Accounting for 34% of Total Capital Investment
- Over the Past Six Years, Los Cabos was the Second Most Popular Destination for Foreign Capital, Capturing \$206 million (11% of Mexico)

⊕ **San Diego Cruise Market Expansion and Service to/from Mexico**

- San Diego is Becoming a Preferred Port of Departure for Southern California Cruise Passengers to Mexico, the Sea of Cortez and Hawaii
 - *Since 2000, the Number of Cruise Passengers Passing Through San Diego has Increased by 180%; Expected to Reach 665,000 Passengers in 2007*
- In Fall of 2006, Carnival Made San Diego its Year-Round Port for its Largest Ship, Running Four and Five Day Cruises to Mexico

As a Result, Mexico's Strong Fundamentals Favors the Expansion of Air Service

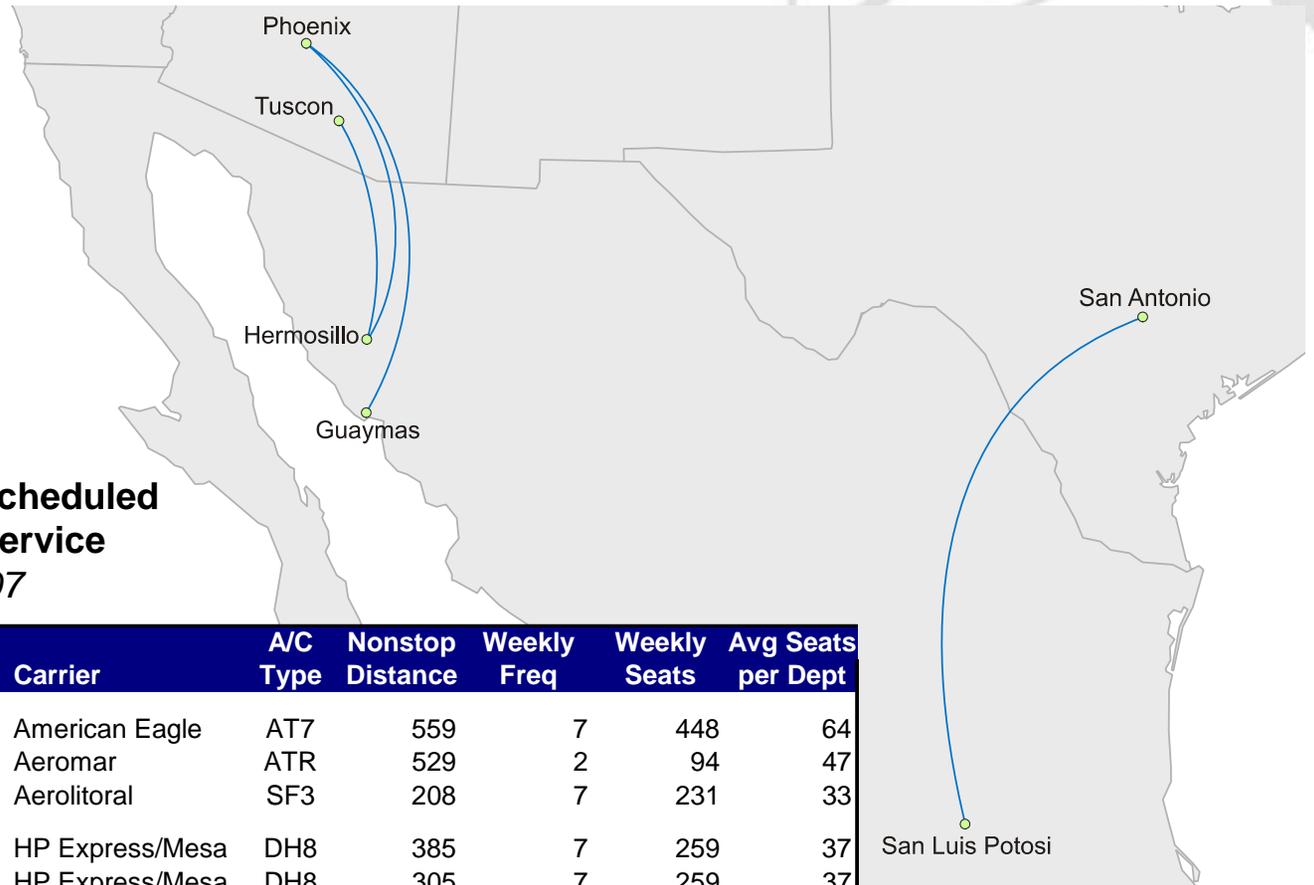
➤ The Mexico Visitor Market is Large and Growing

