Embark Aviation

New Mexico Air Service Marketing Strategy

Prepared for New Mexico Department of Transportation and New Mexico Department of Tourism

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Section 1: Introduction

Effective Air Service Marketing is the integration of three core components to form an Air Service Market Strategy. Air service marketing is one of three components that supports the air service ecosystem. The second component supports incentive programs used to attract and, in some cases, retain air service. The third component supports air service development and includes identifying the best market opportunities and matching them with the airline that can best fit the mission. Air Service Development (ASD) is arguably the most critical of the three. For air service marketing to be successful and incentives to generate an ROI, there must be a solid, economically viable market. ASD ensures markets are identified, vetted, forecasted, and presented in a way to 1) ensures a pathway for success and 2) instills confidence in the target airline being pursued for the service. It will be critical that New Mexico have an ASD expert on staff, or more traditionally, contracted out to a firm to execute.

Figure 1: Topics Explored

The figure above highlights the areas explored in this document and provides insight on how New Mexico can leverage these to create an innovative air service market – integral for maintaining, growing, and attracting new air service to the State.

Section 2: Airlines in New Mexico and their Business Models

Airline Industry History

The modern air transportation system in the U.S. was formed because of the Airline Deregulation Act of 1978. Prior to deregulation, all marketplace decisions made by the airlines, including routes flown and fares offered, were regulated by the federal government. There were numerous, small airlines, each largely related to a certain role, be it a trunk carrier, a local-service provider, or only international flights in the case of Pan American. For many itineraries, it was common to switch airlines during a connection, with some marketed as interchanges. To the extent that airlines competed, it was based on speed and on-board service. Prior to deregulation, air travel was a high-cost luxury good, enjoyed by relatively few people.

Deregulation brought with it sweeping changes. The airlines were now free to enter or exit any market they chose, with an exception for the last carrier to exit a community. New airlines, derived from intra-state examples in California and Texas, demonstrated volume could be increased with low fares. The low fares were supported by low costs, largely based on the new airlines having no underlying structures where relatively high costs were supported by regulated high fares. The legacy airlines rearranged their flight networks into a hub-and-spoke model, implemented frequent flyer programs and limited low fare seats to try and remain competitive.

In the years that followed, airlines grew substantially, bringing air travel to the masses as low fares spread; the average realized fare declined year after year for decades. As a group, the legacy airlines struggled, as fares declined, and costs increased. In the best of times, some airlines were marginally profitable. When recessions hit, both legacy and start-up airlines failed with regularity, going bankrupt and often abruptly ending services altogether and without warning. To shore up finances (and create national networks and economies of scale) surviving carriers combined through mergers and asset acquisitions. The U.S. was left with fewer airlines after each economic cycle, as this pattern repeated.

In the 1990's three major developments added to the cycle driven success and failure of airlines. First, the concept of deregulation spread across the globe. Highly regulated international services were liberalized (although much more slowly than the domestic market). This allowed for U.S. carriers to cooperate more specifically with certain international airlines,

versus the general cooperation among all airlines in the regulated environment. Partnerships which formed the basis of today's modern airline alliances were formed.

The second development was widespread adoption of regional jets. During the 1980's, hub carriers developed networks of independent turboprop airlines in franchise agreements to feed their new and growing hubs. With the introduction of the regional jet, the major airlines assumed the financial risk of these operations, converting the former commuter airlines into operating entities through Capacity Purchase Agreements, where the commuter agreed to operate flights dictated to it by the major carrier.

Lastly, the advent of the internet revolutionized the way airline tickets were sold, creating new direct-to-consumer sales methods. Airlines were among the first industries to adopt computerization in the 1960's and were likewise early adopters of sales via the internet. Prior to the internet, travel was largely arranged by travel agents, people who were specialists in packaging components of travel and experts in the complex and private reservations systems that sold travel. As the airlines and other travel providers developed more direct-to-customer sales channels, travel agents evolved online into the websites like expedia.com.

Additional developments in the last decade have shaped todays airlines. First, innovative airline managers identified and exploited a new low-cost niche. New 'Ultra-Low Cost Carriers' (ULCC's) have evolved, by exploiting a specific combination of even lower costs and traffic stimulation. On the cost side, these carriers understand large single aisle aircraft offer the best possible unit economics. Therefore, they commit their business models to only using certain aircraft types. To drive new industry revenue, they have employed tactics such as 'unbundling' formerly included services like advanced seat selection and checked baggage from the minimum fare. They also break the tradition of offering daily service on a route, to ensure small markets generate enough volume to be profitable. This strategy has worked exceptionally well connecting smaller communities to large leisure destinations like Las Vegas and Orlando.

Second, the airlines have become profitable, as group, for the first time since deregulation. The consolidation of the airline industry has allowed for capacity to be most closely aligned to demand. Further, the advent of ULCC's has allowed the airlines to become segmented along target customer lines (i.e. full-service, value, and bare-bones offerings) versus geography in the

past. Prior to the Covid-19 pandemic, this well-balanced but evolved mix of marketplace supply and demand has allowed virtually all airlines to remain profitable for nearly a decade.

Airline business models

The evolution of the airline industry has led to several specific types of airlines, with unique customer propositions and characteristics, all of which are found in New Mexico. Of course, each type of airline has specific roles in the marketplace that influences its air service offerings and are unlikely to change for the benefit of a single destination or region. Even so, because each type of airline has distinct advantages, air service initiatives should be targeted accordingly.

Carrier Type	Network Carriers	Low-Cost/Value	Ultra-Low-Cost	Part 135 On-Demand	Part 135-Commuter
Network Reach	Worldwide network accessed via multiple large connecting hubs	National network with large focus cities and operational bases	National network with large focus cities and operational bases	Niche networks designed for specific market opportunities	Niche networks designed to exploit 9-seat aircraft platforms
Network Connections	Connections available worldwide to locations large and small via hubs	Connections available, but focused on large markets and niche geography	Although connections sometimes offered, focused on nonstop markets	Connections sometimes offered if carrier has sufficient arrangements with network carriers	Connections sometimes offered if carrier has sufficient arrangements with network carriers
Alliance and Airline Partners	Each network carrier belongs to a worldwide airline alliance with a team of international partners and reciporcal frequent flyer benefits; additional codeshare and interline connection partners	Typical do not belong to global alliance. May maintain some codeshhare or interline relationships	Do not belong to alliances. Codeshare and interline agreements with other carriers are rare and specialized	Limited interline connections to network carriers	Limited interline connections to network carriers
Aircraft Fleet	Range of aircraft types designed to optimize supply vs. demand. Aircraft have up to four cabins onboard: First, Business, Premium Economy, Economy	Limited range of aircraft sizes focused on narrow-body aircraft usually between 100 and 225 seats. Number of aircraft types minimized for efficiency. Seat density typically standard to generous, and seat upgrade options may be available	Typically one family of large narrow-body aircraft; may include sub-models for modest capacity range. Typically one class of service in very dense seating configution	Small Jet and Turbo-props Aircraft up to 30 seats in one class of service	Aircraft no more than 9 seats. Often operated with one pilot
Ancillary Fee Strategy	Ancillary fees focused on infrequent travelers and low-value tickets. Frequent flyers and premium cabin passengers have most fees waived	Minimal extra fees with focus on marketing customer friendly fee structure	Substantial additional fees accommodate very low base fares	Few additional fees	Few additional Fees

Figure 2: Types of Air Carriers

Airline Services Across New Mexico

Each of the five business models outlined have influence across New Mexico. Albuquerque International Sunport (ABQ), by far the largest commercial airport in the state, is home to almost every service provider type, including low-cost/value and ultra-low-cost carriers, providing a broad range of options to consumers. Roswell, Santa Fe Regional Airport and Lea County Regional Airport in Hobbs each host the regional affiliates of the network carriers. The remaining commercial service airports in New Mexico are serviced by Part 135 carriers, with additional support structures.

Albuquerque Network Composition

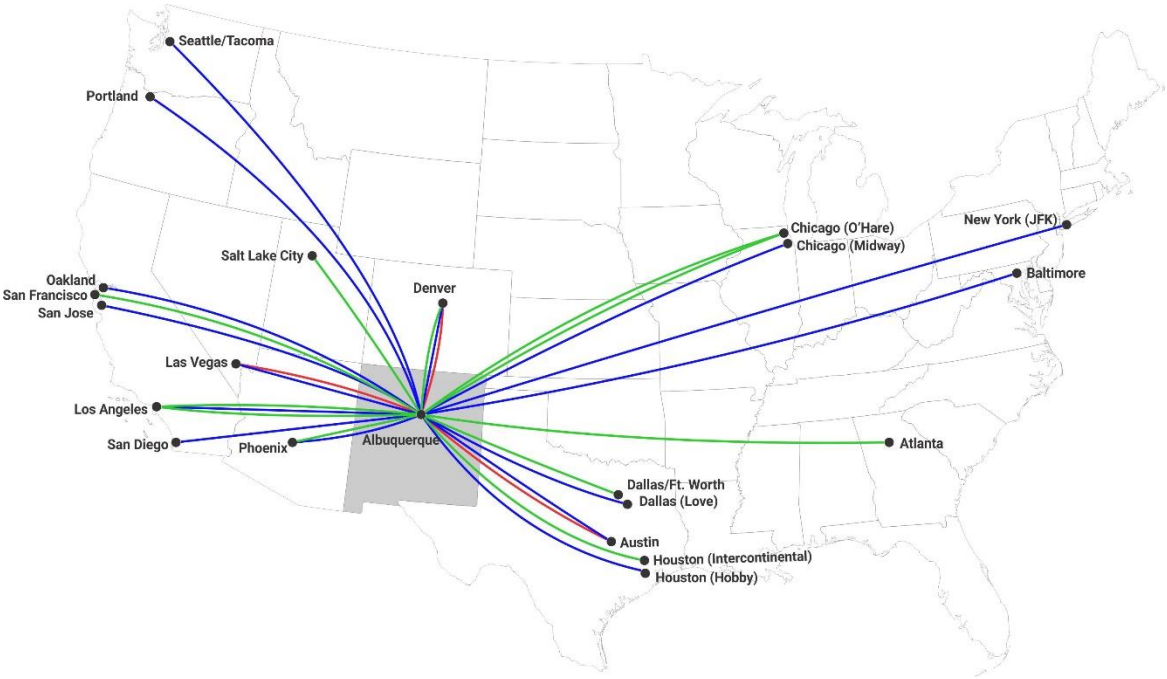


Figure 3: Albuquerque Network

As the primary commercial service airport in New Mexico, ABQ hosts a broad range of services. Each of the three major network carriers, American, Delta, and United, host robust service from ABQ to several hubs, providing access for one-stop connections to every major market worldwide, and even deeper access via their airline alliances OneWorld, Sky Team, and Star. Combined, the network carriers garner about 44% of market share at ABQ.

The value segment has the highest share, at 54%, due primarily to the fact that category leader Southwest Airlines has maintain a large presence at ABQ for years, and commands 48% market share on its own, with Alaska and JetBlue accounting for the remaining 6%.

There are several factors leading to the ULCC segment having little market share at ABQ. First, is the fact that the ULCC's tend to focus on two different market types which do not apply to mid-sized ABQ: 1) They focus on very large and competitive markets where capturing just a fraction of demand is successful or 2) They focus on very small markets, where they create the demand with low fares, and capture nearly all of it. Because of the very strong market share and brand affinity of Southwest, generally supported by fare levels considered a good value, the ULCC's cannot generate enough new passengers in specific markets to warrant adding flights,

and therefore remain a small part of marketplace. Frontier and Allegiant each maintain a small presence at ABQ, while Spirit Airlines does not.

Today, ABQ's hosts two Part 135 scheduled carriers, offering flights to Carlsbad and Silver City as part of the federal Essential Air Service program. This service is the last remaining vestige of a more substantial set of commuter services operated from a specialized gate area on ABQ's lower level, which included service from Alamogordo, Clovis, Farmington, and Las Cruces.

Several factors led to the demise of this intra-state airline network. First, Southwest Airlines, which grew to ABQ's dominant carrier, specifically does not engage in interline ticketing agreements with smaller carriers. These agreements support single-ticket itineraries between airlines. Had Southwest used those agreements, communities like Clovis would have had one-stop, one-ticket connecting service to major destinations via ABQ not possible without them. Second, the federal regulations which gave rise to the Part 135 Scheduled airlines operating 9-seat aircraft were also the economic demise of airlines operating larger 19-seat aircraft, critical to maintaining this unique intra-state airline network. The new regulations simply made most commercial applications of 19-seat aircraft uneconomic in the United States. Third, the growth of large airline hubs around New Mexico and fleets of regional jets which support them allowed the carriers to connect some smaller New Mexico communities directly to their hubs without including ABQ in the schedule. The timing of regional jet additions to smaller communities in New Mexico were often related to runway and safety improvements to the airports required to support jet service. Finally, the regional airline industry suffered a pilot shortage shock in 2014, because of federal training regulations, which in turn drove trimming of marginal services operated with aircraft 50-seats and smaller across the United States.

Regional New Mexico Network Composition

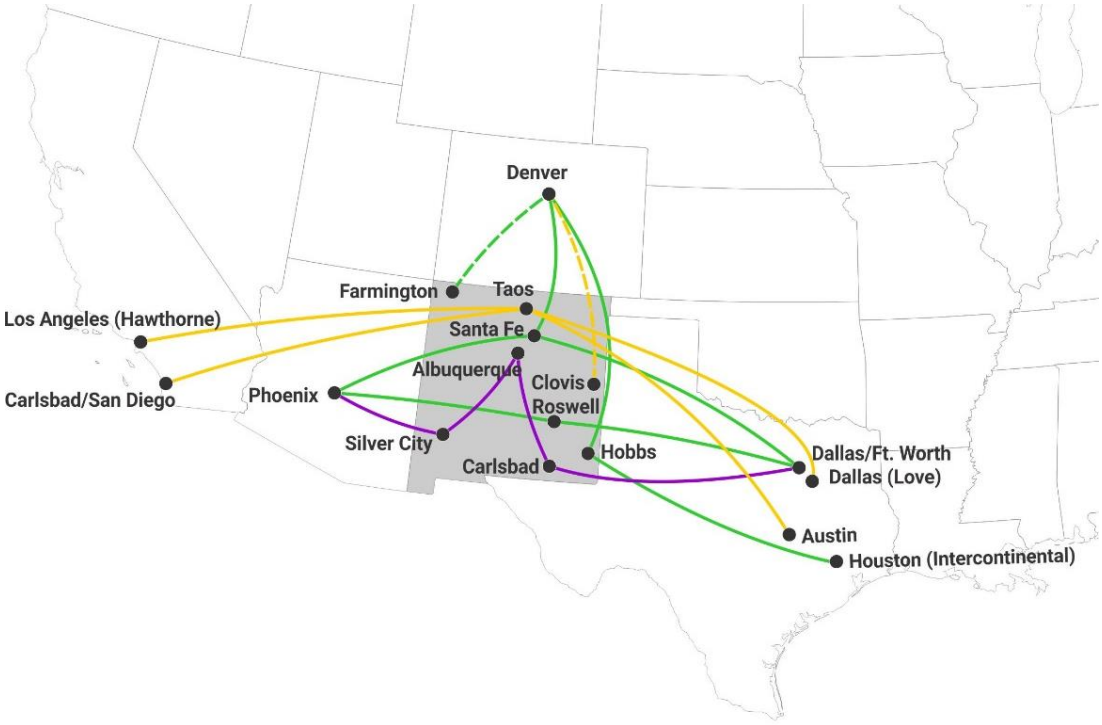


Figure 4: NM Regional Network Composition

Although the 50-seat regional jet burst into the airline industry in the early 1990's, transforming major airline hub networks, they did not make their way into New Mexico's smaller communities for over 15 years. In fact, the success of the independently branded, 19-seat ABQ centric service is central to the slow adoption of the regional jet in New Mexico. The markets were not already in the major airline networks, where the 50-seat regional jet was widely used to replace both large 30+ seat turbo-props and small 90- to 120- seat narrow-body jets. By the late 2000's, the forces described above were breaking up the unique New Mexico network at the same time the major carriers were seeking new places to fly their 50-seat jets, as all the 'back-fill' opportunities were satisfied. Over a few short years, regional jets landed in Roswell, Santa Fe, and Hobbs.

