City of Long Beach
Working Together to Serve

Memorandum
R-43

Date: May 18, 2006

To: Gerald R. Miller, City Manager

From: Christine F. Andersen, Director of Public Works

For: Mayor and Members of the City Council

Subject: Report on Long Beach Airport - Financing of Proposed Terminal Improvements

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At its meeting of April 4, 2006, the City Council requested the City Manager to return within six weeks (prior to May 30th) with a report, reflecting the estimated costs of project alternatives outlined in the Airport Terminal Improvements EIR, including a financial risk assessment for each project and potential financing options.

As requested, the attached report includes a summary of financing strategies and the risks associated with these strategies relative to the Long Beach market.

The report will be agendized for the May 23, 2006, City Council meeting.

CFA:lc
P:\FY0506\CCMemos\Mayor\Airport Financing Transmittal

Attachment

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To: Gerald R. Miller, City Manager

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Subject: Long Beach Airport-Financing of Proposed Terminal Improvements

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Background

The City Council, at its April 4, 2006 meeting, requested staff to provide cost estimates for Long Beach Airport Terminal improvements as addressed in EIR No. 37-03 (certified by the Planning Commission on May 11, 2006), and to address any related financial risks.

Attachment 1, for background purposes, is a memorandum to the City Council dated March 30, 2006, which addresses the same issue in a more generic form. It is important to note that, as stated in the March 30th document, generation of project cost information at this point, prior to working with the airlines and other end users to determine actual detailed design features and the requisite sizing (as opposed to the macro-level requirements analysis that has been done to-date), is subject to change as project details evolve. If staff is authorized to proceed with project design, more detailed design information - developed in close collaboration with end users – would result in a project-specific, detailed financial plan. The City Council would then be asked to approve construction based on the financial plan components.

Terminal Improvements Rough Cost Estimates

The following rough cost estimates are provided as parametric information, subject to fluctuations in costs for labor and materials, site conditions, productivity, competitive market conditions, final project schedule, and other variables (including functional design factors, which will be derived from additional user input):

Parking Structure (4,000 spaces)

Estimated Cost = $50,416,116
(assuming 18-month build-out, beginning summer of 2006)

Terminal Facilities (102,980 sq. ft. vs 56,320 sq. ft. current)

Estimated Cost = $108,500,000
(assumes 24-month build-out, beginning summer of 2007)

Total Terminal Improvements

Estimated Cost - $158,416,116

EIR No. 37-03 lists as project alternatives (not including the "no project" alternative) to the "Proposed Project," a 97,545 sq. ft. option and a 79,725 sq. ft. option. At this point, the development of costs for these project alternatives are limited by:

1) The imprecise nature of cost estimates during the early stages of project development.

2) The relatively small cost differential between the proposed project (102,980 sq. ft.) and the 97,454 sq. ft. alternative. The smaller alternative would yield little cost savings, due to the fixed and overhead costs associated with any Terminal improvements construction alternative. Because of the same realities, the 22% difference in size between the proposed project (102,980 sq. ft.) and the 79,725 sq. ft. alternative would yield cost savings disproportionate to the 22% size differential and would not be significant for macro-level financial planning at this stage in project development.

Terminal Improvements Financing

The March 30, 2006 memorandum (Attachment 1), addresses all of the Terminal improvement financial plan constructs.

Based on the rough, preliminary project cost estimates, and based on the Airport's diverse revenue base and relatively low operating costs, a "Long Beach Airport Terminal Project Affordability Calculations/Conceptual Financial Plan" has been developed and included as Attachment 2.

The Plan indicates that the Airport could accommodate debt service on Insured Airport Revenue Bonds, with adjustments to parking rates, airline fees and Passenger Facilities Charges, while still remaining "price competitive" from both a regional and national perspective. There are also additional incremental revenue opportunities, not used in the debt service calculations, which could be factored in if necessary (e.g., passenger fluctuations, construction cost variations). Finally, the plan does not consider any "up front" participation by airlines, which was done by JetBlue Airways for the South 2 Modular Passenger Lounge. This option, however, would be on the table as a financing alternative.

Risk Analysis

If the City moves ahead with design of the Terminal facilities, in-depth discussions/negotiations with users will occur with regard to functional, detailed

design variables, and the cost associated with these variables. This ultimately will result in a firm financial plan, along with identification of associated risk mitigation. It is possible at this point, however, to analyze financial risk generally, which is representative of the risk analysis and resulting conclusions/financial plan structuring that will occur further downstream, using more precise information.

