ISSUE BRIEF

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Regional Airport Market and Economic Evaluation

Baton Rouge Area Foundation

Baton Rouge Area Chamber®

It is widely accepted that airports can be major growth engines for regional economies. Along with shipping, railroads, and highway systems, airports play a critically important role in determining a region's economic vitality – by positively or negatively impacting the ability of people and cargo to move efficiently and effectively. One only has to look at the vibrant developments, both commercial and residential, that have grown around many major U.S. airports to appreciate their potential economic impact.

With the Baton Rouge area economy continuing to grow amidst the hurricane-related population shifts in south Louisiana, the Baton Rouge Area Chamber (BRAC) – with funding support through the Baton Rouge Area Foundation (BRAF) – commissioned a research effort to assess a range of strategic options regarding airports in the Baton Rouge area. The six month research effort was conducted by Booz Allen Hamilton, a global strategy and technology consulting firm, with input from a task force of regional business and community leaders assembled for the project. A wide range of strategic options was considered, including expansions of existing airport facilities, the construction of new airports, the establishment of new super-regional[1] airports that might service multiple major destinations, and the use of airline incentives to attract new carriers to the region.

Our research concluded that the residents and businesses of the Baton Rouge area would be best served over the next 25 years by making continued investments in the Baton Rouge Metropolitan Airport (Baton Rouge Metropolitan) at its existing location and by aggressively leveraging airline incentives to recruit new low-cost carrier service to the airport. This strategy is expected to result in substantially reduced ticket fares and increased airline service levels (including the number of destinations served by direct flights and the number of flights per day) for Baton Rouge area travelers. Additionally, this strategy is expected to be extremely cost-effective when compared to strategic options that involve the construction of new airport facilities.

Our existing southeast Louisiana and south Mississippi airports: a solid network with ample capacity for growth

People traveling in and out of southeast Louisiana and south Mississippi generally use one of the four airports highlighted on the following page. Baton Rouge area travelers primarily fly into and out of Baton Rouge Metropolitan, but also make significant use of New Orleans Armstrong International Airport

[1] This document defines the "super-region" as the Southeast Louisiana and South Mississippi markets currently served primarily by airports in Lafayette, Baton Rouge, New Orleans, and Gulfport (MS)

(Armstrong International) and modest use of the airports in Lafayette and Gulfport. Our research showed that 25-35 percent of Baton Rouge area travelers use Armstrong International instead of Baton Rouge Metropolitan due its relatively close proximity, its lower-cost fares, and its large number of flight options.