Roswell International Air Center (ROW) was the first smaller New Mexico community introduced to regional jets, in part due to regulatory delays preventing service to Santa Fe. American Eagle service from Dallas/Ft. Worth began in late 2007. Los Angeles service operated for about a year starting in 2009. Service to Phoenix was added in 2016, after American acquired its hub there from US Airways.

American Eagle started its first regional jet service at Santa Fe Regional Airport (SAF) from Dallas/Ft. Worth in the Summer of 2009, followed by Los Angeles later that year. By 2017, the Los Angeles flights were replaced with service from Phoenix. Prior to the Covid-19 pandemic, American Eagle has scheduled up to six daily flights from Santa Fe.

Lea County Regional Airport (HOB) at Hobbs gained regional jet service to Houston-Intercontinental Airport with the addition of Continental Express in 2011. These services were transitioned to the United Express brand following the merger of the major carriers Continental and United in 2012. United briefly introduced service between Hobbs and Denver in late 2019, although this effort was thwarted by the Covid-19 pandemic (service is expected to resume once post-Covid travel demand returns). Santa Fe's United Express service from Denver started in 2013, rarely scheduled with more than two daily roundtrips prior to 2018.

Farmington's Four Corners Regional Airport (FMN), once the headquarters for Mesa Airlines, enjoyed fairly robust service levels until 2013. Farmington's size and geography, and business interests of Mesa Airlines generally allowed for service from FMN to maintain service to Albuquerque, Denver, and Phoenix over the years, albeit with 19-seat turbo-prop aircraft. The same factors described above in the reduction of intra-state service led to the complete cessation of these turbo-prop services from FMN in 2017.

Commercial airline service to Four Corners Regional Airport was planned to restart in the midst of the Covid-19 pandemic in October 2020. Although FMN is not eligible for complete service subsidy under the Essential Air Service (EAS) program for reasons described below, the community was been able to utilize the Small Community Air Service Development (SCASD) program and excess airline capacity driven by the pandemic to lead to this service restoration. The community has received a grant of $850k in addition to $300k raised locally to support the return of United Express service to Denver, in partnership with SkyWest Airlines.

SkyWest is unique among CPA carriers in that it can take certain independent commercial risks, leveraging the brands of its major carrier partners. Further, SkyWest has a history of undertaking successful service launches when combined with SCASD funds. The SCASD funds will limit SkyWest's financial risk with marketing support, fee waivers, and a pool of funds to mitigate short-term losses while re-launching service. However, the flights will need to attain a

satisfactory (and likely unknowable by the community) level of profitability over the longer term in order for service to continue beyond the time provided for in the SCASD project.

New Mexico hosts two types of Part 135 carriers. Under the Essential Air Service program, Part 135 Scheduled carriers Boutique Air and Advanced Airlines provide service to Carlsbad and Silver City respectively. These services are subsidized by the federal government via a bi-annual award process where service operators, destinations, and schedules may change substantially. Boutique's service to Carlsbad includes nonstop flights from Dallas/Ft. Worth and Albuquerque while Advanced Airlines' Silver City flights operate to Phoenix and Albuquerque.

Service is provided to Clovis and Taos via Part 135 On-Demand carriers. These carriers can operate aircraft up to 30-seats including jets. However, regulations require that these services be sold as public charters by a third party other than the operating carrier. Thus, these services are coordinated between public charter sponsors and Part 135 On Demand operators through regulations under Part 380 which govern public charters. These regulations mean the operators must conduct their commercial business slightly differently than normal commercial airlines, even though the differences are rarely noticed by passengers.

Under provisions of Essential Air Service, Key Lime Air operates service from Clovis to Denver, marketed by Denver Air Connection – a public charter company formed to fulfill Denver-centric Essential Air Service awards. The Taos service is operated by Advanced Airlines in partnership with Taos Air, a public charter service created by the Taos Ski Valley and Town of Taos with seasonal services to airports in Southern California and Texas.

Impact of Covid-19 Pandemic

The Covid-19 pandemic has been completely enmeshed with travel from its inception. Immediately, most travelers canceled plans, driven by calls for social distancing and other changes to daily life, including a work-from-home culture that appeared overnight. By the end of April, security screenings at U.S. airports as measured by the Transportation and Security Administration (TSA), which have become a daily indicator of travel demand, was just 5% of normal demand as defined by the same dates a year ago. In other words, 95% of normal travel demand disappeared.

Reaction from the airlines was exceedingly fast, by airline industry standards. Every airline eliminated change and cancelation penalties, and slashed schedules to bare minimums. Via the CARES Act and payroll protection plans, the federal government sent $25 billion to the airlines. For the airlines to accept these funds, the federal government only mandated a couple of restrictions:

1) Funding was to be used to pay employees, thus no employee furloughs would be allowed until October 1, 2020
2) Although services could be reduced, every airline was mandated to continue flying a minimum level of service to every community served prior to the pandemic. The airlines were also offered up to $25 billion in loans, although several carriers have already decided not to participate in this part of the program.

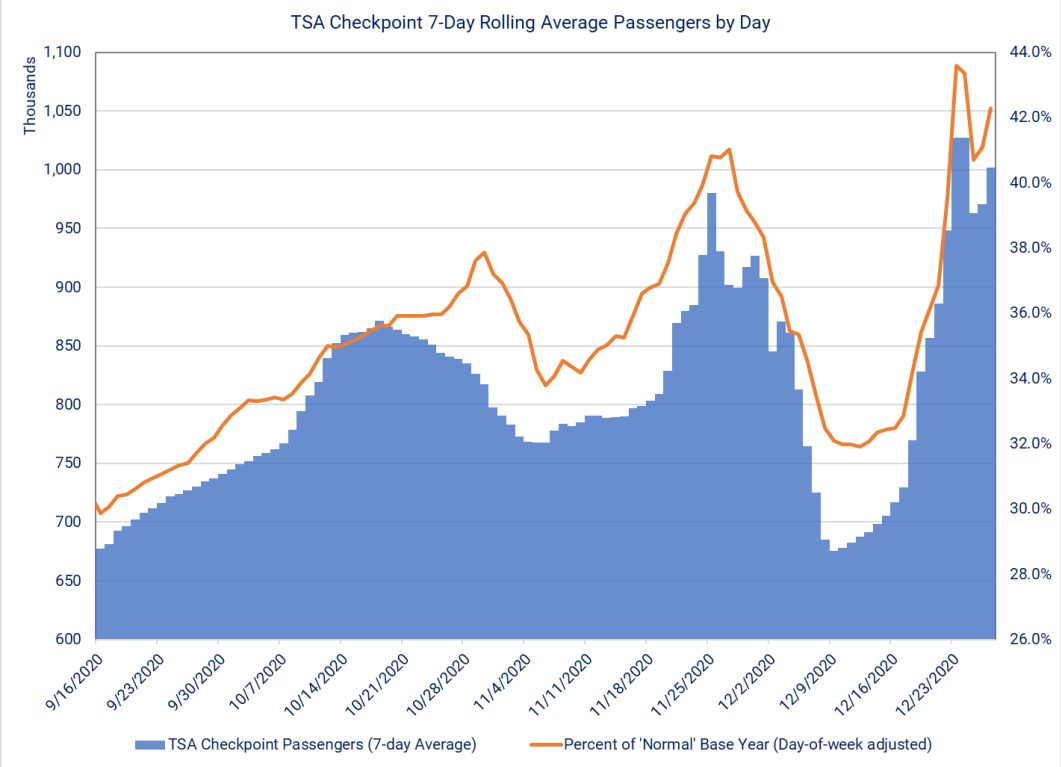


Figure 5: TSA Checkpoint Passengers by Day

By the end of October, airline demand had returned to 36% of 2019 levels. Dramatically fluctuating schedules have become commonplace. Further, each airline has begun to chart its own course through the pandemic, with every airline recognizing the multi-year nature of the

pandemic. The Network carriers have generally acknowledging they will emerge from the pandemic as smaller companies. Additional policies have been clarified, including allowable reductions in subsidized Essential Air Service flights. Construction projects in progress at several of the nation's critical airports, including Los Angeles International, Newark-Liberty International, Salt Lake City International, and New York LaGuardia have been 'fast-tracked' to take advantage of reduced congestion. Although its path to passage is not clear at this time, a bill to provide a second round of payroll protection to airlines and their employees has been proposed in the U.S. Senate, which would likely extend the assistance in its current form until March 31, 2021.

While it is difficult to forecast a return to 'normalcy' following Covid-19, there are several ideas that are generally accepted and acknowledge in the airline and travel industries:

- **Domestic travel is likely to rebound faster than international travel.** This is largely based on the reality that travel restrictions are more easily understood and less enforced for domestic travel.
- **Business travel has been significantly impacted**. Airlines have been aggressively restructuring route networks around more leisure-centric destinations. Ultra-low-cost carriers have fared better as they traditionally are leisure oriented.
- **Normal is potentially up to three years away.** A full return to normalcy may take years – even if a vaccine becomes available.
- **Travelers have become more interested in the outdoors.** Destinations where social distancing is easier are growing more quickly. It is straight-forward to see that big cities/destination and many of their attractions are capacity limited, and otherwise restricted.
- **Booking patterns have shifted**. Passengers are being provided with more flexibility, and they are using it.

Although the path forward for the airlines will not be easy, it is also not likely to be chaotic. It is important to recognize the role of the payroll protection program in giving the airlines time to adjust to the extraordinary reduction in demand following the pandemic.

On the contrary, each airline has devised strategic plans to persevere through the pandemic and has gathered the resources to execute on it. Nearly every airline has announced new routes and

destinations, often breaking with their historic business models and practices. Carriers have moved forward with strategic structural changes, including American introducing codeshare relationships with both Alaska Airlines and JetBlue, JetBlue moving its Long Beach base to Los Angeles, and Delta continuing ahead with its international alliance with LATAM. The airlines are also driving towards greater efficiencies in operations, demonstrated by Delta's plans to simplify their fleet and United's realignment of United Express operating carriers.

Meanwhile, the airlines are doing their part to encourage travel. The airlines have continued to compete, keeping fares low to stimulate travel interest. Every carrier has developed and communicated its Covid-related customer experience expectations, including minimizing in-person customer interactions, pre-flight cleaning programs, on-board and in airport social distancing protocols, and middle-seat blocking and other efforts to limit passengers below full capacity. The airlines have moved capacity to places where they see the most demand, which is generally away from big cities and business destinations and towards leisure and personal travel with an emphasis on locations with outdoor and easily social-distanced activities.

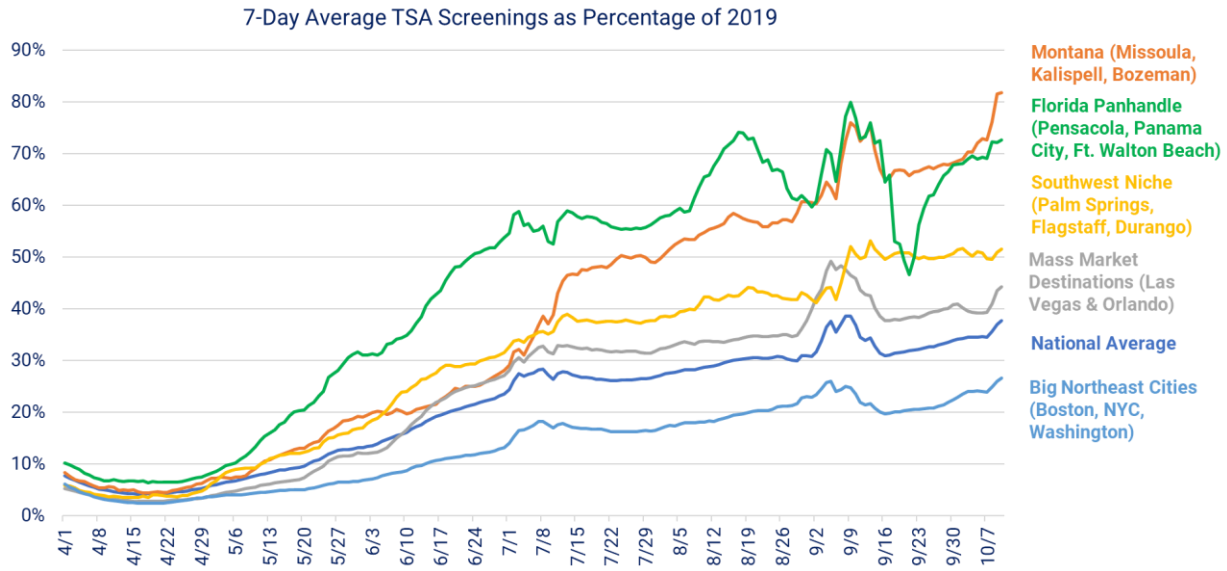


Figure 6: TSA Screenings as Percentage of 2019

Opportunities of Covid-19 Pandemic

Although the impact of the pandemic on the travel industry has been overwhelmingly negative, there are some upsides that certain kinds of destinations common in New Mexico can and should position themselves to benefit from. This includes:

- **A surplus of regional jets.** As airlines look for new forms of growth, this inventory of jets can be redeployed to develop new markets.
- **Pilot shortage has ended.** With the furlough of thousands of airline professionals across the industry, the primary limit to growth that once existed is now gone. For the next few years, airlines will have a steady pool of pilots for growth.
- **Outdoor recreation destinations growing.** Given New Mexico's strategic priority to grow an outdoor recreation economy, now is the time for New Mexico to invest heavily in this space. Plus, given the State's seasonality, New Mexico has time to develop a strategy going into the 2021 Summer/Autumn season.
- **Work from _____.** The work from home culture shift is likely to stay, creating an exodus of high income wage earners to smaller cities and towns. Plus, with the ability to work from essentially anywhere, creating 'bleisure' (work/leisure blended) trips are on the rise as well as second homeownership.

<u>50 Seat Jet Surplus</u>

On September 30, 2020, ExpressJet ceased operations after United Airlines chose not to renew their contract to operate United Express services. ExpressJet was one of the largest operators of 50 seat jets in the United States, second only to SkyWest. As discussed in section 2.1, over the course of the last decade significant amounts of service between smaller markets in New Mexico and out-of-state destinations have been added, enabled by the economics of the 50-seat platform. The availability of a large fleet of parked 50-seat jets is likely to make similar services even more attractive as equipment costs decline.