In order to shield the General Fund from any downside risk relative to Airport Fund debt service, the primary source of funding Terminal improvements would be Insured Airport Revenue Bonds. In the airport industry, this is by far the most common source of pre-funding major capital improvements. This form of bonding pledges airport revenue and insures such coverage with no liability to non-airport fund entities.

In addition to the revenue bond and insurance underpinnings, the Long Beach Airport Terminal improvements financing would be based on the following:

- A broad revenue base from which to make debt service payments
- Federal rules, which permit charging of user fees to cover the cost of improvements, once constructed
- The Airport's relatively low fee structure, which provides opportunities for fee modifications without significantly impacting "price sensitivity of demand"
- The proposed project, which results in a Terminal size that is relatively small compared to airports with similar enplanements (this would be a positive factor in the financial marketplace).
- The City entering into longer term leases with all airlines (likely in the 5-year range) versus the current month-to-month structure
- As indicated in Attachment 3, "Stability of Long Beach Airport Air Passenger Market", the Airport's geocentricity, freeway access, relative convenience, and regional airport supply/demand factors, which reasonably assure the on-going use of available airline slots provided under the Airport Noise Compatibility Ordinance.

Conclusion

Information about Terminal facilities' costs and financing is preliminary at this point, pending authorization to proceed with more detailed design, financial planning, and generation of financial commitments. However, based on the estimates that can be developed at this time, the proposed Terminal improvements project of 102,890 sq. ft. and the on-site 4,000-vehicle garage are affordable to the Long Beach Airport Enterprise Fund, with Long Beach General

Fund protection being provided through Insured Airport Revenue Bonds to be funded, over time, by Airport users.

Following consideration of EIR No. 37-03, if authorized to move ahead with detailed design on the terminal and parking structure projects, staff will report back to the City Council for final authorization to proceed. This would be done after in-depth user consultation and development of detailed construction plans and a financial plan/strategy which does not put the City's General Fund at risk.

If you have any questions about the content of this memorandum, please contact Airport Manager Chris Kunze at (562) 570-2605.

CK:dcj
P\CCMemos\FY0506\Mayor\Airport Financing 5-06

Attachments (3)

Attachment 1

Long Beach Airport – Financing of Proposed Terminal Improvements

March 30, 2006

City of Long Beach
Working Together to Serve

Memorandum

Date: March 30, 2006

To: Gerald R. Miller, City Manager

From: Christine F. Andersen, Director of Public Works

For: Mayor and Members of the City Council

Subject: Long Beach Airport - Financing of Proposed Terminal Improvements

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The purpose of this communication is to review the Long Beach Airport Terminal Improvement Project development process, and related project-financing considerations.

BACKGROUND

A Draft Environmental Impact Report (DEIR) for the Long Beach Airport terminal was released on November 7, 2005 for public comment. The DEIR identified a range of potential Terminal improvements including a recommended maximum sizing of 102,850 square feet, and smaller project alternatives of 97,545 square feet and 79,725 square feet. A "no project" alternative of 56,320 square feet (the current Terminal size) was also analyzed. The proposed project also includes construction of a parking structure so that the Airport's parking needs can be met on-site.

On February 18, 2003, the City Council approved a "design-build" contract for the construction of the on-site parking structure. This contract is on hold pending certification of the DEIR. However, it does provide a basis for estimating current construction costs if the EIR is certified and a project is approved. The estimate for building the structure in 2003 was $32 million. Based on current construction estimates the cost is now as high as $50 million.

LOOKING AHEAD

As part of the CEQA process design consultants were asked to provide conceptual designs. If a Terminal project is approved, tenant airlines and the Transportation Security Administration (TSA) will be heavily engaged as part of the detailed design, costing and funding alternatives analysis.

If approved, the Terminal project design process will be challenging and unique due to:

1. The City's desire to maintain its historic Terminal as the focal point of any improvements.

2. The guidance to design improvements to accommodate the minimum allowable activity permitted by the Airport Noise Compatibility Ordinance.

3. The fact that improvements would need to be constructed, while on-going Terminal operations continue without undue interference.

TERMINAL IMPROVEMENT FINANCING CONCEPTS

Specific information relative to sources and uses of funds, and project cost forecasts must await project approval and input from project stakeholders including the TSA and the airlines. There are, however, some "givens" which would shape the finance options for any Terminal project.

For example:

- The City should not actively pursue financing options until the DEIR has been certified and a project has been approved.

- Airport Terminal improvements cannot directly or indirectly rely on General Fund revenue sources as financing options. Although the Long Beach Airport market has been proven, (and the regional airport supply/demand scenario supports the economic viability of Long Beach Airport), the airport did have a history in the 1990's of losing a significant amount of airline activity. As such, Terminal Improvement financing must have the ability to reflect some potential fluctuation in airline activity, while retaining Airport Enterprise Fund liquidity to ensure funding necessary for daily operations.