- Mexico Hosted 21.4 Million Visitors in 2006, Claiming 15% of the World Tourism Market; Roughly 70% of Visitors to Mexico are from the U.S.
- By 2013 it is Estimated that Mexico Will be the World's Second Fastest Growing Destination – *Mexico Sectur*
- New International Airport Under Construction in Puerto Penasco, Mexico
- Mexico-North America Air Traffic Expected to Increase by 5.2% Annually over the Next 4 Years, Outpacing the Central America Region – *IATA Passenger Forecasts*

➤ Mexico is Appealing to More Affluent Travelers

- Revenue Generated by Tourists Reached a Record High of \$12.2 bn in 2006; Fueled by Increased Spending of International Visitors
- 2006 Lodging RevPAR Increased for the Fourth Consecutive Year
- Majority of Development is Targeting the Luxury/Upper-Scale Segments
 - “Los Cabos region developing 13 new hotels to open by 2011 most of which are concentrated on master planned communities anchored by luxury hotels and signature golf courses” – *Jones Lang Lasalle Hotels – Focus on Mexico*

There are Relatively Few U.S.-Mexico Markets with Scheduled Turboprop Service



U.S. – Mexico Scheduled Turboprop Service
May 2007

U.S. Origin	Market	Carrier	A/C Type	Nonstop Distance	Weekly Freq	Weekly Seats	Avg Seats per Dept
MIA	Cozumel	American Eagle	AT7	559	7	448	64
SAT	San Antonio-San Luis Potosi	Aeromar	ATR	529	2	94	47
TUS	Tucson-Hermosillo	Aerolitoral	SF3	208	7	231	33
PHX	Phoenix-Guaymas	HP Express/Mesa	DH8	385	7	259	37
PHX	Phoenix-Hermosillo	HP Express/Mesa	DH8	305	<u>7</u>	<u>259</u>	<u>37</u>
	PHX Total				14	518	37
		Total			30	1,291	43

Source: OAG Schedules, May 2007; Map excludes MIA-CZM service operated by AA Eagle.