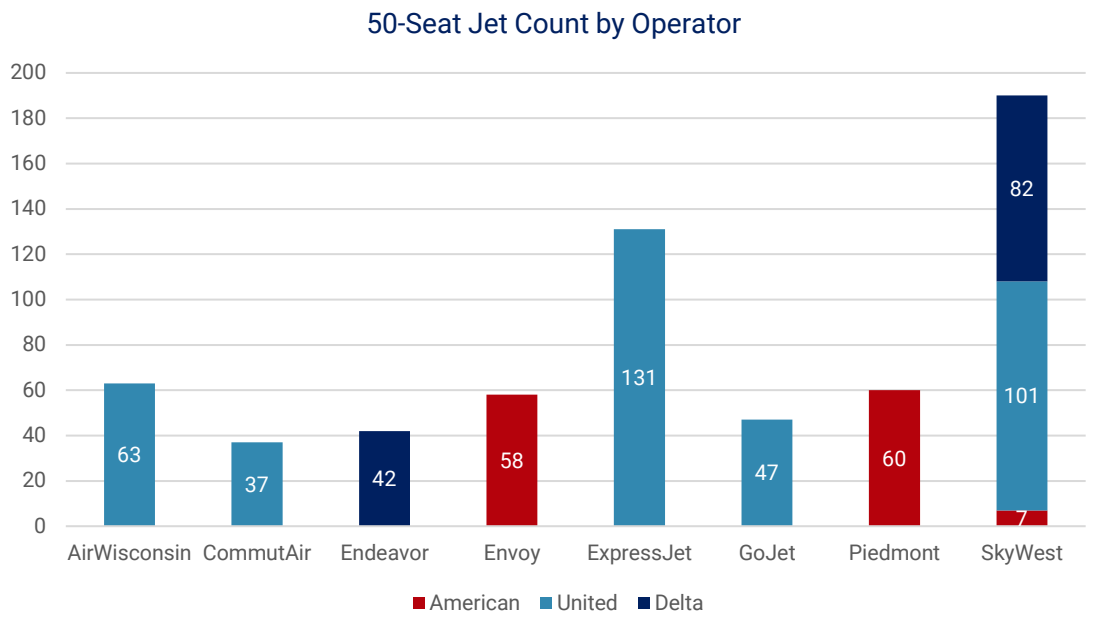


Figure 7: 50-seat Jet Count by Operator

Source: planespotters.net

End of the pilot shortage

For decades now it has been common knowledge in the aviation industry that there is a shortage of airline pilots, driven by a combination of older pilots reaching retirement age and increased regulatory and cost barriers to entry into the profession. The passenger demand shock created by Covid-19 is likely to have both short and long-term impacts on the demand for pilots. For example, in its October 2020 Pilot and Technician Outlook for 2020-2039, Boeing forecast 5% lower demand for pilots for at least the next three years. The current situation is (for the first time in decades) a surplus of qualified pilots. COVID-related furloughs and layoffs cut many early-career and regional airline pilots. Consequently, in the very short-term labor costs are likely to decline.

There are three factors that will determine to what extent a shortage returns after passenger traffic rebounds: retirements, training programs, and gauge changes. In the Boeing report and elsewhere there is an expectation of a large wave of retirements as they approach the mandatory retirement age. If there are not enough new pilots trained before then, the state of the market could return to the pre-COVID shortage. However, prior to the downturn many

airlines expanded training programs; given the average of two years it takes to acquire a commercial pilot license, if the airlines can maintain these programs at sufficient scale during the three year critical period, there is a possibility of overcoming or at least reducing the shortage.

The third factor, gauge changes, is yet uncertain. The major airlines have indicated shifts away from smaller aircraft, with Delta eliminating its 50-seat fleet, United reducing usage of 50 seat jets, and Southwest favoring its 175-seat fleet over its older fleet of 143-seaters. By itself this could indicate a shift towards flying fewer, higher-capacity flights which would reduce the overall demand for pilots. However, scope clause limitations in agreements with the pilots' union restrict the ability of the major airlines to pursue that strategy to its fullest extent.

In any case, there is now and will be for the next few years a surplus of pilots. Given the availability of 50 seat jets discussed in section 2.4.2.1, the combination of low equipment costs and downward pressure on pilot compensation will reduce startup costs for communities interested in new or expanded service.

Generally strong appetite for risk-mitigated opportunities

At present, and likely to continue well into 2021, passenger demand is at historic lows, hovering around 40% YoY. Although we anticipate a gradual recovery, it will be a long time before demand returns to levels that will support traditional at-risk route expansion in many markets, and even longer until demand returns to pre-COVID levels. In the interim, airlines will look for ways to profitably utilize parked fleets and furloughed pilots. They are likely, therefore, to be more receptive than usual to risk-mitigated opportunities. This presents an opportunity for win-win deals: local communities can offer risk-mitigation at lower costs than pre-COVID, and airlines are more likely to be interested than when they faced equipment and personnel constraints.

Shift to smaller cities and destinations anchored to outdoor recreation

Not all travel markets were impacted in the same way by COVID-19. As previously discussed, business travel markets, big city tourism destinations, and mass-market tourism destinations took the biggest hits, while outdoor recreation destinations such as Montana, the Florida Panhandle, and the Southwest recovered at a much higher rate. These kinds of destinations

benefit from a comparative advantage: it is easy to social distance on beaches and mountain trails, so vacationers still feel comfortable visiting in a way that they largely do not in Las Vegas or Disneyland. New Mexico, with its wide array of popular hiking and skiing destinations, has the potential to be one of the largest beneficiaries of this trend if it can establish a COVID-restriction structure that allows tourism, for example by exempting visitors who test negative from quarantine requirements.

Work from home culture shift

As of June 2020, the Stanford Institute for Economic Policy Research found that an unprecedented 42% of employed workers in the United States were working from home full time, which is the vast majority of the 51% of jobs they estimate could be done by a full-time worker from home with at least 80% efficiency. Bureau of Labor Statistics reports from the same time show results of a similar scale and indicate that working from home is mostly concentrated among higher-earners. Furthermore, polling conducted in October 2020 by Upwork found that upwards of 14 million Americans are considering relocation as a direct result of the new work-from-home environment. Of those who indicated they were expecting to relocate, 20.6% said they were planning to relocate beyond normal commuting distances, signaling confidence in a permanent shift towards a greater share of working from home even after the pandemic is over.

In general, real estate data reported by Redfin in October 2020 shows a shift in demand away from high-cost metropolitan areas such as the Bay Area, Los Angeles, and Seattle and toward lower-cost Sunbelt metros such as Phoenix and Las Vegas. A September 2020 analysis by Bloomberg CityLab found similar results. A shift in migration away from high-cost major metropolitan areas and toward lower-cost secondary cities has the potential to bring considerable benefits to New Mexico which features both traditional second-home destinations such as Taos and the comparatively low-cost Albuquerque and Santa Fe metropolitan areas. Places that receive remote worker migrations are likely to see significant economic benefits, as studies on remote workers consistently found that workers who expect to be able to continue working from home post-COVID are among the highest-earning groups; these are the people most likely to relocate beyond commuting distance of their old workplaces.

In addition to permanent relocations, the pandemic also accelerated a trend that was already emerging over the past several years: digital nomadism. "Digital nomads" are people who relocate at least three times a year for non-work purposes. Rather than maintain a traditional fixed abode, digital nomads take advantage of the flexibility offered by remote work to live for a short time in a variety of locations. According to an October 2020 article from Bloomberg, digital nomadism had traditionally focused on foreign destinations, but shifted to a domestic focus after borders closed in response to COVID-19. Another shift in the digital nomad landscape in 2020: more traditional job holders began to embrace the lifestyle:

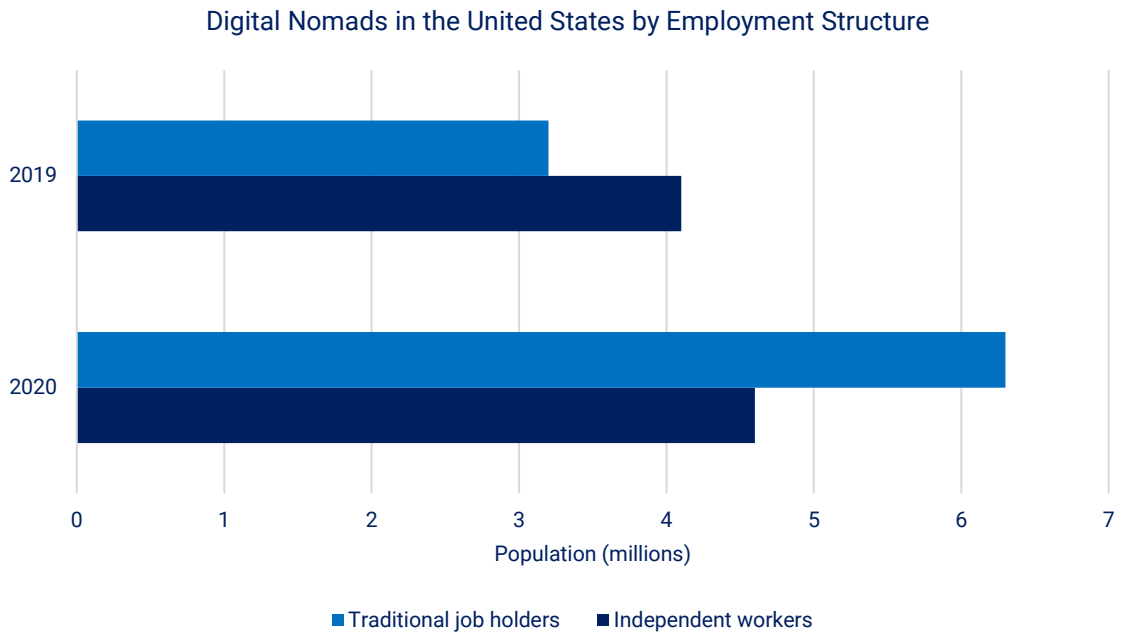


Figure 8: Digital Nomads in the US by Employment Structure

Source: MBO Partners State of Independence in America surveys

Given a freelancer-like freedom from physical offices, nearly twice as many traditional jobholders embraced digital nomadism in 2020 as in 2019. Like permanent relocators, digital nomads tend to be higher-income professionals, but unlike their more settled counterparts they tend to favor vacation destinations rather than low-cost metros. Cities such as Boulder, CO, and Bend, OR have seen an influx of digital nomads in much the same way they have retained a greater share of vacationers. New Mexico is replete with destinations fitting the same profile

and attracting digital nomads can provide the same kind of economic boost as tourism sustained over a longer period.

Section 3: Air Service Marketing Approach

While it seems counter-intuitive, most airlines do not invest marketing dollars into individual air service markets. This is for a variety of reasons, the largest being cost. Airlines are intense cost driven businesses, with relatively low margins, and marketing is generally not well capitalized. Given the limited budgets, airlines focus marketing spend at a National level or in their primary hubs or focus cities. From an air service development perspective, this makes developing new, speculative routes very difficult and has disproportionately disadvantaged smaller communities trying to improve air service. Unfortunately, the onus on promoting air service then falls on the community. One might ask, "why is it our community's responsibility to advertise for the airline?" The simple answer is economic benefit. When a community has well connected airline service, it generates significant economic impact for the community. Everything from attracting essential workers, to businesses and industry, to tourism. If a community has well established air service, it has an economic engine for growth. The amount invested in air service marketing (and development) will arguably always generate a positive ROI given the millions of dollars in economic activity generated.

Case in point, Taos and Taos Ski Valley compete with dozens of more accessible resort destinations in Colorado, Wyoming, and Montana. Securing air service was critical to competing in this space. During the 2018-19 Winter period, Taos Ski Valley and Taos partnered to create Taos Air, providing winter only service between Austin, Dallas, and Taos. During the short, 15-week period, air service generated a total estimated economic impact of spending in the study area and during the study period of $1.1 million. The availability of direct flights between Austin/Dallas and Taos had an influence on respondents' decisions to visit communities in the study area that otherwise would have spent money in other communities. Given the enormous economic benefit, every community that has air service should plan to invest in its marketing and development.

Air service marketing uses similar tactics and targeting that are used for destination marketing. Like destination marketing, the focus on air service typically involves the destination, but with a primary emphasis on how to 'get to' the destination. The State and several local DMOs are doing an exceptional job, so making air service a more prominent message should be relatively easy first step.

There are generally five key components to an effective air service marketing strategy, noted in figure 9. A few of these components also support incentive programs.

Figure 9: Components of Air Service Marketing

Owned Channels

Owned channels are foundational and involve a community focused approach. If executed well, owned channels can be one of the most effective – and lowest cost – channels to develop. Quite simply, if a community has access to air service, the air service messaging should be integrated everywhere and can be as simple as a one sentence tagline.

Instances include:

- Tourism, Airport, and Chamber websites in prominent, high traffic locations (example: homepage tile, 'getting here' pages, etc.)
- Social media channels – air messaging integrated into any post that promotes travel to the region
- Key economic entity owned channels (lodging properties, major businesses, major tourist attractions, etc.)

Community Engagement

Getting community support and involvement is critical and again, can be a low cost, highly impactful program. To make promoting air service as easy as possible, a community can develop a 'Fly Local' program and utilize a community air service toolkit. Generally, the DMO or

Chamber will manage the Fly Local program and solicit support from businesses, hotels, resorts, and any other entity that can stimulate awareness of air service. It starts with developing a webpage that houses a variety of assets for the community to leverage. Most DMOs have something already built with community tourism assets, so expanding to include air service content should be relatively easy. The web page should include digital banner ads (to match current campaign creative with air message), a photo library, and language recommendations and instructions for messaging air service in various communication channels. Once these assets are built, the DMO solicits support from local businesses and organizations to promote 'flying local'. Ideally the community or DMO also has a working relationship with the air carriers to support and align with the program. This could include the airline providing content for the program (logos or branding, tickets for promotions, coordination on fare sales or other price messaging, etc.)

Paid Media

Paid media focuses on developing an advertising plan that targets air service markets. Air service marketing should be budgeted and approached in two ways:

1) Build awareness and consideration for new air service, and
2) Maintain awareness and increase conversion of existing air service

A budget should be established for each of these approaches. The first is primarily used when new service is introduced (or existing service expanded), and optimized for duration, reach, and frequency – and with focus on building awareness. Advertising should focus on air service as the primary message. The second, more of a lower funnel maintenance budget, leverages conversion tactics and other targeted advertising media that the DMO can place the air service message in as a secondary message or 'tag line'. Figure 10 illustrates an example of how one community organizes its paid advertising efforts. We describe each component below.

Figure 10: Organization of Paid Advertising

To be effective, The Local DMO, Local Airport, and State should coordinate on developing air service marketing. The extent to which they do so, is based on individual goals and media strategy. However, where plans overlap, is where coordination is most effective.

Existing Air Service

The Airport

While the airport is limited in what air service marketing it can perform, it can still establish an advertising budget to promote air service in general. This budget should include two components: the first built around communicating new service (and part of an Air Service Incentive Program) and a second component built around maintaining awareness. The second component should be an 'always on' annual program. In some cases, the airport marketing plan is managed by the local DMO or agency of record for the DMO.

Local DMO

As part of the media planning process, the local DMO identifies the markets it plans to target in the upcoming marketing period. This generally involves visitor/market research to identify who is visiting and where they are visiting from. Traditionally, the DMO has a drive market segment and an air market segment. The DMO will want to overlay those markets with what existing air service is being offered. The nonstop air markets should always be included in the market planning. However, if the community is served by a network carrier, then additional air market advertising opportunities might make sense in important 'connecting markets' that align with

the plan. This is particularly valuable if a connecting market is a strong candidate for future non-stop service. To help identify the best air markets for their community, the DMO or airport can solicit the services from an air service development consultant to provide an analysis of the opportunities.