- The Long Beach Airport is unique in terms of its breadth of revenue sources. The Airport has a significantly greater percentage of revenue from lease income than most airports of its size. Also, over 90 percent of the Airport's aircraft operations are non-commercial.

- Typically in the airline industry, carriers will not pay "up front" for terminal improvements. Exceptions occur where a carrier is permitted to construct its own terminal under a long-term lease or a carrier has access to exclusive use gates. This scenario is not realistic in Long Beach given flight limits and the need to make terminal space available when a carrier is allocated slots under the Noise Compatibility Ordinance. The lack of liquidity in the airline industry at this time exacerbates this problem. However, at Long Beach Airport there is a successful model for "up front" airline investment. For example, JetBlue funded up front costs associated with construction of a temporary modular passenger holdroom and baggage claim device, which was subsequently repaid through off-sets against use fees. Although the application of this financial option was relatively limited in scope and magnitude, it could be pursued as part of a larger financing package for any approved project.

- The proposed 102,850-square foot project is small when compared to other airports handling a like number of passengers (see attachments). The relatively small scope of improvements combined with Long Beach Airport's diverse revenue sources should be looked upon favorably by potential investors.

Generic, categorical funding sources for Airport Terminal improvements potentially include the following:

- FAA Grant Funding – FAA entitlement grant funds may be used for certain common use non-revenue producing capital improvements. Discretionary grant funds would be limited except for certain specific improvements such as airline parking ramp construction.

- Passenger Facilities Charges (PFC) - The PFC currently is $3 per enplaned passenger, and may be increased to $4.50 within existing regulations. (Note-if traffic decreased, a given amount could still be received by collecting over a longer period). Use of PFCs is limited to the same uses as FAA entitlement funds (listed above). Funding for near term improvements is typically accomplished by use of Commercial Paper or other "bridge" financing sources pledged against future PFCs.

- Airline Use Fees - Current rates/charges at the Airport are approximately $4 per enplaned passenger to the airlines. This sum is relatively low creating the potential to raise rates while still remaining competitive. As with PFCs, reduced activity could still meet debt service by spreading debt payments out for a longer period of time.

- Parking Rate Income Generation - A significant portion of the Airport's parking is offsite and generates little or no operating profit. With a new on site parking structure rates could be increased while still being competitive and net returns could be used by the Airport Enterprise Fund for debt service on improvements.

- Revenue Bonds – Within the industry, pledging revenue bonds against an airport's revenue stream is a common financing mechanism for terminal improvements. This mechanism would be considered and likely utilized within a portfolio of other potential capital sources. "Insured Airport Revenue Bonds" provide back-up security should debt service by the Airport Enterprise Fund become problematic for whatever reason.

- Private Capital – Although private capital is typically more expensive than others sources, it could be pursued relative to Terminal Improvements. For example, construction of a new parking structure using contractor's financing, with pay back financed by the structure's parking revenue (at the developer's risk) could be utilized. Also, revenue from pre-payment of rent on certain Airport leaseholds could be used, discounted to "net present value". For example, Parcel A-1 (adjacent to the north side of the Terminal area) will be available for redevelopment in five years and could be marketed any time prior to that time. Also, parcel B-10 (at the Airport's entrance) could be marketed at any time. Development could be conditioned on a requirement that, for example, 40 years of rent be "pre-paid" at a discounted net present value.

- Airline Up Front Payments – Most airlines will not be interested in "up front" payments. However, the City would be generating new longer term leases (e.g., five years) as part of any financing and could offer all airlines the ability to buy "investment shares" in terminal improvements, in exchange for credits against user fees over a multi-year period. Such cost recovery would include the airlines' cost of capital. An airline that participated would lose its investment if it left prior to the term of the payback agreement. As noted, JetBlue entered into a similar agreement with the construction of a temporary holdroom in 2001.