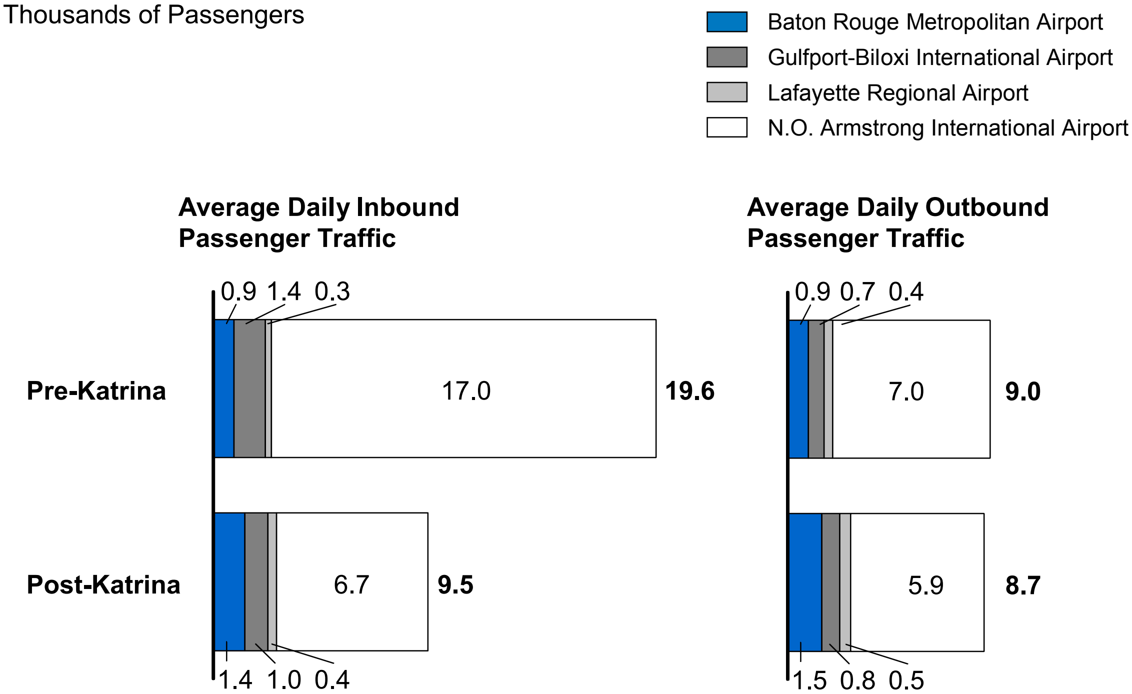
PRIMARY EXISTING AIRPORTS IN SOUTHEAST LOUISIANA AND SOUTH MISSISSIPPI

Source: *Booz Allen Hamilton*

Armstrong International has much higher passenger volumes than the other three airports in the super-region, even after the loss in volume associated with Hurricane Katrina. For example, Armstrong International handled over 13 times the volume handled by Baton Rouge Metropolitan prior to Katrina and now handles over four times the volume. Armstrong International's volume declines have been driven primarily by a reduction in inbound tourism traffic. Our analysis suggested that the inbound tourism traffic would likely rebound over the next 3-10 years since most of New Orleans' significant cultural and tourism related assets were not severely impacted by Hurricane Katrina's floods.

EFFECT OF HURRICANE KATRINA ON AIRPORT PASSENGER TRAFFIC

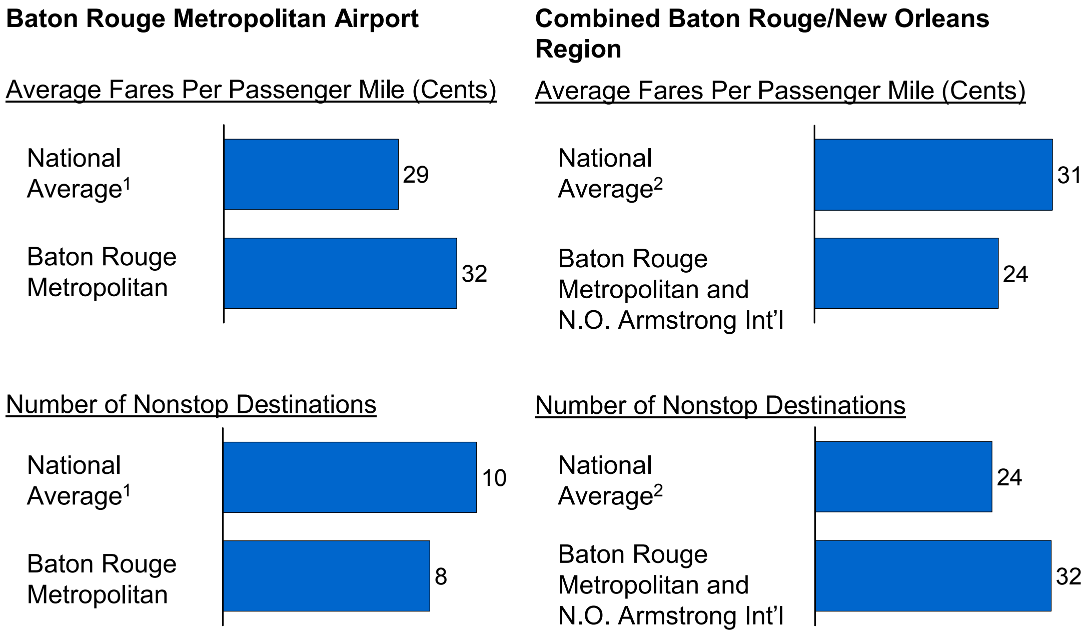
Thousands of Passengers



Source: *Booz Allen Hamilton*

We found that airline service levels for the combined New Orleans/Baton Rouge area are better than what might be expected for a market with a population of around two million people. This is driven by the strong airline service levels enjoyed at Armstrong International, which has traditionally benefited from inexpensive fares and a wide range of non-stop destinations because of the significant passenger demand generated by the New Orleans tourism industry. Airline service levels at Baton Rouge Metropolitan have historically been below average, primarily because it has operated in the shadow of the larger Armstrong International.