There will likely be overlap between the DMO media markets and the air markets. With this is in mind, the DMO creates two message priorities: one developed for air markets and the other based on the drive market or brand campaign. If a media market is served by air, the call to action should include a flight message, but still maintain the integrity of the overall DMO campaign. Figure 11 is an example from Mammoth Lakes, California. The creative reflected the creative and voice of their overall campaign, but the messaging was modified to include a 'fly' message.

Figure 11: Sample Creative

Concurrently, the State follows a similar planning effort, identifying media markets the State will invest in during the coming period. To increase the efficiency of the spend between both entities, particularly in existing or potential air service markets, the State and Local DMOs collaborate on strategy in overlapping markets. Like the Local DMO efforts, the State also develops messaging variations for use in air markets vs other markets.

While a DMO might be tempted to use existing budgets to integrate air service messaging, it is prudent to leverage a dedicated budget for air service media. This budget augments the existing media program and potentially increases the overall DMO advertising plan's frequency and reach. A separate budget also allows for more specific air service marketing goals, metrics, and overall ROI measurement.

New Air Service Approach

While existing air markets can leverage a budget that is geared more towards maintenance and leverages a strong community engagement program, a separate budget designed for building awareness and consideration for new markets is critical for success. This is particularly important in markets that are (or have been) traditionally drive markets. Since the market is likely 'conditioned' to drive, it takes a significant amount of time, effort, and money to change those behaviors and shift to flying. In many cases, new air service stimulates new demand and an entirely different demographic segment. When the destination is more accessible, it is easier to compete with other destinations and convert new visitors. Since air travelers tend to have more discretionary income, they spend more and stay longer. New Mexico Tourism research conducted by Tourism Economics demonstrated that overnight visitors spend nearly 4x that of a day tripper. While not specific to those that only traveled by air, it does help illustrate the impact of investing in air service marketing.

Visitor Volume and Spending
Amounts in millions of visitors, millions of nominal dollars, and dollars per person

	2015	2016	2017	2018	2019
Total visitors	**34.0**	**35.0**	**36.1**	**37.5**	**38.2**
Day	18.3	19.2	19.7	20.4	20.9
Overnight	15.7	15.9	16.3	17.1	17.2
Total visitor spending	**$6,294**	**$6,427**	**$6,631**	**$7,092**	**$7,446**
Day	$1,419	$1,483	$1,537	$1,636	$1,742
Overnight	$4,875	$4,944	$5,094	$5,457	$5,703
Per visitor spending	**$185**	**$184**	**$184**	**$189**	**$195**
Day	$77	$77	$78	$80	$83
Overnight	$310	$312	$312	$320	$331

Figure 12: New Mexico Visitor Volume & Spending

Source: Economic Impact of Visitors in New Mexico 2019

Airport

As part of developing an airport air service incentive program, a marketing budget should be established that provides enough reach/frequency over at least six months to build awareness of new air service. Depending on the market being targeted, the airport should evaluate the media costs of potential new cities to understand what the optimal budget should look like. These funds can be dispersed based on the airport's guidelines. In some cases, while this budget is specific to the airport, the DMO or other local entity might plan and execute media on

behalf of the airport. In some cases, if the airport lacks funding from PFCs, General fund, or other tenants to create a budget, the Chamber or DMO will also assume the marketing responsibility.

Local DMO

In addition to a budget to support existing service, the local DMO should plan a budget that can support new air service marketing. This can be the same program executed for the airport incentive program, or a separate budget to augment the airport plan. Depending on the community structure, this could be an exercise that is developed in cooperation with the airport to ensure the most efficient budget and use of resources.

State

Similar in approach to existing markets, if new air service is being introduced in a community, the State will want to ensure any planned advertising spend that targeted that region includes air service messaging.

New Mexico DOT's current air service marketing grant program does an exceptional job of creating an opportunity for communities to develop robust marketing incentives. With matches up to $200K per cycle, this program helps ensure an effective level of spend is in place to achieve awareness and consideration goals. Community match can be leveraged with existing airport marketing budgets as well as tourism related advertising spend geared for air service messaging.

Funding Considerations

The above example represents a more mature air service market that has developed a funding mechanism to invest in air service retention and development. Starting a new program will require upfront investment and commitment to developing air service. Consider the following steps for developing a program.

1. **Identify Optimum Budget.** Based on best practice, a budget of $100,000 for new service and $50,000/year for maintaining and growing existing service has produced the best results. However, this can vary based on the market, type of service, amount of air service, and local engagement.

The community will want to identify the optimum budget for each category – beginning with developing the owned and community engagement channels first. These can largely be free and have significant impact.

2. **Identify Funding Mechanism.** This can be a very collaborative, regional approach with contributions from various organizations. The economic impact from air service is not just felt in the community with the airport, but region wide. Identify key regional partners that will benefit from air service and solicit support.

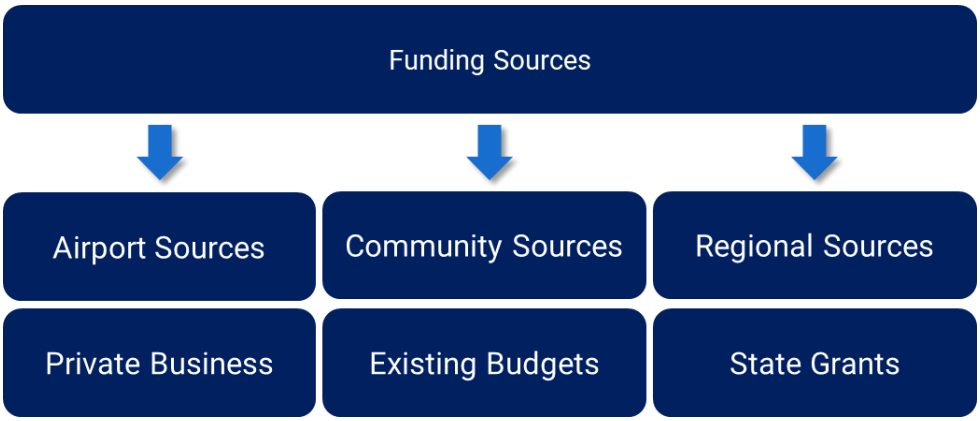


Figure 13: Funding Mechanisms

Examples:

- **Airport Sources.** Budgets generated from general operating budget, reallocation of existing budget, or funded through revenues generated by airport activities (it cannot be funded from funds received by the FAA).
- **Community Sources.** Lodgers Tax, new tax initiatives, reallocation of Lodgers Tax from other non-tourism related programs, community operating budgets, and economic development organizations.
- **Regional Sources.** This largely involves other communities that will benefit from air service access and includes allocating a percentage of community sources.
- **Private Businesses.** This includes entities that drive significant economic activity in the region, including major tourism attractions and businesses. It can also include Real Estate transactions, Homeowners dues collections, etc.
- **Existing Budgets.** As discussed, since air service marketing is similar to destination marketing, simply rotating in air service messaging into existing marketing budgets

throughout the year or expanding existing SEM campaigns to include air service key words can have a considerable impact.

- **State Grants**. The New Mexico Department of Transportation provides a grant program under the New Mexico Air Service Assistance Program that provides matching funding up to $200,000/year for air service marketing.
- **Destination Incentives.** In addition to local sources, there will likely be marketing incentives available in the destination market. While these funds are generally provided as incentives for the airline, the community representative managing the airline marketing program may consider working with the airline to collaboratively use the funds and build out a campaign.

3. **Build Program.** Identify who will own air service marketing in the community, generally this is managed by the DMO. The program owner will develop the program, identify funding, and execute the plan.

PR/Earned Media

One of the easiest ways to promote air service is to ensure an air service 'message tag' is always included in all PR content. Long form content can be as simple as:

> *Getting to Santa Fe is convenient and easy with daily flights from Dallas/Ft Worth, Denver, and Phoenix - Fly to Santa Fe and connect from hundreds of cities worldwide*.

Depending on the channel, this content can be reduced to fit the requirements of the media. In general, most communities should consider the following as part their Air Service PR strategy:

- Press Release message tags
- Air Service materials in Media/PR Kits (simple flyer covering air service options, group travel, etc.)
- Air inclusion in all FAMs (media writers, influencers, group/conference travel agencies, etc.)
- Partnership with air carrier for promotions
- Dedicated Press Releases for new service at local and potentially State level (distributed to Local/State/National levels as well as partner networks)
- Sales missions

- Pitch to Media through organizations such as IMM (international media marketplace) or conferences and events like the media day at IPW.

Airline Engagement

In some cases, airlines will also collaborate on marketing efforts. This is more likely to occur when a new route is announced, or is still developmental, and likely tied to co-operative marketing programs or ASIPs. A coordinated effort between the community and the airline can help ensure the community has the tools to market the service effectively. This can include co-operation on promotions (trip giveaways, sweepstakes, etc.), retail advertising (airline fare sales), or inclusion in airline's owned channels (Social Media, Email, website, etc.).

If the community has an air service marketing program in place, the community can also coordinate with the airline marketing department on new market advertising campaigns. This could include the marketing incentives the community provides the airline for new service, but also any incentives that are available in the destination city. The community might suggest developing a comprehensive advertising campaign for both the local and destination markets, leveraging the incentives of both regions. This will depend on how the marketing incentives are structured in the destination city, but airlines have historically preferred this approach.

Developing a 'hook' that provides value to the community and airline customer can help secure more support from the airline, but also provide a strong value proposition for the campaign – and even foster a regional partnership.

Washington Wine Country Case Study

Walla Walla, Washington is the hub of the Washington Wine country. The region is served by three airports: Walla Walla (ALW), Pasco/Tri-cities (PSC), and Yakima (YKM). Most airline passengers leverage PSC or drive from Seattle which was three to four hours away. With Air service to ALW, waning and at risk of being reduced or terminated, the community reached out to Alaska Airlines for support. Working together, Walla Walla created the 'Taste and Tote' program that included free tastings at dozens of wineries. Alaska partnered to provide baggage fee waivers to check a case of wine for free on Alaska Airlines flights. With a strong value proposition, Walla Walla tourism promoted the program through PR, owned channels, and paid channels. Conversely Alaska Airlines had a viable offer to provide to their customers and promoted through their channels. This 'hook' also helped create a campaign that Walla Walla tourism used to develop a nationwide campaign using local and grant funds. Again, Alaska

partnered with Walla Walla and leveraged their agency resources to help plan and execute the advertising program. The result was significantly higher awareness of Walla Walla (around the globe) and a substantial increase in passenger traffic that eventually led to more flights. Given the success, it was expanded to include YKM and PSC, encompassing the entire Washington Wine Country. Hertz also joined the program and waived drop off fees from any of the three airports, allowing a visitor to fly into one airport and out of another (a benefit of the Hertz franchisee owning franchises in all three communities).

The region benefited from a coordinated approach to tourism development, ultimately increasing visitation around the region and longer trip stays. Alaska benefited from increased passenger traffic and a competitive advantage (the other airlines serving the region do not waive baggage fees for wine).

Section 4: Incentive Programs

Note: Anti-donation Clause of New Mexico Constitution (Art.IX, Sec. 14) restricts the use of some incentive programs or initiatives and may need to be adapted to reflect law:

Neither the state, nor any county, school district, or municipality ... shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association, or public or private corporation ...

Although airlines have few regulations surrounding their generation and expenditure of money driven by the Airline Deregulation Act, the same is not true of airports. In the United States, nearly every commercial service airport, many general aviation airports and their owners, operators, and sponsors in are subject to airport grant assurances. These specific numbered assurances are conditions agreed to in the process of receiving federal funding to build airport facilities.

For air service development, there are four pertinent assurances: Economic Nondiscrimination, Exclusive Rights, Fee and Rental Structures, and Airport Revenues. Collectively, these assurances mean the airport and their owners, operators, and sponsors, agree in the process of taking federal funds that the facilities will be administered as public assets, without discrimination among users. Therefore, an airport is not allowed to pay an airline to operate flights to a specific desired location, nor is an airport allowed to charge one airline different rates vs. another based upon volume of flights, and other similar restrictions. These assurances ensure all qualified operators access to an airport but limit the airport's ability to play a role in regional economic development driven by its presence.

There are a few common exceptions from the assurances as related to air service development. Airports, their owners, and sponsors can offer fee and facility rental waivers for a period of up to two years to carriers that provide new services. These waivers must be available to any carrier willing to provide the service. Airports which provide such incentives typically have a published procedure to ensure they meet their grant assurances. These restrictions apply only to the airport and its owners and operators – other organizations, including government entities and corporations which did not accept federal funding related to airport construction and grant assurances are under no such restriction.

Because of the restrictions above, various programs to promote new air service and enhance existing services have been developed over the years. There are two federal programs which promote air service at airports under certain conditions. Several states, including New Mexico, have local air service development programs as well. In several specific and specialized cases, corporations and other private entities participate in the process of developing air service.

Essential Air Service

The modern air transportation system in the U.S. was formed because of the Airline Deregulation Act of 1978. Prior to deregulation, all marketplace decisions made by the airlines, including routes and fares offered were subject to approval of the federal government via the Civil Aeronautics Board. Understanding that a significant number of communities faced losing their air service under deregulation, regulators included the Essential Air Service ("EAS") program with airline deregulation. In short, this regulation prohibited the last carrier at an airport from terminating service without first affording the federal government the opportunity to replace that air service, on a subsidized basis. The program was initially legislated with a sunset after 10 years but was extended in 1989 and made permanent in 1996.

The program works as a series of 2-4-year grants where selected airlines respond to Requests for Proposals from the U.S. Department of Transportation. The airline proposals include specific service and subsidy details. The DOT consults with the communities to determine the best airline service offer. Subsidies, as provided, are based on a loss-plus model, where airlines proposing service estimate their revenue and costs to provide service, and request from the program a subsidy to compensate for projected losses plus a modest profit. Typically, EAS providers are selected for a period of two-years and are provided a subsidy per flight on estimated and averaged costs and revenue, not actual figures.

Over the years, additional regulations were imposed on the EAS program to manage the budget and scope of the program. Minimum distance from defined larger airports, minimum passenger count, and dollars of subsidy per passenger were the primary mechanisms used to remove subsidy eligibility from communities.

Today, carriers serving three airports in New Mexico receive almost $11 million in subsidies under the Essential Air Service program: Cavern City Air Terminal (CNM) near Carlsbad, Clovis Municipal Airport (CVN), and Grant County Airport (SVC) at Silver City.

Small Community Air Service Development Grants

The Small Community Air Service Development Program (SCASDP) was established in 2000 as a pilot program by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) as a three-year pilot program. First implemented in 2002, the program has been periodically reauthorized and refunded. The program is also administered by the U.S. DOT.

SCASDP is substantially different from EAS. It is a project-based competitive grant program designed to address specific air service development concerns at Small Hub and Non-Hub airports as defined by the FAA in 1997. SCASDP is not designed for long-term service subsidies, but instead encourages eligible communities to seek assistance with a variety of short-term projects aimed to improve specific deficiencies. A variety of projects can be eligible for SCASDP funding, including projects to encourage initiation of new services, such as airline minimum revenue guarantees, start-up cost offsets and research studies to identify and quantify air service deficiencies. Projects may also support existing services through general airport or route-specific marketing, and support for aircraft upgrades. Selected projects typically receive between $200,000 and $1.5 million of funding from the SCASDP program and range up to $2 million projects with local funding elements included.