Conclusion

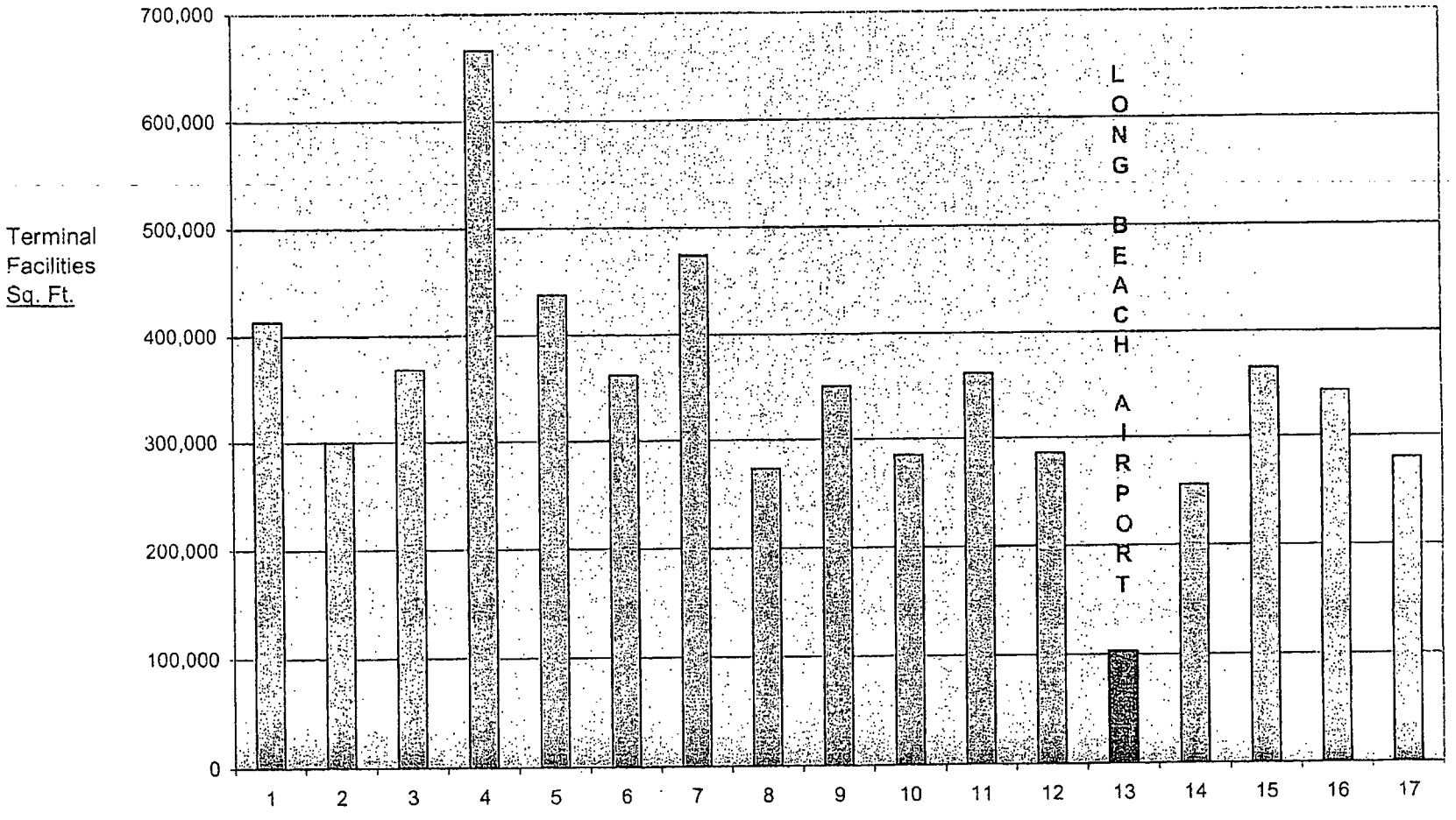
If the City Council approves a Terminal Improvement Project after certification of the EIR, staff will work with the Financial Management Department to begin structuring a financing plan consisting of the elements identified above. If a project is approved, the detailed design process will commence and as this process proceeds, cost estimates will harden. This will permit serious discussions with the airlines, TSA, and other users toward a final Terminal Improvements Financial Plan for approval by the City Council, which will ensure no impact on the City's General Fund.

CFA:CK:dcj
P:\CCMemos\FY0506\Mayor\Airport Fin EIR4

Attachment

cc: Christine F. Shippey, Assistant City Manager
Michael J. Mais, Assistant City Attorney
Michael A. Killebrew, Director of Financial Management
Chris Kunze, Airport Bureau Manager
Mark Christoffels, City Engineer

Terminal Facilities Comparison
Long Beach Airport
vs
16 Nearest Airports in Passenger Activity
(based on DOT rankings by total airline passengers)



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Terminal Facilities Comparison
Long Beach Airport
Vs
16 Nearest Airports (based on DOT rankings by total airline passengers)