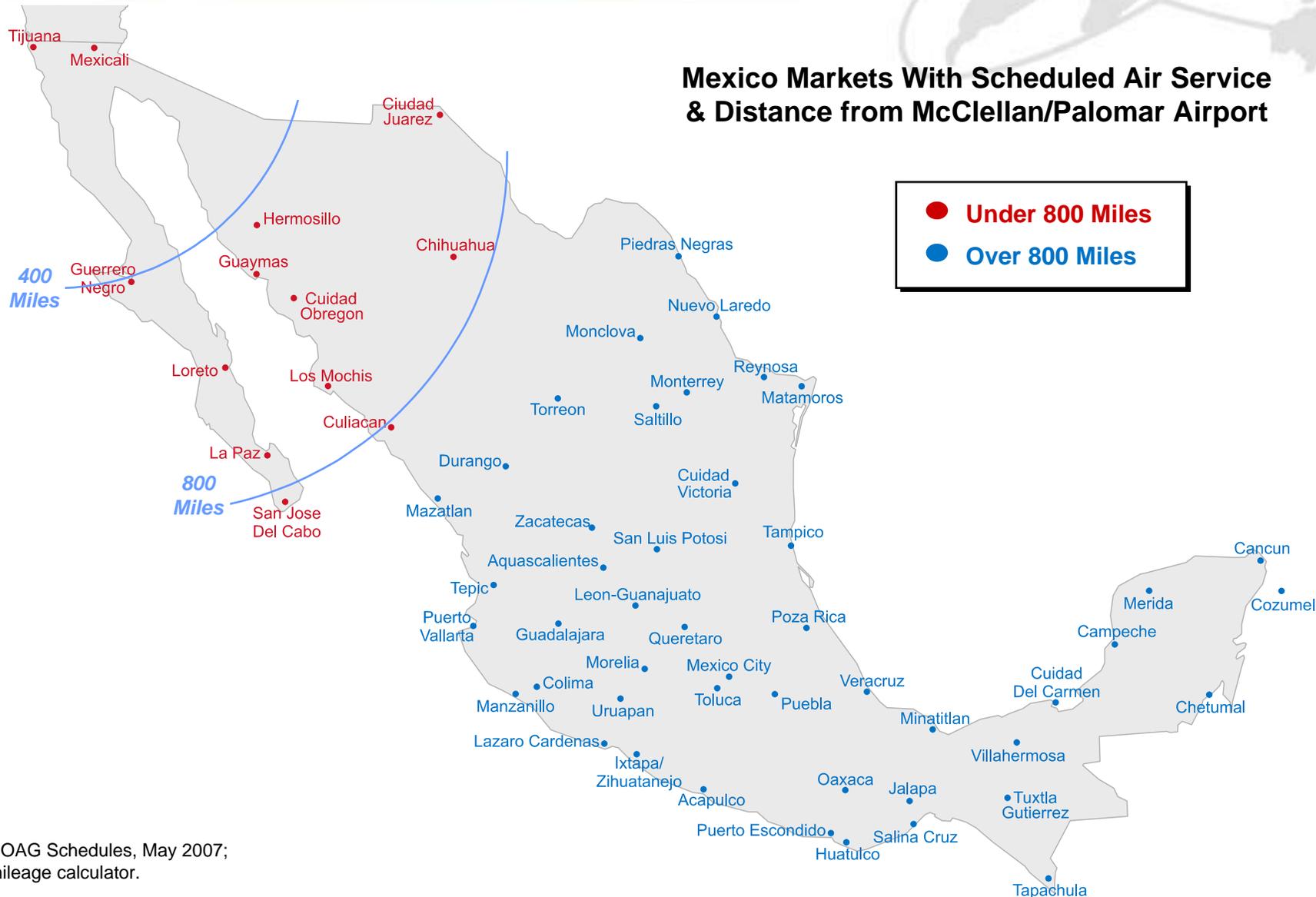
Jet and Regional Jet Services are Available from Southern California Airports LAX and SAN

Northwest Mexico Markets Served from Southern California Airports May 2007

Mexico Markets Shown are Those Within a Potential Turboprop Service Range from Carlsbad



Markets Within 800 Miles of Carlsbad are the Most Likely Potential Targets



Source: OAG Schedules, May 2007;
SH&E mileage calculator.

In Recent Years, Markets in the Baja Peninsula and Northeast Mexico are Among the Fastest Growing in Mexico

Market	U.S. O&D Traffic		Ratio 2006 to 2003	Absolute Increase	AAGR '03-'06
	2003	2006			
Selected Markets Within Carlsbad's Turboprop Service Range					
San Jose Del Cabo	1,016,720	1,820,600	1.79	803,880	21.4%
Chihuahua	31,640	60,860	1.92	29,220	24.4%
Loreto	3,370	35,260	10.46	31,890	118.7%
Hermosillo	22,200	27,300	1.23	5,100	7.1%
La Paz	4,150	9,480	2.28	5,330	31.7%
Culiacan	3,660	5,270	1.44	1,610	12.9%
Total Potential TP Markets	1,103,440	1,980,000	1.79	876,560	21.5%
Other Mexico Markets	7,680,310	11,457,820	1.49	3,777,510	14.3%
Total Mexico	8,783,750	13,437,820	1.53	4,654,070	15.2%

Near Term Potential for Mexico Service will Most Likely be for Non-scheduled Turboprop or Business Jet Operators

- ⊕ **Existing published air traffic statistics are inadequate to determine the true demand for Carlsbad-Mexico markets**
- ⊕ **SH&E conducted interviews with various FBO and charter service operators during its field trip to Carlsbad**
 - Indications of leisure travel demand to Baja resort destinations
 - Unable to accurately size the markets
- ⊕ **Near term potential for Mexico service will most likely be charter operators with greater flexibility to operate turboprops or business jet aircraft to cater to specific segments of the leisure travel market**