Since the SCASDP began, airports in New Mexico have been awarded nearly $7.5 million over 12 grants. Recent grants include a 2017 award to Farmington to support the resumption of commercial services with the service to Denver operated by United Express partner SkyWest. This service has been delayed until Spring 2021 in response to the pandemic. Similarly, a 2016 SCASDP grant to Santa Fe assisted the community in replacing lost American Eagle service to Los Angeles with new service to Phoenix. Earlier this year, Roswell was awarded $750,000 in federal funding to assist in recruitment of United Express service to Denver (currently delayed until post-Covid 19 demand begins to return to normal levels.

Other Programs as Models

There are several examples of other air service development programs across the United States, with potential applications in New Mexico. This document will touch on five such programs.

Reno Air Service Corporation (RASC) – Reno/Tahoe, CA/NV

The Reno Air Service began as a marketing committee in 2001. In 2015 the non-profit corporation was formed to develop and sign risk mitigation contracts for air service development at the Reno/Tahoe Airport. Given the previously mentioned restrictions on airports, RNO works closely with RASC and handles most air service development research. When a strong air service candidate is identified and a carrier is interested in serving the region, RNO than refers the airline to RASC for review.

RASC is managed by a board from various privately funded entities, including: CVBs, Reno Chamber, Tahoe Ski Areas, Reno area casinos, and Ski Lake Tahoe. Participation on the board comes through entry fees and investment in board votes.

Funds are largely used for two purposes. The first, air service marketing both on the local level and in target fly markets. Significant effort is spent on new or development markets to ensure their success, especially if supported by minimum revenue guarantee. The second purpose is used to support minimum revenue guarantees to offset the risk for new air service until the service reaches maturity and becomes profitable.

The RNO airport also participates with air service incentives tied to landing fee waivers and other cost abatements at the airport for a 1-2-year period.

Fly Sun Valley Alliance (FSVA) – Sun Valley, Idaho

The Sun Valley air service program initially was funded (marketing and MRG) solely by the Sun Valley Resort to attract air service to the region. As tourism became a larger influence, the model switched to a 50/50 cost sharing model with the community.

Today, the Fly Sun Valley Alliance (FSVA) is an Idaho non-profit 501c(6) corporation. The volunteer board of directors includes private sector business members and public-sector representatives from Friedman Memorial Airport, Hailey, Ketchum, Sun Valley and Blaine County.

The air service development work of Fly Sun Valley Alliance is funded through investment partnerships with both public and private sector entities. Public sector investment is provided through annual contracts with Sun Valley Air Service Board through 1% for Air Local Option Sales Tax revenues. Private sector investment is provided through local business partner programs such as Realtors for Air, Air Support Business Ski Passes and Ski for Air Service Day. The Sun Valley Ski Resort also contributes significantly to support minimum revenue guarantees for airline service.

Funds of the 1% Sales Tax are used for local and fly market advertising (up to $1 million), minimum revenue guarantees, air service development research, and program administration costs. The tax raises approximately $2.5-3 million each year and roughly $1-1.4 million is used for revenue guarantees. The Sun Valley Resort also matches that amount to create a $2-2.8 million annual program. Admin costs are roughly $150 thousand and cover consulting fees and administrative fees. The FVSA does not have any full-time employees and services are contracted. There were no real upfront costs to set up the program, just the time and consulting resources.

Guarantees are reconciled at different intervals with the airlines throughout the guarantee period. If there is a revenue shortfall, the airlines invoice FSVA for the difference. FSVA holds the contracts with the airlines and FSVA reimburses the airlines from the fund. The FSVA has a separate contract with Sun Valley Resort to share in these costs (50/50 split).

Steamboat Springs, Colorado

The program in Steamboat Springs Colorado comprise two partners: Steamboat Resort and the City of Steamboat Springs. The Resort is responsible for air service development that includes maintaining existing partners and identifying new air service opportunities. The Resort is also responsible for negotiating and setting the MRG levels, payout caps, and annual MRG budget. The Steamboat program is largely used for developing minimum revenue guarantees.

The City of Steamboat leverages a local marketing district board that comprises of members form the local market district that collects a 2% lodging tax. The 5-person board is appointed by the City Council. Members of the board must live and operate a business within the local market district to be eligible.

The funds are used for administration, marketing, and minimum revenue guarantees. Roughly 2/3 of the MRGs are supported by the local marketing district and 1/3 by Steamboat Resort. The program usually costs between $1.2-$1.5 million a year in revenue guarantee payouts to the airlines. However, the program is subject to a payout cap that is much higher, usually around $4 million. Given this cap, the program is funded up to the $4 million level and the funds are held in reserve if not used. Since the Resort maintains the contracts with the airlines, the airlines will bill the Resort at the negotiated time of settlement and the resort processes the payments to the airlines. The Resort then has a contract with the board and is reimbursed for the payouts using the lodging tax funds. The lodging tax funds also cover roughly $100,000 in administrative costs to manage the program.

In the past, Steamboat had a third funding source tied to a .25% sales tax that required voter approval. The sales tax initiative failed to pass in the last election cycle and politically was hard to gain approval. With a sales tax, the local population was helping to fund air service, which locals felt benefit tourists more than the community. The County/Airport do not participate in any way in terms of air service incentives to offset costs for new air service.

Wyoming Department of Transportation

The Wyoming Departure of Transportation originally developed a $3 million program called the Air Service Enhancement Program (ASEP) in 2003 ear marked for airport improvements, revenue guarantees, and marketing grants. This program was funded by a bill through the State legislature. The program funding has been reduced over the years and today is funded at $1.3 million to support the State's growth markets.

After the demise of Great Lakes Aviation (the State's primary rural air service provider) and the end of essential air service eligibility, the State formed a partnership with Denver Air Connection (operated by Key Lime). Denver Air Connection (DAC) provided non-stop jet service to Denver from Sheridan and Riverton. While DAC developed an interline relationship with United, and to be

eligible for state funds, service for the “critical” need airports was transitioned to SkyWest under the CPA.

To develop a truly seamless and convenient air service solution, the State of Wyoming developed a new program (to augment the original) that created a State funded Capacity Purchase Agreement (CPA). The CPA program specifically covers service to communities that are most at-risk to lose air service connectivity. The CPA included four communities connected to one hub and one network carrier, in this case Denver with United Express (operated by SkyWest). The CPA is based on a negotiated block hour rate plus fuel costs and the State pays only for the flights (hours) that were operated through the term. It includes a ‘cost not to exceed’ annual cap for each community to limit risk. SkyWest tracks the total ticket revenue and if that exceeds the costs, then the State retains the profits (as credits for service within the agreement) and split between the community and the State 40/60 respectively. SkyWest invoices the State for the flying, the State pays the entirety of the invoice, and then invoices the local community 40% of the airline invoice.

Funding for the CPA program was a one-time $15 million appropriation and does not include the local match contributions from the four communities. Both programs combined, have about $200,000 in overhead (salaries, consultation, and data purchases). There was also about $100,000 spent on four air improvement council meetings around the State.

The State worked with a task force that was created across the State to develop the CPA program and get broad based community support for the air service options that were selected. Developing this task force (or air improvement council) was critical not only for the Stakeholders involved, but to help educate other communities that might not be directly participating in the program. The council included elected officials, business leaders, and other key constituents to craft the CPA program.

WYDOT manages all the administrative components of the program and retains a consultant to help with commercial elements of the program (including fare studies, leakage reports, advanced bookings, etc.) The State also manages and administers the RFP process. Participating communities then negotiate specifics within each community. The State spends a lot of time working with political leaders, community constituents, and others to educate and onboard communities into the program. Each participant is required to provide a 40% ‘match’ of

the State funding and is generally split between different government entities. In the case of Sheridan, this is split between the County and City. Like the State, the communities also developed local air service task forces to ensure the air service best fits the needs of the community. To fund the 40% match, the communities have largely leveraged an option tax of 1% on Sales Tax (in addition to the 1% option tax, one community added a .5% tax that was specific to economic development). The option tax is divided across different areas on a four-year cycle and includes air service development.

Lea County – Hobbs, New Mexico

Currently, Lea County/Hobbs New Mexico is the only region within the State with an active minimum revenue guarantee program. The program was developed after Hobbs lost it's EAS eligibility and the community needed access to the air transportation network to support the oil and gas industry. Working with the County, City, and local private businesses, the community gained regional jet service to Houston-Intercontinental Airport with the addition of Continental Express in 2011. These services were transitioned to the United Express brand following the merger of the major carriers Continental and United in 2012. United briefly introduced service between Hobbs and Denver in late 2019, although this effort was thwarted by the Covid-19 pandemic (service is expected to resume once post-Covid travel demand returns).

The Economic Development Corporation (EDC) holds the contract with FlyHobbs and United Airlines. The program funding is split 50/50 with the City and County and generally totals $2 million annually. There are no administrative costs for the program outside of the staff time to manage it. It took approximately 1.5 years to develop the program and raise the funds to begin the program and establish the air service. The EDC developed a competitive RFP process that is solicited every two years to potential airline candidates. Proposals received by the EDC are then reviewed by the EDC, airport, and ASD consultant, as well as other key members of the community to ensure the needs are being met by the proposed service.

The amount of the MRG fluctuates over the years and is cyclical with the oil industry. The amount is not based on the full cost of the service but based on a profit/loss forecast created based on current market conditions. This implies that the carrier is assuming some risk based on external environmental factors that cannot be controlled (high fuel costs, depression in

oil/gas industry, etc.) In strong years with little to no payout the monies raised are banked and retained for future years when payout may be required.

Building an Effective Incentive Program

There are several different options for building out an effective air service incentive program. Some of the programs are restricted by specific criteria (such as EAS funding) but otherwise, considerable opportunity exists to build programs that can work for communities across New Mexico. Figure 14 illustrates the fundamentals for building incentive programs. Programs can incorporate all or just a few of these elements. It will depend mainly on the needs and resources of the community.

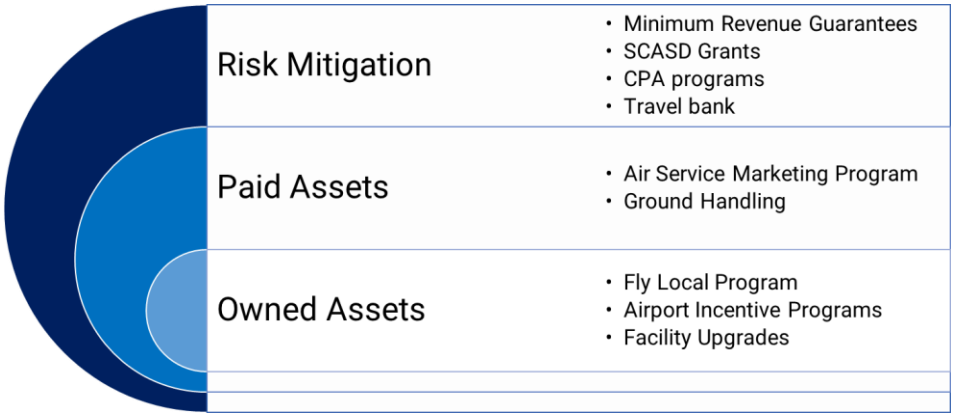


Figure 14: Incentive Program Fundamentals

At the very basic level, every community should have three programs in place:

1) A developed Air Service Incentive Program (ASIP) with airport and community
2) Grassroots 'Fly Local' program
3) Paid media program

It is important to note, that even if a community provides a comprehensive, low risk incentive package there is still a possibility that the target airline is still not interested in pursuing a partnership. This can be for a variety of reasons from aircraft/crew availability, network strategy, operating environment, etc. This is an example of when an air service development expert can help ensure the business case is financially sound, well forecasted and tailored to target airline needs.

Owned Assets

Owned assets include anything that is not a hard cost and are foundational to any effective incentive program. This could include:

- 'Fly Local' marketing programs (grass roots, local support)
- Airport Air Service Incentive Programs (ASIP)
- Business/Tourism channels (Chamber of Commerce, DMO integration)

Airports can develop Air Service Incentive Programs (ASIP) and include a variety of incentives to any air carrier wishing to serve a particular city. ASIPs are built by the airport management staff and approved by the FAA. It includes basic parameters on how new air service is defined and who is eligible to receive incentives. The figure below provides some high-level parameters and potential incentives.

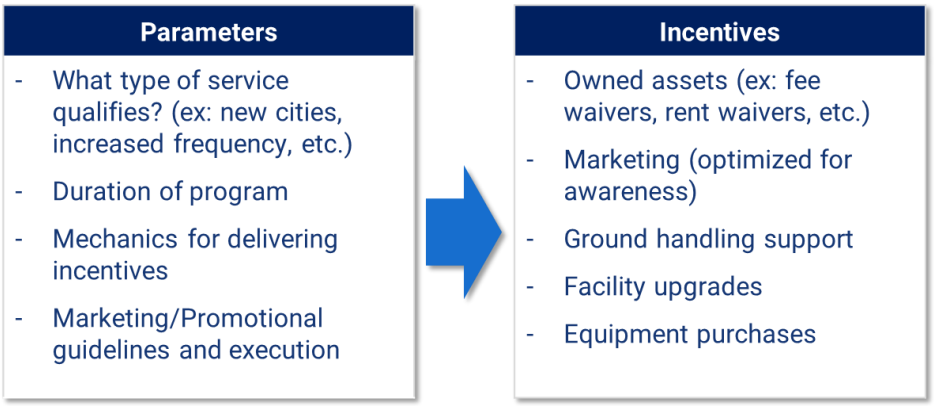


Figure 15: ASIP Development Process

These programs generally include waiver of landing fees, waiver of rents and charges, as well as hard dollars directed towards marketing spend for new routes. These programs generally are available for a one- or two-year period and are generally tiered from year to year. For example, an airport might opt to waive landing fees for the first year and provide a 50% reduction for year two. The overall goal is to mitigate as much cost as possible and help alleviate the start up or ramp up period for an airline entering a new market.

Marketing spend can either be funded by the airport or through community resources (as part of the program discussed in the Marketing section).

Facility upgrades can be significant and costly for new entrant carriers to a city. Typically, this includes IT/communication systems, ticket counter components, ground service equipment, signage, gate podiums, and other wayfinding. Often the airport or city will agree to cover all or

part of these facility upgrades. This may also include the cost of transporting and airline's equipment from other locations to the new airport.

Paid Assets

Paid assets include anything that is a hard cost to the airport or community. Traditionally, this includes comprehensive marketing support to adequately build awareness of the new air service over an extended period. As a pre-planning exercise, the community will want to understand local media costs and develop a budget that can adequately build awareness with the optimum level of reach and frequency. This will vary from city to city depending on population and other economic factors. The community or airport may want to retain the services of an advertising agency (or leverage the agency of record with the DMO) to effectively plan and execute advertising programs.

Some airports or communities create a marketing incentive that allows the airline to spend the funds to fit their marketing or media strategies. Unfortunately, this flat sum is traditionally, arbitrarily set based on budget constraints. For example, one West Coast airport in a major metropolitan area provides only $25,000 in marketing support; well below what is required to adequately build awareness of new service in that region. While another airport located in the region, offers at least $100,000 in marketing support, which is better aligned with the cost of an effective program for that region. The general rule of thumb is to build a budget that provides effective reach and frequency (over a four to six-month period) required to build awareness. Depending on what type of demographic utilizes air service in the community, it may require advertising in the local market as well as the destination market. It is also important to set specific requirements around the budget and ensure that the funds are leveraged for advertising and promotion of the new service. It is also important to note that larger airlines typically do not have the resources to effectively develop and execute advertising programs in smaller markets. The larger network airline advertising strategies are focused on more national, brand campaigns vs. specific destination marketing. Going unused, the city risks the service not developing as quickly as it could, or worse, the airline discontinues service. With that in mind, the airport or community might opt to build out the new air service campaigns on behalf of the airline leveraging their own marketing agency resources. While matching funds generally help commit an airline to market the service, these can be a deterrent to using the marketing incentives and generally are not well received by airlines. The community should plan to dedicate their own resources to marketing the new service through their air service marketing programs.