	Airport	Passengers 12-Months Ending April 2005	Terminal Square Footage	Airline Gates	Vehicle Parking Spaces	
1	Buffalo, NY	4,581,753	413,851	24	8,326	
2	Manchester, NH	4,093,230	300,000	15	11,000	
3	Omaha, NE	3,974,728	368,000	20	6,705	
4	Norfolk, VA	3,874,583	665,000	25	8,815	
5	Tucson, AZ	3,865,757	437,890	18	6,984	
6	Louisville, KY	3,495,894	362,000	23	6,000	
7	Oklahoma City, OK	3,431,700	475,000	17	4,849	
8	El Paso, TX	3,257,699	273,400	15	4,573	Expanding to 6,873 spaces in 2006
9	Spokane, WA	3,139,027	350,000	17	9,000	
10	Albany, NY	3,117,058	284,905	20	5,300	
11	Boise, ID	2,971,714	361,473	18	1,940	Expanding to 5,000 spaces, and planning for 8,000
12	Birmingham, AL	2,964,583	286,000	19	6,624	
13	**Long Beach, CA**	**2,957,987**	**102,850**	**12 to 14**	**6,286**	
14	Greensboro, NC	2,766,970	256,000	18	5,000	Additional parking capacity being added
15	Dayton, OH	2,730,939	365,000	29	8,200	
16	Richmond, VA	2,594,530	342,819	22	8,000	Expanding terminal to 510,000 square feet
17	Colorado Springs, CO	2,048,649	280,000	16	9,000+	

Note: Long Beach current terminal square footage is 56,320. Proposed improvements would yield up to a resulting total square footage of 102,850. LGB total annual passengers, with all commuter flight slots operational, forecast to be 4.2 m.

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Attachment
2

Long Beach Airport Terminal Project
Affordability Calculations/Conceptual Financial Plan

Terminal Project
Affordability Calculations/Conceptual Financial Plan
March 2006

Cost Basis Assumptions:

1) The potential debt capacity is calculated based on a 30-year bond at 6.05%, with an annual debt service coverage range of 1.35-1.50 as shown in the Debt Potential table below. These assumptions fluctuate based on market and other variables.

2) The analysis is based on the current stability of the Airport Enterprise Fund, the five-year Fund forecast, the five-year CIP program, and no new unprogrammed major construction without new revenue.

New Income Source (Primary)		Income Increase	Debt Potential
PFC	$3 → $4.50 (assume 4 MAP)[1]	$4.4M	$41M - $45M
User Fees (airline)	$4 → $6/enplaned passenger (assume 4 MAP)	$5.7M	$52M - $58M
Parking Rate Adjustment	New Rate Scenario: $15 Lot A $12 in new parking structure	$5.9M	$54M - $60M
		$16.0M	$147M - $163M
Distribution: Parking Structure $50M		Terminal Improvements: $108M	

Summary:

1. $16.0M can be generated from Passenger Facility Charge (PFC), user fee and parking increases (see above).

2. Based on the assumptions above, the $16.0M available for debt service would cover a capital expenditure of $147M - $163M.

3. This is in the range to cover $50M for the parking structure and $108M for the terminal improvements.

Notes:

1) Does not include $3.87M in expected revenue from one-time lease extension payments expected during FY 06 (Arden +Investcorp).

[1] MAP = million annual passengers

2) Maintains competitive airline fee structure ($6/enplaned passenger, compared to $6 at LAX and $8 at John Wayne).

3) Maintains competitive vehicle parking fees for close-in parking (current $12/day fee at Lot B, typically sells out).

4) Presumes Insured Airport Revenue Bonds, to protect the City's GP Fund.

5) Does not include passengers over 4 Million Annual Passengers (current is 3 MAP), although forecasts range from 4.2 to 5.0 MAP with full use of commuter slots. Even with no passenger growth, at 3 MAP an increase in user fees to somewhere in the $8/enplaned passenger range (same as John Wayne Airport) would address debt service requirements of the proposed $150M-160M project.

6) Does not include other potential income sources such as one-time Net Present Value lease payments for Parcels A-1 and Airport entrance hotel site ($17.3M), and potential multi-million dollar car rental customer facility charge (CFC), which is common in the industry and could be used to finance car rental facilities in the parking structure (s).

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ATTACHMENT 3

STABILITY OF LONG BEACH AIRPORT

AIR PASSENGER MARKET

Sabre Airline Solutions™

MARCH 2005

STABILITY OF LONG BEACH AIRPORT AIR PASSENGER MARKET

Background

Over the past twenty-five years, the Long Beach Airport has seen periods of high passenger and low passenger demand. The high passenger demand has followed the implementation of frequent and low fare air service. The low passenger demand was caused by the withdrawal of air service by airlines.