McClellan-Palomar Airport

New Service Potential

Domestic Regional Jet Service



Carlsbad Markets Under 1,500 With a Minimum of 50 O&D Passengers per Day in Each Direction

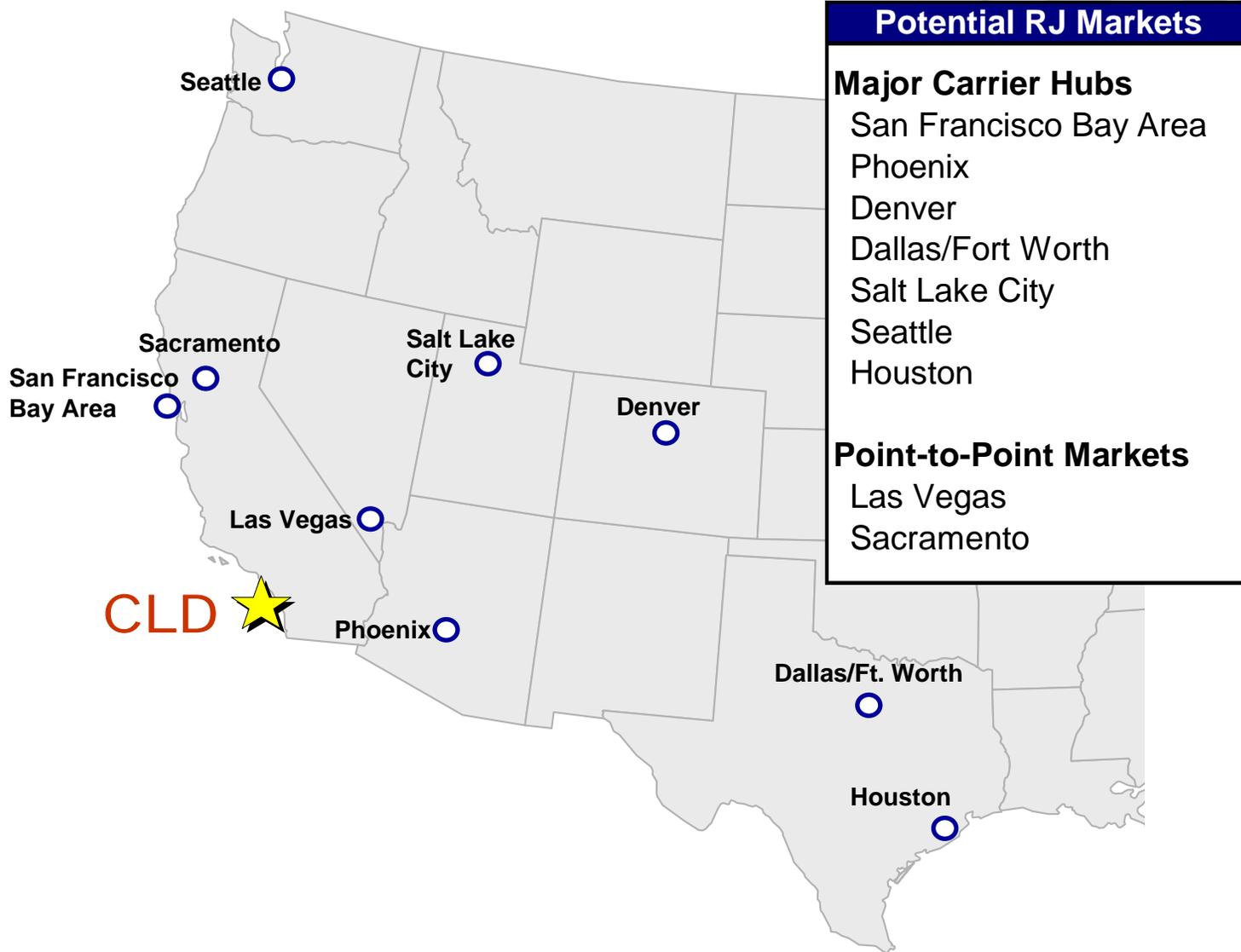


Note: 84% of all U.S. domestic regional jet flights are < 750 miles; 96% are < 1,000 miles.