While facility upgrades can also be factored into this category, other hard costs can include the purchase of ground handling equipment (i.e. baggage carts, tugs, deicing vehicles, etc.) as well as the ground handling itself. Ground handling includes the manpower used by the airline to service the aircraft at the airport. At smaller airports with limited frequencies, these costs can be particularly high. A growing number of airports are now sourcing these services for the airline and covering the cost. This significantly reduces the airline operating costs at the airport and makes the service more compelling for the airline.

Risk Mitigation

Risk mitigation can be by far the most complex of incentives offered, but if structured well, can significantly increase the chances of securing air service. Risk mitigation can be used for 'target' markets that have strong historical demand patterns, visitor patterns, and consensus through a local air service advisory council. Additionally, these markets need to be economically viable, commonly becoming self-sufficient over a two to three-year period. Airports and communities should consider retaining air service development specialists to help forecast and evaluate top target market opportunities, as well as engage potential airlines to provide the service.

Risk mitigation programs cannot be funded by the airport or with federal dollars allocated for the airport. Given the high cost to maintain these programs, they generally require public/private partnership and a funding mechanism. There are a wide variety of ways to construct a risk mitigation program and are dependent on the needs and resources of the community. While risk mitigation traditionally takes the form of minimum revenue guarantees (MRG) it can also include a mix of other sources. In addition to MRGs, these can include travel bank or block seat purchase programs.

Minimum Revenue Guarantees Revisited

This type of program will guarantee a specific amount of revenue to an airline over the course of a contracted period. If the airline does not meet this guaranteed amount, then the community makes a cash payment to cover the difference. How this is structured is negotiable. Some carriers will require a guarantee that matches the full cost of the operation, plus a margin – essentially assuming no risk. This is more common with markets that have no air service history. Typically, however, the amount is based on a revenue forecast defined by both the airline and the community. This allows some risk sharing between the airline and the

community, without burdening the community with an exorbitantly high guarantee. With little to no risk, MRGs are highly favorable to airlines and certainly help convince an airline to serve a community. That said, it is critical that the target route is economically viable and a good match for the target airline. There have been several examples of MRGs that have failed due to a mismatch of airline and inadequate forecasting. Additionally, this type of incentive does little to motivate the community to use the service. If the business community is heavily vested in the incumbent carrier (loyalty programs, corporate discount programs, brand, etc.) they might be incentivized to maintain the loyalty, regardless of how convenient the new service is. In this case, MRGs have traditionally been more successful in leisure-oriented markets where the business component is less prominent. Figure 16 below helps define the mechanics of an MRG.

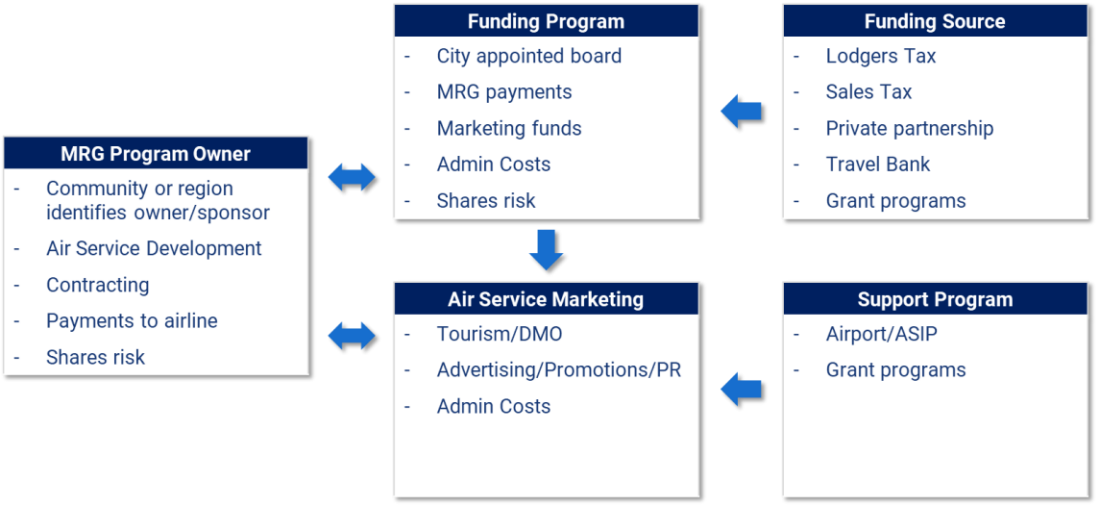


Figure 16: Mechanics of a Minimum Revenue Guarantee Program (MRG)

Air Travel Bank Programs

To help ensure the business community will support and help develop the new airline service, communities have developed Airline Travel Bank programs (ATB). ATB's accomplishes two objectives. First, it provides communities with an air service development tool and two, airlines with a mechanism to jumpstart air service initiatives in new markets. It is essentially a financial commitment from the business community to support a specific air service initiative for a specified period. Businesses and individuals interested in supporting an air service initiative pledge dollar that are deposited in an ATB account help by a commercial bank. In most cases the account is listed in the name of the local economic development entity. ATB participants are issued VISA/MasterCard cards that they can use to purchase tickets on the partner airline. Airline ticket purchases on the partner airline made with the ATB card are automatically paid

from business/individual ATB deposits. ATB funds are electronically restricted to payment for tickets on the partner airline. ATBs are highly favored by airlines as they typically 'commit' the business community to the service and ensure the service will be used.

Bulk Ticketing Agreements

Like ATBs, a bulk ticket agreement is a contract the airline maintains with businesses in the community to commit to a certain level of spend over a given period. The airline will guarantee the seats for the business and 'block' them. The business then uses the block of seats over the period (generally based on monthly allotments) and pre-pays for the seats. If the business does not use the seats, the business forfeits the pre-payment. Usually, these seats are priced at a negotiated level to provide incentive for the business, but also guarantee revenues for the airline. As the air service develops and demand materializes, the seat block program can be minimized and ultimately discontinued. Although, in most cases the businesses will still be offered the negotiated fares if volume targets are maintained. Like an ATB, this helps commit the business community to the service, but provides a more flexible option without a large upfront commitment.

Section 5: Air Service Development

Air Service Development (ASD) is one of the most critical elements in the overall Air Service Market Strategy. ASD encompasses leveraging airline data, external industry data, and other economic trends to develop a profitable market strategy. ASD planners then forecast these market opportunities - modeling expected changes in demand, fare, competitive capacity, connectivity, or the macro environment. Once the network strategy is identified and forecasted, ASD planners and the community will begin outreach with airline candidates and secure the air service. The ASD forecasts are then used to forecast potential risk mitigation costs or minimum revenue guarantee payouts and help to develop effective marketing plans.

Impact of Covid Pandemic

Given the events of 2020, the top priority for air service development must be a restoration of service levels to pre-pandemic levels. However, until travel Covid-related restrictions are eased, efforts to materially increase air service will be difficult. Demand for air service from New Mexico compared to last year began to materially worsen versus the national average following Independence Day. By August, a pattern of demand being down 10 points versus the national average was established. The airlines reacted by scheduling less seats from New Mexico starting after Labor Day. Prior to Labor Day, year-over-year capacity levels to New Mexico were at or above the national average. By Labor Day, the airlines responded to that reduced demand by supplying less capacity year-over-year than the national average, at the same negative 10-point gap. The gap between the New Mexico and the national average is set to worsen throughout the rest of 2020. Simply put, it is illogical for airlines to add capacity to New Mexico when demand is suppressed by travel restrictions.

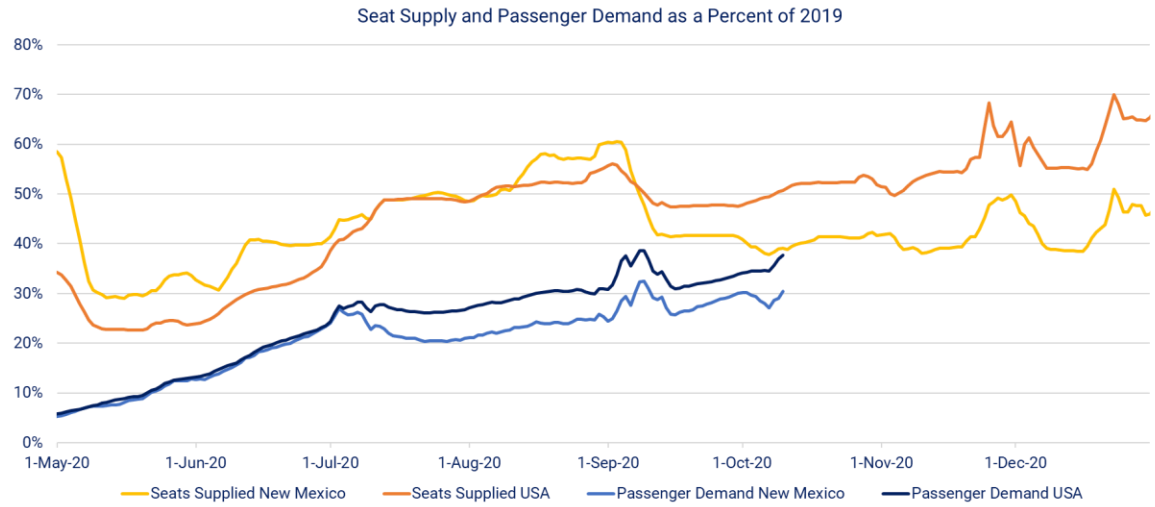


Figure 17: Seat Supply & Passenger Demand as a Percentage of 2019

Once the travel restrictions can be loosened, New Mexico stands to benefit from changing travel trends. Regions like the leisure destinations of Western Montana, niche Southwestern destinations, and the Florida panhandle demonstrate that those who are traveling are seeking out destinations where the attractions naturally lend themselves to smart Covid travel. These regions, whose primary attractions are centered on natural beauty and outdoor activities and being somewhat remote, have seen their air traffic return substantially faster than the national average. These regions demonstrate that air travel to similarly situated New Mexico destinations could benefit in a similar manner.

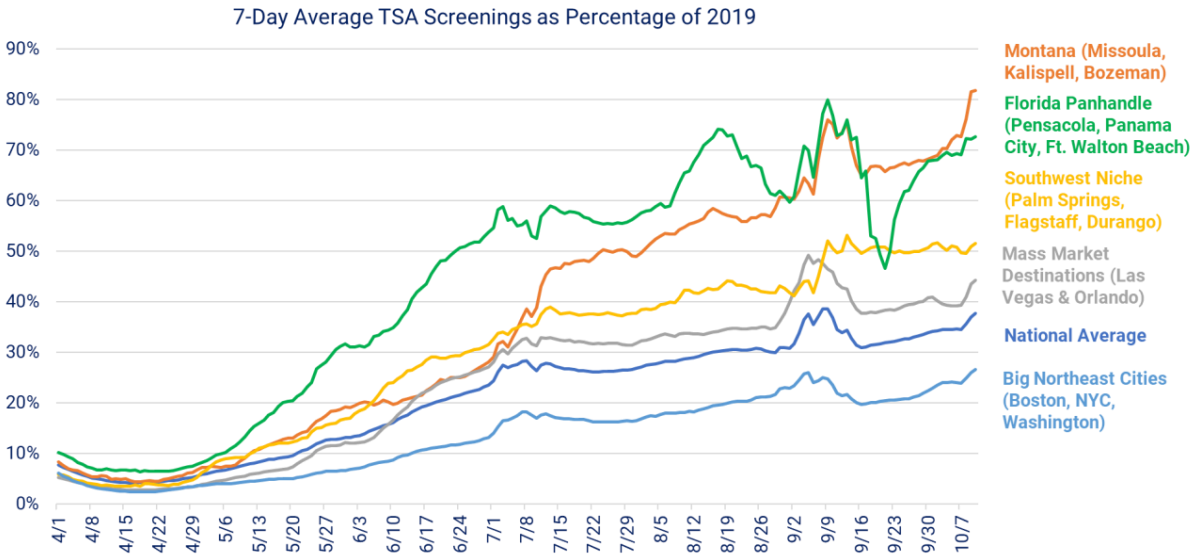


Figure 18: 7-day Avg. TSA Screenings as Percentage of 2019

Air Service Development at Albuquerque International Sunport

The Sunport has been the gateway to New Mexico for decades. This position was entrenched by Southwest Airlines and the 'Southwest Effect' – an airline industry term that refers to Southwest's once unique ability to gather passengers from a wide area around the airport it served, encouraging some to drive long distances in exchange for low fares. Southwest's focus on developing of a point-to-point network, instead of large hubs, also benefited ABQ with additional air service for years. Markets like Amarillo, Tucson, and Midland/Odessa, which did not have enough volume to warrant nonstop jet flights on their own, became sustainable when combined with low fares stimulating local markets and connections through ABQ to places beyond to ensure flights attained satisfactory load factors.

After September 11th, 2001, demand for short-haul air travel declined significantly. New and lengthy airport security procedures discouraged air travel in markets where other transportation options exist, like road and rail. Around the same time, the convenience of road transportation increased. Continuous development and maintenance of highway systems led to increased speed limits – reducing travel times. Meanwhile, increasing safety and comfort features, and improved fuel efficiency in cars made long drives more tolerable. Increasing costs, larger aircraft, political and competitive shifts led Southwest to develop of hub-like structures at larger airports all around ABQ, including Phoenix Sky Harbor International Airport, Denver International Airport, and Dallas Love Airport. The Ultra-Low Cost Carrier model, pioneered in 2007 by Allegiant and Spirit, pushed Southwest away from being THE national fare leader and towards a high-value but not always lowest price offering, driving a new category of airline we have defined as Value Carriers.

Although Southwest remains ABQ's most dominant and influential airline, these developments over the last twenty years have resulted in the termination of Southwest's most unique services from the Sunport. Its flights to places like Amarillo, Tucson, Tampa Bay, Midland/Odessa, St, Louis, and El Paso have been suspended years ago as Southwest's changing model more efficiently flows traffic that once passed through ABQ via other airports, and the remaining local traffic to Albuquerque lacked volume to fill the increasing average capacity of Southwest's aircraft. In fact, the only long-term sustainable services added by Southwest was Denver, added in 2007 to support the carrier's long-term development there.

Similarly, ABQ's once robust intra-state commuter service was also dismantled for similar reasons. The commuter service terminations were further complicated by increasing costs of 19-seat aircraft, whose economics changed over time with no appropriate replacement aircraft.

The Network Carriers have also experienced great change over the past twenty years, but their service offerings at the Sunport have not. There have been notable bankruptcies and mergers, particularly related to today's American Airlines, but the impact on ABQ in terms of access to the National Air System has been negligible. Today's network carriers have maintained most of their hubs and related services from ABQ through all their restructurings.