In the early 1980's, the Long Beach Airport received air service by Pacific Southwest Airlines and Jet America Airlines, a new airline based at Long Beach Airport. The two airlines provided frequent flights and low fares to San Francisco, Chicago, Dallas, and St. Louis. The passenger response was very good and other airlines soon came into the Long Beach Airport with competitive flights and service to other markets. By the mid 1980's, the Long Beach Airport had service by American Airlines, Alaska Airlines, Continental Airlines, Delta Air Lines, TWA, and United Airlines along with PSA and Jet America.

In the late 1980's, the airline industry went through a period of consolidation. In California we saw the acquisition and merger of Jet America by Alaska Airlines, PSA by US Air, Air California by American Airlines, and Western Airlines by Delta Air Lines. Along with these mergers came route consolidation and elimination of some air service. Long Beach was a casualty of this action. By the late 1990's, airline service to Long Beach Airport had been reduced to service by America West Airlines to Phoenix, and by American Airlines to Dallas/Ft. Worth. Passenger demand for these flights and resulting load factors for these flights was good but the airlines did not expand the number of flights nor did other airlines come to Long Beach.

In 2001, Jet Blue Airways expressed interest in operating at Long Beach Airport with service to airports in large population centers. Jet Blue was a new airline having started service in February 2000 at New York Kennedy Airport. The airline operated new A-320 aircraft with low fares and frequent flights. This was the type of air service that had done well previously at Long Beach Airport. Jet Blue started service at Long Beach Airport in 2001 and now operates nonstop flights to seven airports: New York Kennedy International Airport, Washington Dulles International Airport, Ft. Lauderdale International Airport, Boston International Airport, Salt Lake City International Airport, Las Vegas International Airport, and Oakland International Airport. The airline has done extremely well at Long Beach. It enplaned over 1 million passengers at Long Beach Airport in 2004 at a load factor exceeding 80%.

American Airlines continues to operate flights to Dallas/Ft. Worth, America West continues to operate flights to Phoenix, and Alaska Airlines has brought back service to Seattle. The passenger demand and the load factors for these airlines are very good.

Market Share

The other satellite airports in the Los Angeles basin (Burbank Airport, Orange County Airport, and Ontario International Airport) have seen increases of airline service and strong passenger demand for this air service. Historically, the satellite airports have been able to generate a passenger market share equal to their population share of the Los Angeles metro area when the satellite airports had competitive air service with the air service available at Los Angeles International Airport and the other airports in the area.

This has also been the case for Long Beach Airport. In 2004, the Long Beach Airport produced 1.47 million outbound passengers. Long Beach Airport had nonstop service to ten airports, seven by Jet Blue and one each by American Airlines, America West Airlines, and Alaska Airlines. In 2004, these ten airport markets generated 2,570,738 origin and destination passengers in both directions. The total passengers for Los Angeles International Airport to these ten airports was 8,910,088 and the total passengers for Orange County Airport to these ten airports was 3,078,118. The total passengers for the three airports was 14,558,944 with Long Beach Airport accounting for 17.7% of this total.

The Long Beach Airport is easily accessed by four freeways: the 91 to the north, the 405 to the south, the 710 to the west and the 605 to the east. The Long Beach Airport is the most convenient airport for the people in at least 16 cities in Los Angeles County and for the people in at least 10 cities in Orange County. The total population of Los Angeles County and Orange County for 2004 was 13 million. The population for the 26 cities that are more conveniently located to Long Beach airport was 2.09 million. This primary market for Long Beach Airport comprises 16% of the total population of Los Angeles County and Orange County. The City of Long Beach accounts for 3.7% of the total population for the two counties and the City of Long Beach combined with the City of Lakewood account for 4.3% of the two county population.

The 17.7% passenger share in the ten nonstop markets is even more impressive when this market share is compared to the seat share for Long Beach Airport in these ten nonstop markets. According to data compiled from the Official Airline Guide, Long Beach Airport had a seat share of 13% in these ten nonstop markets when compared to the nonstop flights and seats available at Los Angeles International Airport and Orange County Airport.

Pricing and frequency does play a large part in market share. In the seven Jet Blue markets, every market except for Boston had a significantly higher passenger share than seat share for the three airports. On the other hand, the three markets served by other airlines did not follow this trend. This is primarily due to the enhanced marketing program by Jet Blue for it flights at Long Beach Airport, the passenger amenities offered by the airline, and the reputation as a low fare airline with good quality service. The popular Jet Blue service combined with the service by American, America West, and Alaska has made Long Beach Airport the fifth highest load factor airport in the country.