Based on an Initial Distance and Traffic Density Screen, 11 Markets Emerge as Strong Contenders for New Regional Jet Service from Carlsbad

Market	2006 O&D PPDEW	Traffic Growth Rate	20013 O&D PPDEW	Carlsbad Traffic Share	Carlsbad Local Traffic	Factor for Hub Traffic	Carlsbad Traffic	Est. Load Factor	Carlsbad Potential Seats	Departures with a 50-Seat RJ
Phoenix	1,101	4%	1,449	10%	145	75%	254	70%	362	7.2
San Jose	1,063	4%	1,399	10%	140	75%	245	70%	350	7.0
Oakland	1,439	4%	1,893	10%	189	10%	208	70%	297	5.9
Las Vegas	1,108	4%	1,458	10%	146	25%	182	70%	260	5.2
Denver	619	4%	814	10%	81	100%	163	70%	233	4.7
Sacramento	1,070	4%	1,408	10%	141	10%	155	70%	221	4.4
Seattle	833	4%	1,097	10%	110	10%	121	70%	172	3.4
San Francisco	423	4%	556	10%	56	100%	111	70%	159	3.2
Dallas/Fort Worth	431	4%	567	10%	57	75%	99	70%	142	2.8
Salt Lake City	335	4%	440	10%	44	100%	88	70%	126	2.5
Houston	363	4%	478	10%	48	75%	84	70%	119	2.4
Portland	477	4%	628	10%	63	10%	69	70%	99	2.0
Tucson	259	4%	341	10%	34	0%	34	70%	49	1.0
Kansas City	237	4%	312	10%	31	0%	31	70%	45	0.9
Reno	207	4%	272	10%	27	0%	27	70%	39	0.8
Albuquerque	198	4%	260	10%	26	0%	26	70%	37	0.7
Austin	187	4%	246	10%	25	0%	25	70%	35	0.7
San Antonio	149	4%	196	10%	20	0%	20	70%	28	0.6
Omaha	121	4%	160	10%	16	0%	16	70%	23	0.5
Spokane	107	4%	140	10%	14	0%	14	70%	20	0.4
El Paso	88	4%	116	10%	12	0%	12	70%	17	0.3
Boise	87	4%	114	10%	11	0%	11	70%	16	0.3

Carlsbad's Most Likely Regional Jet Markets are Hub Cities



Study Findings and Conclusions

- **There are greater opportunities for air service development now at Palomar Airport than ever before**
 - Regional Airlines have increased flight range capabilities
 - Carlsbad's market are population and economy has grown

- **It is essential that Carlsbad organize, plan, and implement effective air service marketing and promotion programs**
 - Marketing and communication with existing and prospective airlines
 - Advertising and promotion directed within the market area – increased patronage of Palomar Airport by local area residents
 - Planning and upgrading of airport facilities to accommodate an expanded air service role

Recommendations

- ④ **Carlsbad should create an air service development Task Force for the specific purpose of promoting airline service, recruiting additional airlines and assuring the facilities meet the needs of the airlines**
 - The “Task Force” approach has been successful at many other airport communities – both large and small
 - The Task Force should provide the leadership, planning and continuity needed to develop additional air services
 - Initial targets for new services are regional air carriers operating turboprop aircraft

- ④ **Steps must be taken to extend the runway and related safety areas, if Carlsbad intends to develop regional jet airline service at Palomar Airport**
 - The extension of a runway is a major airport improvement project and requires extensive planning and coordination with local, state and federal agencies

SIMAT, HELLIESEN & EICHNER



NEW YORK

Tel: +1.212.682.8455
Fax: +1.212.986.1825
E-mail: newyork@sh-e.com

BOSTON

Tel: +1.617.225.2800
Fax: +1.617.225.0328
E-mail: boston@sh-e.com

LONDON

Tel: +44.20.7242.9333
Fax: +44.20.7242.9334
E-mail: london@sh-e.com

WASHINGTON, DC

Tel: +1.202.342.1691
Fax: +1.202.337.6741
E-mail: washington@sh-e.com

www.sh-e.com