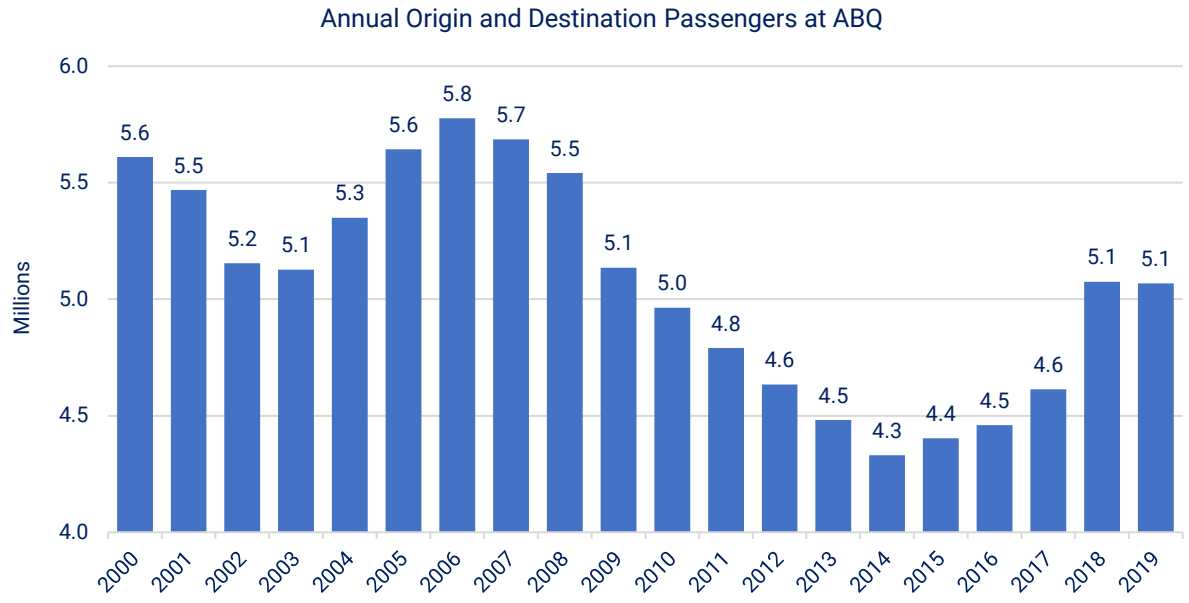


Figure 19: Annual O&D Destination Passengers at ABQ

The result of all these transitions is that, although ABQ remains well served by the airlines, it serves substantially less passengers than in recent peak years. During six of the last ten years, the airport served about 4.5 million passengers, despite multiple years in excess of 5.5 million the decade prior. This traffic decline was accompanied by increased average fares and impacted inbound travelers (i.e. visitors to New Mexico) more severely. Starting in 2010, the balance of passengers shifted to be more outbound passengers, likely New Mexico residents. Thus, the impact of increased fares has had two negative impacts: New Mexicans are paying more to fly while at the same time less people visit the state by air.

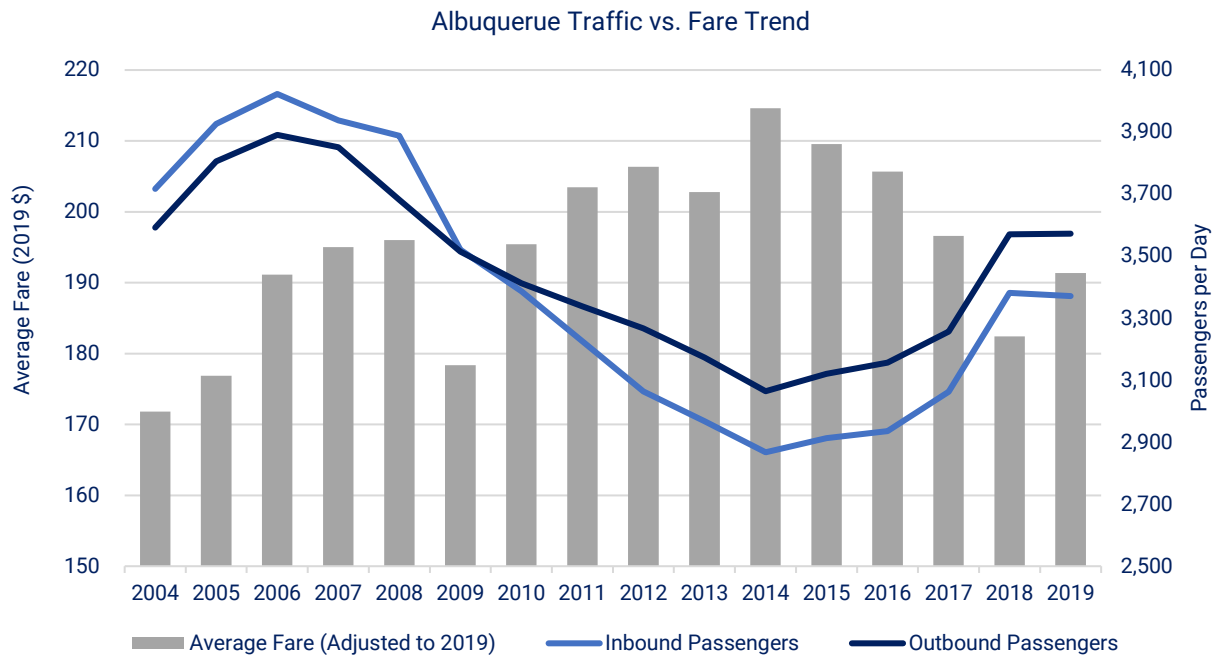


Figure 20: Albuquerque Traffic vs. Fare Trend

This review of ABQ's air service will focus on strategies to increase air service at the Sunport through several types of initiatives. The resumption of previously sustained markets by realigning market need and carrier business model will be reviewed. We will examine the potential for growth of markets with existing service as well as efforts to develop air service to international locations.

Review of Top Air Service Markets

Air Service Development needs assessments begin with a review of top origin and destination markets and a review of the related air services. The top markets from ABQ are well served. 18 of the Top 20 markets, as defined by Neilsen Designated Market Areas (DMA's) have nonstop flights, with many markets being served by more than one carrier and multiple carrier types. Of the 18 markets with more than 100 Passengers per Day Each Way (PDEW), 16 receive nonstop flights. The two holdouts on both lists are Washington, DC, and Boston. The lack of nonstop Washington service is influenced by nonstop flights and traffic to Baltimore, widely understood as an effective alternative to the two DC airports despite being in a separate DMA.

Albuquerque's Top Air Service Markets						Nonstop Flights by Carrier Type		
RK	DMA/Country	PDEW	Inbound Percent	Inbound PDEW	Fare	Network	Value	ULCC
1	Los Angeles	566	47%	268	$130	✓	✓	
2	San Francisco-Oakland	422	51%	214	$146	✓	✓	
3	Phoenix	386	51%	198	$129	✓	✓	
4	Dallas-Ft. Worth	329	57%	189	$167	✓	✓	
5	Las Vegas	300	24%	72	$112		✓	✓
6	Denver	293	52%	153	$115	✓	✓	✓
7	New York	273	51%	139	$184		✓	
8	San Diego	239	40%	96	$105		✓	
9	Seattle	222	52%	115	$146		✓	
10	Houston	206	57%	117	$182	✓	✓	
11	Chicago	197	51%	100	$203	✓	✓	
12	Washington, DC	169	47%	79	$244			
13	Austin	165	57%	94	$115		✓	✓
14	Baltimore	142	54%	76	$226		✓	
15	Portland, OR	141	54%	76	$153		✓	
16	Orlando	129	32%	41	$166			✓
17	Atlanta	111	56%	61	$219	✓		
18	Boston	109	51%	56	$227			
19	Salt Lake City	98	53%	52	$203	✓		
20	Minneapolis-St. Paul	83	56%	47	$206	✓		
21	Kansas City	82	51%	42	$197		✓	
22	San Antonio	77	49%	38	$153			
23	Honolulu	76	20%	15	$310			
24	Miami-Ft. Lauderdale	73	38%	28	$209			
25	Philadelphia	66	55%	36	$234			
26	Sacramento	63	58%	37	$180			
27	Tampa-St. Petersburg	61	48%	29	$191			
28	Mexico - Resorts	61	12%	7	$210			
29	Nashville	57	46%	27	$189			
30	New Orleans	49	36%	18	$171			

Figure 21: ABQ's Top Air Service Markets

While air service development typically focuses on the top unserved markets, matching the carrier business model to market needs will increase the likelihood of long-term success. Each of the top 20 unserved markets have been evaluated for the likeliness of successful service addition by a carrier in each the three carrier type groups to determine air service priorities and carrier targets. Each potential market – carrier type combination was evaluated against the following criteria:

- Market Size: A market meets the requirement if the market PDEW is within a normal range served by each carrier type for markets of a similar distance and aircraft capacity.
- Fares: A market meets the fare requirement if its average fare per mile (also known as yield) is at least 85% of typical for the carrier type and distance traveled.
- Network Fit: A market meets the network requirement based on a somewhat subjective analysis of characteristics of markets operated or recently added by each carrier type.
    - Network Carriers prioritize hub development, with increasing frequency of fights for shorter distances. They rarely add less-than-daily service and avoid overflying their hubs without consideration for specific flow traffic that can be served with the new hub.
    - Value Carriers similarly prioritize focus city development, with a focus on large local markets (flow traffic holds lower priority than network carriers) and a similar frequency per mile profile as network carriers.
    - Ultra-Low Cost Carriers (ULCC's) prioritize markets that can be served via nonstop flights. They work towards markets that can be collected into focus cities, allowing for numerous markets to be served from each focus city. Frontier and Allegiant exhibit a greater willingness to fly routes less-than-daily. Allegiant explicitly works towards markets where they can create vacation packages.

In addition to ranking the top unserved markets from the Sunport, a 'mutual rank', the ranking of ABQ among the unserved markets from the destination.

ABQ DMA Top 20 Unserved Destinations						Network			Value (LCC)			ULCC		
RK	Destination	Miles	PDEW	Fare	Mutual RK	Mkt Size	Fares	Network Fit	Mkt Size	Fares	Network Fit	Mkt Size	Fares	Network Fit
1	Washington, DC	1,584	195	$254	1	✓	✓	✓	✓	✓		✓	✓	✓
2	Boston	1,940	129	$239	2	✓	✓	✓	✓	✓	✓	✓	✓	✓
3	San Antonio	521	91	$170	3	✓			✓	✓	✓	✓	✓	✓
4	Miami-Ft. Lauderdale	1,602	89	$226	5		✓	✓		✓	✓	✓	✓	✓
5	Honolulu	3,251	83	$324	15		✓			✓			✓	
6	Philadelphia	1,710	79	$248	3		✓			✓	✓	✓	✓	✓
7	Sacramento	914	72	$186	6	✓			✓	✓	✓	✓	✓	✓
8	Tampa-St. Petersburg	1,466	72	$201	4					✓	✓	✓	✓	✓
9	Nashville	1,054	66	$197	3	✓			✓	✓	✓	✓	✓	✓
10	Mexico Resorts	1,211	63	$216	-					✓		✓	✓	✓
11	New Orleans	921	59	$187	7	✓			✓	✓	✓	✓	✓	✓
12	Detroit	1,294	59	$228	1		✓	✓		✓		✓	✓	✓
13	St. Louis	876	58	$192	3	✓			✓	✓	✓	✓	✓	✓
14	Raleigh-Durham	1,515	53	$222	7		✓			✓		✓	✓	✓
15	Charlotte	1,378	46	$220	2			✓		✓			✓	✓
16	Indianapolis	1,106	42	$216	8					✓			✓	✓
17	Pittsburgh	1,456	40	$223	8		✓			✓			✓	✓
18	Columbus, OH	1,283	38	$214	9					✓			✓	✓
19	Cleveland-Akron	1,369	37	$220	9					✓			✓	✓
20	Reno	848	36	$174	16	✓							✓	✓

Figure 22: ABQ DMA Top 20 Unserved Destinations

The Sunport's largest unserved market, Washington, DC, appears to be the top recruitment priority for any type of airline. Albuquerque is also the best opportunity from the Washington perspective. This should make Washington the top recruitment priority, but success is highly dependent on access to Ronald Reagan National Airport. This strongly preferred airport is subject to slot and operational restrictions, including very limited operations beyond 1,500 from Washington. This restricts access for new markets and substantially reduces the likelihood of successful service recruitment unless a slot exemption for ABQ can be created via a political process. Evaluated on its own, service to nearby Washington's Dulles International Airport would not meet the market size criteria. These factors combined with existing service to nearby

Baltimore-Washington International Airport combine to make what seems like the highest priority less likely and only a conditional target.

Given the challenges with recruiting Washington service, the top priorities for value carriers become adding Boston, San Antonio, Nashville, and Sacramento, which are most likely to be successful this Value Carriers. Twelve of the top thirteen unserved markets are appropriate for the ULCC group, driven by their general willingness to consider markets with less-than-daily frequency.

St. Louis is an interesting case, as it was previously served as part of the historic hub of TWA and American Airlines operated there, and more recently as served by value carrier Southwest Airlines. Later, we will discuss how mismatches between market characteristics and carrier business models has resulted in service reductions, which occurred with St. Louis. In the short term, only ULCC's meet the criteria for a successful service launch, and the fact that value carrier Southwest no longer serves this market validates this approach. However, as Southwest's focus city in St. Louis adds destinations and connecting opportunities, a future return of Southwest to this market could be warranted.

Previously Served Markets from ABQ

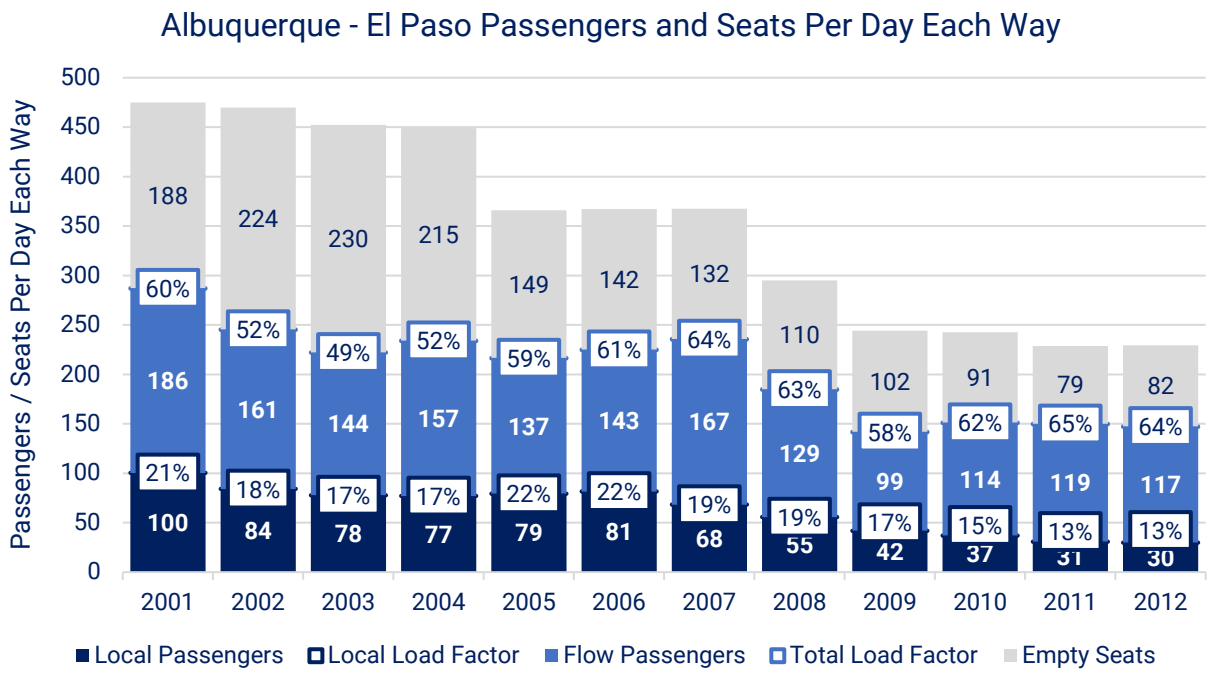
Because of the unique history at ABQ, markets which were previously served but which have been discontinued can be reexamined to determine the level to which a mismatch between business model and market developed. In 2004, the nonstop flights offered to Tucson, El Paso, and St. Louis were partially responsible for their inclusion in ABQ's Top 30 Origin and Destination (O&D) markets. Subsequent service suspensions from Tucson and El Paso were directly related to evolved mismatch between the market needs and Southwest's business model, as were suspensions in smaller west Texas markets of Amarillo, Lubbock, and Midland-Odessa. The St. Louis and Cincinnati service suspensions were related to network carrier hub closures by American and Delta, respectively. Southwest backfilled American's 2001 St. Louis reduction until 2012, when its service stopped being viable.