FARES AND NON-STOP SERVICE AT SOUTHEAST LOUISIANA AIRPORTS VS. NATIONAL AVERAGES



1 Based on population of 0.65MM – 0.75MM
2 Based on population of 1.8MM to 2.1MM
Source: *Booz Allen Hamilton*

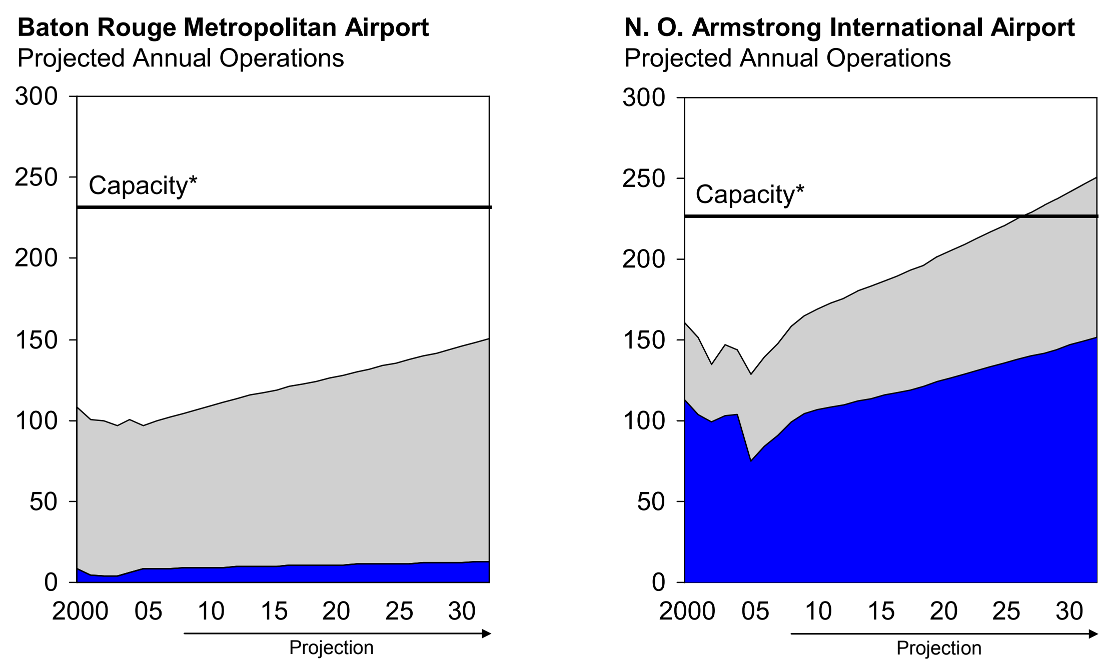
The proximity of Armstrong International to Baton Rouge area travelers results in both positive and negative impacts. Area businesses and residents benefit from access to an extremely wide range of flight options and generally inexpensive fares within one-hour drive at Armstrong International. They suffer because Baton Rouge Metropolitan, the closest airport available, has fewer flight options than it might have if Armstrong International did not attract so many of its potential travelers.

All existing airports within the super-region appear to have ample growth capacity for the next 25 years[2] given current and expected flight volumes based on reasonable forecasts for population and tourism growth. Additionally, our research did not uncover any insurmountable obstacles at either Baton Rouge Metropolitan or Armstrong International that would prevent the construction of an additional parallel runway (essentially doubling capacity) if demand started to outstrip capacity under the current runway design.

[2] With a modest shift in Armstrong International general aviation/air taxi traffic to other nearby airports

PROJECTED AIRPORT OPERATIONS VS. AIRPORT CAPACITY

General Aviation and Air Taxi
Commercial Carrier



* Assumes no major runway expansion

Source: Booz Allen Hamilton

A new passenger airport: an expensive proposition without clear benefits for the Baton Rouge area

As part of our research effort, we analyzed a wide range of strategic airport options with potential to better serve the Baton Rouge area and catalyze our region's economic growth. Some options were quickly discarded as unrealistic or unattractive given airline market dynamics and economic/population forecasts for the region.[3] Others, as summarized on the following page, were considered in more detail.

[3] For instance, establishing a new super-regional passenger airport without closing Baton Rouge Metropolitan and Armstrong International was dismissed as unrealistic because it would be unable to generate enough passenger traffic to attract reasonable airline service.