LONG BEACH AIRPORT PASSENGER SHARE IN NONSTOP MARKETS

Airport	LGB	LAX	SNA	Total	LGB %
New York Kennedy	847,019	1,513,071	151,037	2,511,127	33.7%
Oakland	463,112	1,269,981	784,020	2,517,113	18.4%
Washington Dulles	330,909	624,369	34,310	989,588	33.4%
Dallas/Ft. Worth	187,245	560,786	244,988	993,588	18.8%
Las Vegas	180,602	1,305,970	458,294	1,944,866	9.0%
Boston	131,181	811,906	52,560	995,647	13.2%
Ft. Lauderdale	168,600	497,422	37,814	703,836	24.0%
Seattle	110,741	868,992	473,843	1,453,576	7.6%
Salt Lake City	91,177	554,654	253,821	899,652	10.1%
Phoenix	60,152	902,937	587,431	1,550,520	3.9%
Total	2,570,738	8,910,088	3,078,118	14,558,944	17.7%

Source: U.S. DOT origin and destination survey, 12 month passengers for period ending 9-30-04.

LONG BEACH AIRPORT SEAT SHARE IN NONSTOP MARKETS
(Seats per week in both directions)

Airport	LGB	LAX	SNA	Total	LGB %
New York Kennedy	18,368	57,248	-	75,616	24.3%
Oakland	10,920	51,668	24,454	87,042	12.5%
Washington Dulles	8,736	31,706	-	43,384	20.1%
Dallas/Ft. Worth	11,678	39,410	15,960	67,048	17.4%
Las Vegas	4,368	55,022	15,568	74,958	5.8%
Boston	4,368	20,116	-	24,484	17.8%
Ft. Lauderdale	2,184	12,496	-	14,680	14.9%
Seattle	5,040	34,380	16,104	55,524	9.1%
Salt Lake City	2,184	28,980	9,864	41,028	5.3%
Phoenix	5,288	49,588	25,566	80,442	6.6%
Total	73,134	380,614	107,516	561,264	13.0%

Source: Official Airline Guide, September 2004.

Other Market Opportunities

In the event that Long Beach Airport should lose any of its existing flights in any of these nonstop markets, there is a strong enough passenger demand for more flights to some of the existing airports or for service to other airports.

Based on a 16% share of Los Angeles County and Orange County population for the Long Beach Airport market area, the passenger demand at Long Beach Airport should be able to support additional flights to Phoenix, Salt Lake City, Seattle, and Las Vegas if departure slots are available. To achieve a passenger share comparable to the population share, Salt Lake City, Phoenix, and Las Vegas could support two more round trip flights per day. Seattle is estimated to be able to support one more round trip flight per day

There are other cities with large passenger totals from the Los Angeles metro area and they probably would have enough passenger demand in the Long Beach Airport market area to also support nonstop service. Listed below is a sample of other markets that have a large passenger demand.

OTHER MARKET OPPORTUNITIES FOR LONG BEACH AIRPORT

Airport	LGB	LAX	SNA	Total
Chicago-O'Hare	9,125	1,105,512	368,139	1,482,776
Denver	5,329	775,552	318,718	1,099,599
Atlanta	29,127	819,133	214,620	1,062,925
Portland	4,745	489,100	275,721	774,311
Detroit	8,979	576,773	85,775	671,527
Houston	6,789	407,705	137,313	551,807

Source: U.S. DOT origin and destination survey, 12 month passengers for period ending 9-30-04

Denver, Atlanta, and Detroit are currently served by three low fare airlines. Frontier Airlines has a hub at Denver, Air Tran has a hub at Atlanta, and Spirit has a hub at Detroit. Each of these airlines is expanding their route systems and each airline has new aircraft on order for delivery in 2005 through 2008. Chicago, Portland, and Houston are served by Southwest Airlines and Southwest Airlines is also expanding its route system and adding new markets.

Stability of Air Service

Over the past forty years, passenger demand has always responded well to air service at Long Beach Airport. The airlines that seem to prefer Long Beach Airport are the low cost and low fare airlines. In the 1970's it was PSA, in the 1980's it was Jet America, and now it is Jet Blue. The lower operating cost at Long Beach Airport coupled with its convenient location and easy access makes it easier for the airlines to attract passengers at Long Beach Airport.

The Legacy Airlines (American, Continental, Delta, Northwest, United) prefer to operate at one airport in the region and have a centralized operation. Only for competitive reasons and market share do the Legacy Airlines opt to serve the satellite airports in the Los Angeles basin. Since Long Beach Airport is a slot restricted airport and since Jet Blue controls almost 70% of the passenger airline slots, the Legacy Airlines cannot provide the competitive flights that they do at other satellite airports in the Los Angeles basin.