Major strategic airport options evaluated in detail

1	Continue operating existing four airports; upgrade/expand as needed and proactively leverage incentives to attract low-cost carrier service to Baton Rouge Metropolitan
2	Move Baton Rouge Metropolitan to a suburban location where current regional population growth is most prevalent (e.g., Livingston or Ascension Parish)
3	Establish a new super-regional airport along I-12 located to serve both the New Orleans and Baton Rouge areas (e.g., East Livingston or Tangipahoa Parish); close Baton Rouge Metropolitan and Armstrong International
4	Establish a new super-regional airport along I-12 located to serve the New Orleans, Baton Rouge, and South Mississippi areas (e.g., St. Tammany Parish); close Baton Rouge Metropolitan and Armstrong International
5	Establish a new super-regional airport along I-10 located to serve both the New Orleans and Baton Rouge areas (e.g., South Ascension, St. James, St. John the Baptist, or St. Charles Parish); close Baton Rouge Metropolitan and Armstrong International

All of the above strategic options were compared against two “status quo” scenarios – a) all four existing airport facilities stay in their current locations and gradually expand and upgrade to meet demand, and b) the City of New Orleans relocates Armstrong International to Eastern Orleans Parish[4] while the other three existing airport facilities stay in their current locations.

Our analysis showed that, over the next 25 years, there is no realistic scenario for a new airport that outperforms the existing airport network. In other words, Baton Rouge area travelers – and the Baton Rouge area community at-large – are best served through continued improvements and upgrades to the existing airports in their current locations. Likewise, the New Orleans area is best served by maintaining its airport fairly close to its population base and its tourism assets versus locations closer to Baton Rouge or the North Shore.

What about air cargo?

Successful multi-modal cargo airports can be major economic engines for the regions in which they operate. Examples include Fort Worth Alliance Airport in Forth Worth (TX) and Rickenbacker International Airport in Columbus (OH). However, not all cargo airports are successful, as exemplified by the underutilized North Carolina Global TransPark cargo airport.

Our analysis found that the air cargo market is highly competitive in the U.S., and particularly in the Southern U.S. The competitive posture of well-established nearby passenger/cargo hub airports in Houston, Dallas, Atlanta, and Miami creates a challenging market dynamic for air cargo expansion in South Louisiana.

However, we also found that a cargo airport requires only a small number of high-volume air cargo carriers or traffic generators (e.g., FedEx in Memphis) to operate successfully. The risks and rewards associated with developing a major new cargo airport in South Louisiana will depend in large part on the ability of the airport to contractually “lock in” one or more businesses that are committed to using the facility extensively.

[4] Over the last 3-5 years, a number of New Orleans elected officials have expressed interest in moving Armstrong International from Jefferson Parish to Eastern Orleans Parish

COMPARISON OF STRATEGIC OPTIONS

Recommended option

	Alternatives	Average Trip Cost[1] ($)	Daily Passengers (000's) B.R. Metro Airport	Daily Passengers (000's) Super-region	Daily Direct Flights[2]	Project Cost ($ millions)
1	***Low cost carrier incentive*** to fly to Baton Rouge Metropolitan Airport; existing airport facilities remain in current locations	$613	5.4	41.6	62	$10
a	Status Quo - ***Existing airport facilities stay in their current locations*** and gradually expand and upgrade to meet demand	$638	4.7	40.2	61	N.A.
3	New ***super-regional airport along I-12 (East Livingston or Tangipahoa)***	$642	N.A.	36.6	53	$3,000
2	***Baton Rouge Metropolitan moves East*** to suburban location near high-growth population areas	$645	5.1	39.7	61	$2,000
b	Status Quo - New Orleans relocates ***Armstrong International to Eastern Orleans Parish***; Baton Rouge Metropolitan stays in current location	$652	4.9	39.7	61	$8,500
5	New ***super-regional airport along I-10***	$673	N.A.	38.6	52	$2,500
4	New ***super-regional airport along I-12 (St. Tammany)***	$742	N.A.	37.6	50	$2,800

[1] Average travel costs for Baton Rouge area traveler
[2] Throughout the super-region
Source: Booz Allen Hamilton

Low-cost carrier incentives: an inexpensive solution aligned with market dynamics

Our analysis also uncovered an additional key finding: Baton Rouge Metropolitan Airport's post-Katrina passenger volumes were at levels that should be of moderate interest to low cost carriers. The use of airline incentives to make the Baton Rouge area more attractive to low cost carriers would be worthwhile since the presence of low cost carrier service would likely lead to:

- Lower fares to all cities served by the low cost carrier, on both the low cost carrier and traditional airline flights
- Direct flights to additional cities that operate as the low cost carrier hubs
- Higher passenger volumes at Baton Rouge Metropolitan, providing improvements in airport revenues and new opportunities for upgrading the airport facility

Our analysis suggested that Baton Rouge area travelers (both inbound and outbound) could save approximately $900 million in reduced fares and drive-time costs over a 25 year period if low cost carrier service were attracted to Baton Rouge Metropolitan.

These benefits were estimated to clearly outweigh the approximately $10 million in costs to the Baton Rouge area community ($1-3 million per year for approximately five years until the market matured enough to generate profits for the low cost carriers without incentives). This $10 million cost was estimated to be over 200 times less expensive than the $2-3 billion needed to construct a new airport facility.

PROJECTED BENEFITS AND COSTS OF OFFERING INCENTIVES TO LOW COST CARRIERS

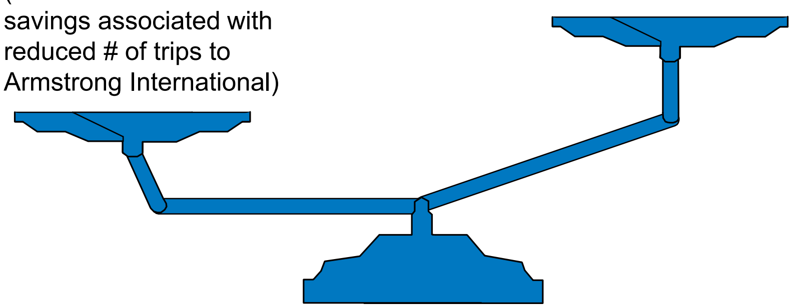
Benefits and Costs to Baton Rouge Area over a 25 Year Period

Benefits

~$900 million* in savings for inbound and outbound passengers (lower fares and time savings associated with reduced # of trips to Armstrong International)

Costs

~$10 million** in incentives to airline carriers willing to bring low cost service into Baton Rouge Metropolitan



* Average savings of ~$25/trip (for all Baton Rouge area inbound and outbound flights) gradually reached over 2008 – 2032 timeframe; average savings of ~$5/trip with first low cost carrier in 2008; average savings of ~$10/trip with second low cost carrier in 2010; additional savings gained in 2011-2032 as passenger volumes grow and low cost carriers increase presence at airport

** $1-3 million/year over a 5-year period; assume low cost carriers able to profitably operate at Baton Rouge Metropolitan after initial 5-year period, so incentives can be phased out

Source: Booz Allen Hamilton

Modeling strategic airport options

Booz Allen Hamilton constructed a sophisticated computer model to evaluate the economic impact of various strategic airport options considered in the research effort. The model consisted of three major components:

1. Economics and demographics: projected latent demand for air travel in the super-region taking into account population growth, economic growth, and tourism drivers
2. Travel costs and airport choices: estimated the costs for travelers given the volume of passenger traffic at each airport, the airport chosen by passengers based on historical preferences, and the drive-distance between travelers and airports
3. Airline service response: projected the likely airline reduction in fares, increases in flight frequency, and increases in non-stop flights if passenger volumes were increased at airports. These outputs were then fed back as inputs to component 2 (described above) until the model converged on a solution

By leveraging a computer model utilizing historical ticket purchase and price data across the nation, Booz Allen Hamilton was able to identify strategic recommendations based on the true market dynamics of the airport and airline industries.

The path forward

The near-term path forward for the Baton Rouge area is clear: aggressively pursue low cost carrier service into the Baton Rouge Metropolitan Airport and be willing to spend several million dollars per year in the effort. The payoffs for area businesses and residents are significant and the incentives are likely short term in nature.

Additionally, the Baton Rouge area should periodically revisit the strategic assessment of new airport options. Changing population trends and airline market dynamics may point to a new strategic choice at a later date. Given that the planning, design, and construction for a new airport is an extremely lengthy process (about 15-20 years), the Baton Rouge area should be proactive in reassessing strategic airport options well before existing airports reach capacity.