Interestingly, the type of airline that Long Beach is most appealing to is the Low Cost Carrier. This segment of the airline industry is experiencing the greatest growth in passengers, new routes, aircraft and maintaining the best financial posture in the industry during these troubling times.

There are sixteen airlines providing scheduled passenger service with jet aircraft larger than 100 seats in the mainland U.S. plus two airlines in Hawaii. Of these eighteen airlines, eight are considered Low Cost Carriers and include: Air Tran Airways, Allegiant Airlines, America West Airlines, ATA, Frontier Airlines, Jet Blue Airways, Southwest Airlines, and Spirit Airlines. Most all of the mid size and large hub airports are actively recruiting air service by the Low Cost Carriers because they believe that these air carriers will be the most successful in the future and will generate the most passengers for their airports. Long Beach Airport is already served by two Low Cost Carriers.

The Regional Airlines are also experiencing good growth and profitability at the current time. These airlines are the partners of the Legacy Airlines and feed connecting passengers at the hub airports of the Legacy Airlines. The Regional Airlines are transitioning to all-jet fleets with 50 seat to 84 seat regional jet aircraft. Long Beach Airport is currently receiving regional jet service to Phoenix by America West Express with the 84 seat CRJ-900 aircraft. These flights are being provided under the cap for large jet aircraft. Long Beach Airport has 25 slots for commuter aircraft weighing less than 75,000 lbs. in gross takeoff weight. America West has indicated that it will take three of the commuter slots in June, leaving 22 commuter slots for future growth.

Previously, Long Beach Airport received regional jet service by Horizon Air to Seattle. This service was switched in late 2003 to B-737 flights by Alaska Airlines, the sister company of Horizon Air. Long Beach may be a candidate for regional jet service to

hubs like Denver, San Francisco, and Salt Lake City. Jet Blue as ordered over 100 Embraer 190 regional jet aircraft that carry 108 passengers. Jet Blue will take delivery of this new aircraft in late 2005 and introduce service in the East. This aircraft may also be used later at Jet Blue markets in the West to replace current A-320 aircraft or to add flights to other new markets.

With the success of Jet Blue at Long Beach Airport and the airport generating over 1.47 million enplaned passengers in 2004 and with high load factors, Long Beach will be viewed as a "market of opportunity" by the other Low Cost Carriers. If American Airlines or Alaska Airlines were to terminate any flights at Long Beach Airport, it is most probable that Jet Blue or one of the Low Cost Carriers will fill the void. It is estimated that the passenger demand at Long Beach can easily support more flights to some of the current cities served and other large metro areas. Long Beach Airport is no longer dependent on the Legacy Airlines to meet its air travel demand.

TABLES

POPULATION IN PRMARY CATCHMENT AREA FOR LONG BEACH AIRPORT

Cities in LGB Primary Catchment Area

Los Angeles County	
Bellflower	75,700
Bell Gardens	46,300
Carson	95,200
Cerritos	53,500
Compton	97,300
Downey	111,600
Huntington Park	64,400
Lakewood	82,300
La Mirada	49,600
Long Beach	480,700
Montebello	64,800
Norwalk	107,900
Paramount	54,400
Pico Rivera	66,000
South Gate	100,800
Whittier	86,800
Total in Catchment Area	1,637,300
Orange County	
Buena Park	80,100
Cypress	47,100
Garden Grove (1/2)	84,100
Huntington Beach (1/2)	98,200
La Habra	61,300
Los Alamitos/Rossmore	39,500
Seal Beach	24,500
Stanton	38,300
Westminister	90,900
Total in Catchment Area	449,310
Total Both Counties in Catchment Area	2,086,600
Total Population of Both Counties	13,006,500
% in LGB Catchment Area	16.0%

Note: This catchment area is based on driving times and distances to LGB, LAX, and SNA. It is smaller than the catchment area defined by SCAG.

AVERAGE FARES IN MAJOR NONSTOP MARKETS

Airport	LGB	LAX	SNA
New York Kennedy	$136.71	$221.27	$148.30
Oakland	59.01	68.25	71.28
Washington Dulles	135.88	243.16	226.86
Dallas/Ft. Worth	154.56	163.14	166.19
Las Vegas	55.39	61.95	68.05
Boston	130.40	168.15	220.73
Ft. Lauderdale	123.56	133.28	150.59
Seattle/Tacoma	117.46	121.52	133.14
Salt Lake City	74.06	87.82	89.48
Phoenix	79.06	61.97	64.54

Note: Average fares are calculated by the U.S. Department of Transportation in the Origin and Destination Survey by dividing total revenue in each city pair market by the total revenue passengers in each city pair market.

P:\Airport\Airport passenger stability market