DMA/Country	2004 Data			2019 Data		
	Rank	PDEW	Fare (2019$)	Rank	PDEW	Fare (2019$)
Tucson	19	97	$86	87	11	$207
Tampa-St. Petersburg	25	83	$149	27	61	$191
El Paso	28	77	$90	362	0	$349
St. Louis	29	69	$171	31	49	$183
Midland-Odessa	40	39	$78	212	1	$252
Cincinnati	47	31	$230	44	24	$211
Lubbock	48	29	$85	245	1	$292
Amarillo	53	25	$88	351	0	$380
Colorado Springs	64	16	$210	147	3	$250

Figure 23: Previously Served Markets from ABQ

A deeper look at Southwest' service history between El Paso and Albuquerque illustrates why Southwest's business model evolved away from being able to effectively serve the market. In 2000, Southwest flew 474 seats per day each way between on the route. 100 of those seats were filled with passengers traveling between El Paso and Albuquerque. Southwest was able to fill 186 additional seats with passengers flying to points beyond El Paso or Albuquerque, resulting in a 60% load factor. Only 21% of the seats were filled with origin & destination passengers. 188 seats – about 1.5 of the nearly 4 daily flights – flew empty.

In 2005, Southwest cut a flight, reducing daily capacity by 23% to 365 seats per day each way, which resulted in no substantial change to load factor. In mid-2008, Southwest reduced capacity again and the result was the same. By 2012, the number of passengers traveling between El Paso and Albuquerque dwindled to just 30. The vast majority of passengers on flights between El Paso and Albuquerque were bound for points beyond the route. Southwest found it would be more efficient to route the 117 passengers traveling to points beyond the route on flights via other gateways like Phoenix, Denver, and Houston on flights which could be more profitable by achieving load factors over 80%. The customer base between Albuquerque and El Paso had become too small to justify the flights, even after capacity was cut in half, and service was cancelled. The changes to Southwest's business evolved such that the El Paso market, once a Top 30 market from ABQ, was no longer viable.



International Air Service Development

Over the last decade, there has been substantial development in international air service for communities like Albuquerque. Liberalization of economic regulations for airlines, started by the U.S. in 1978, has spread to most regions of the world. Every major economic world region has at least one low-fare airline in operation. The low-cost carriers of Canada and Mexico have worked their way into the United States. In recent years, nonstop transatlantic services have been developed from places like Nashville, New Orleans, and Charleston, SC. Prior to the Covid pandemic, Austin, Texas had nonstop flights to Europe on three airlines.

These developments began with the introduction of 'Open Skies' agreements which remove most regulations surrounding international route selection. Since 1992, the United States has entered into 120 such agreements, allowing both domestic and international carriers unprecedented ability to react to market forces over government agendas. In 2011, the first Boeing 787 Dreamliner took flight. Despite a challenging introduction to the marketplace, the aircraft ushered in an era of new generation ultra-efficient long-haul aircraft. Although these aircraft make headlines for their ability to fly very long distances, the key to their success has been their combination of seating capacity and economic profile which has allowed for new markets to be considered. Lastly, the increasing success of regional low-fare carriers in every

developed region of the world, has led most to grow into countries neighboring their home and a few into transoceanic services.

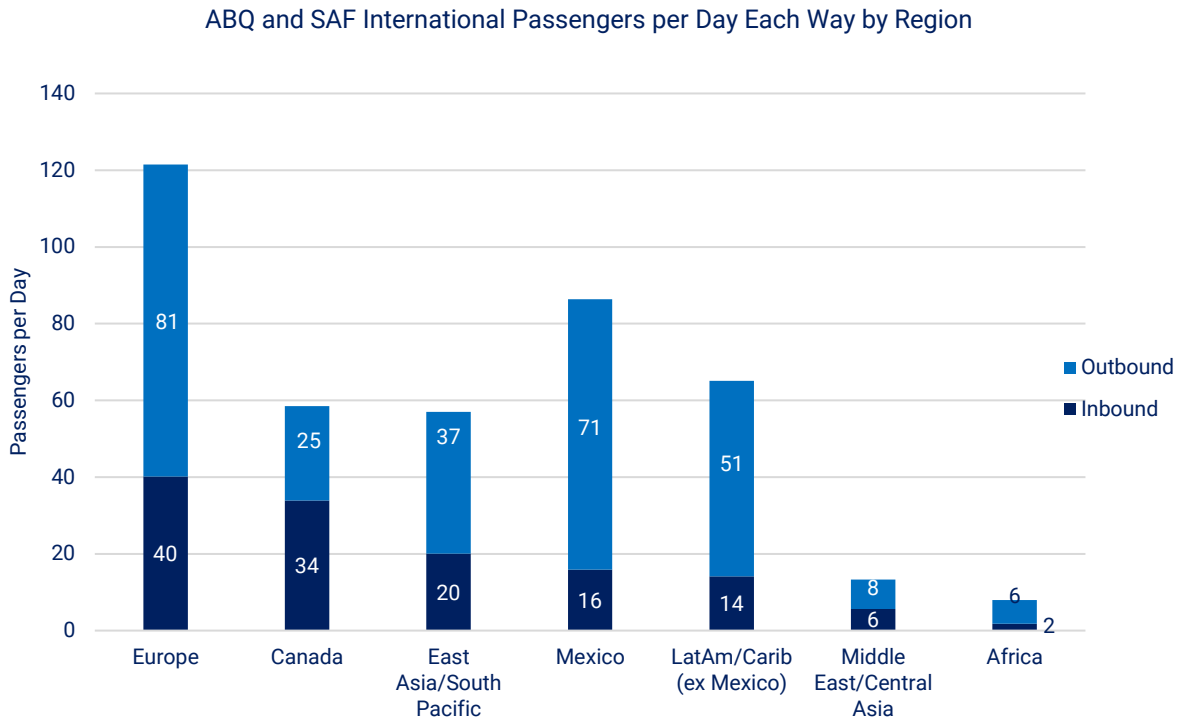


Figure 24: ABQ & SAF Intl. PDEW by Region

Today, the largest market for international air travel from ABQ is Europe, followed by Mexico, the rest of Latin America, and Canada. Within Europe, the travel demand is quite dispersed, with the four largest countries only accounting for slightly more than 50% of current demand. Although the market for Mexico is large, over 70% of the air travel demand is leisure demand to resort locations, such as Cabo San Lucas, Puerto Vallarta, and Cancun.

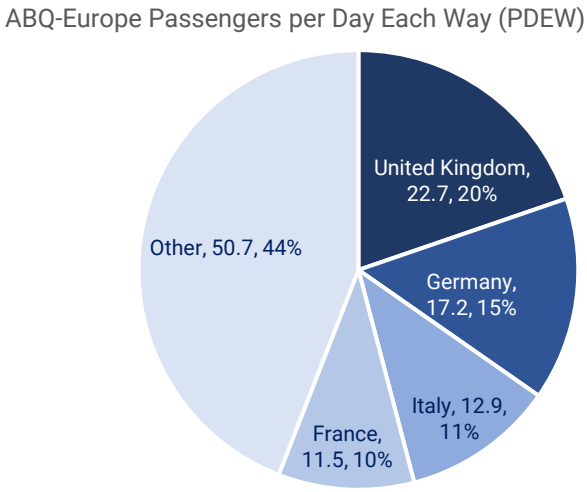


Figure 25: ABQ-Europe PDEW by Country

Considering other community's European service additions, the potential of similar service from the Sunport should be examined. Albuquerque's case is most similar to Charleston, SC, which gained international flights to London's Heathrow Airport on British Airways in 2019. ABQ's amount of traffic to Europe and percentages by country are similar in nature to Charleston. By recruiting British Airways, Charleston has new access virtually anywhere in Europe with a single stop in London. Although not a market for the masses, Charleston is a unique destination with a healthy and vital tourism sector. Both communities represent markets where British Airways' Oneworld alliance partner American Airlines has a strong frequent flyer base, which is critical given the carriers share profits of transatlantic services. Although overall European traffic levels are similar, Charleston has demonstrated growth in passenger growth versus a decline in Albuquerque.

Another interesting case study is seasonal nonstop flights from Germany to Anchorage and Fairbanks, Alaska. Such flights have been operated by Condor for well over a decade in conjunction with tour operators packaging vacations to the natural splendor of Alaska. This very specialized service is focused on bringing high-impact visitors to Alaska in a manner that appears to be possible in New Mexico.

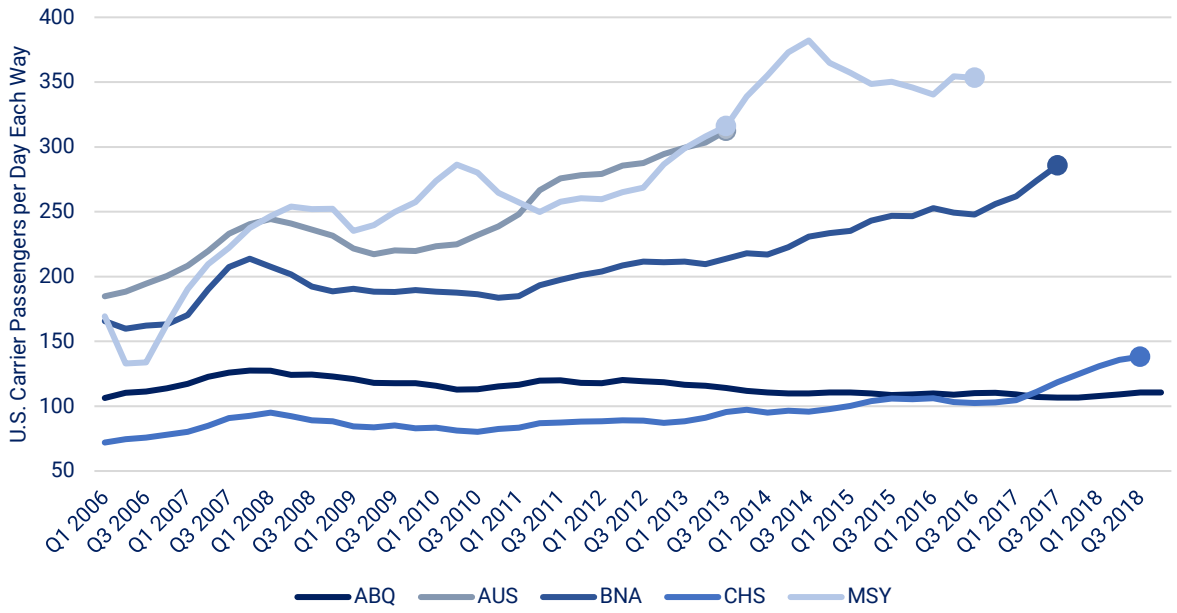
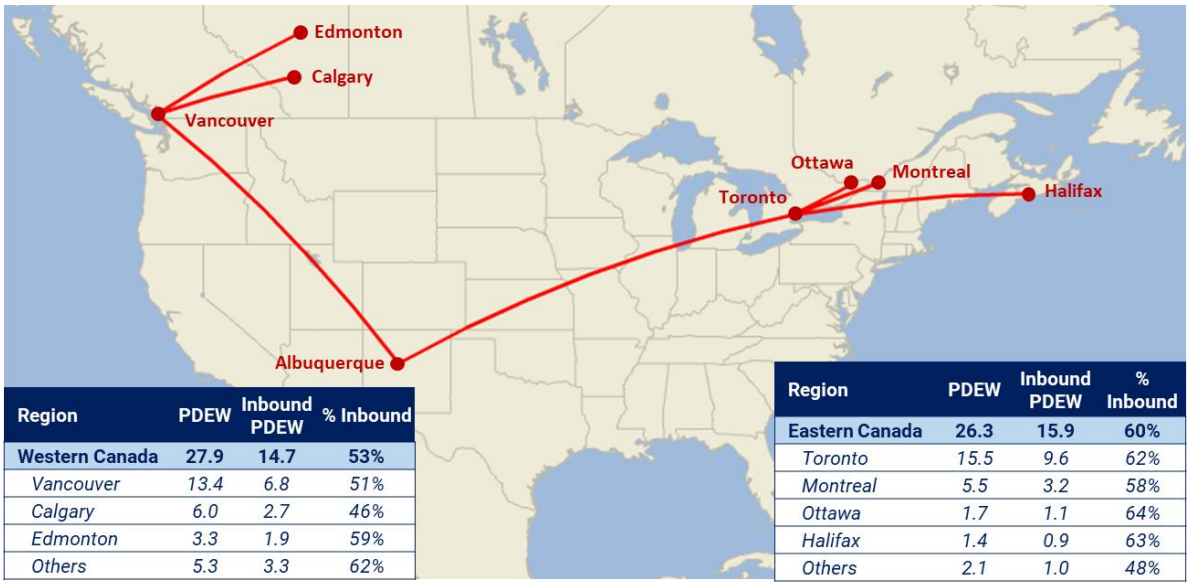


Figure 26: Market PDEW Growth Prior to Launch of Intl. Service

Another interesting international region is Canada. The first thing that stands out about ABQ's current connecting air service with Canada is the inbound percentage. Unlike other global regions, ABQ's traffic is largely inbound to New Mexico, suggesting marketing targeted on bringing more visitors is more likely to be effective. Additionally, Canada has several tour-operators and value carriers which are subsidiaries of their network carriers, allowing for the combination of low fares and network benefits.



Region	PDEW	Inbound PDEW	% Inbound
Western Canada	**27.9**	**14.7**	**53%**
Vancouver	*13.4*	*6.8*	*51%*
Calgary	*6.0*	*2.7*	*46%*
Edmonton	*3.3*	*1.9*	*59%*
Others	*5.3*	*3.3*	*62%*

Region	PDEW	Inbound PDEW	% Inbound
Eastern Canada	**26.3**	**15.9**	**60%**
Toronto	*15.5*	*9.6*	*62%*
Montreal	*5.5*	*3.2*	*58%*
Ottawa	*1.7*	*1.1*	*64%*
Halifax	*1.4*	*0.9*	*63%*
Others	*2.1*	*1.0*	*48%*

Part-135 On Demand Carrier Opportunities

When viewed through the lens of airline business models, efforts to attract and retain air service can be refined to target the best matches between service need and provider. Further, opportunities which merit individual consideration can be packaged together to create a larger opportunity for potential carriers and a faster impact on the state.

One such package of markets involves short-haul non-hub routes from the Sunport. Markets like El Paso no longer fit any of the big carrier business models. The network carriers have the most appropriately sized aircraft to create the right service offering but are remain focused on hub and focus-city development. Absent being considered in that view, network carriers are unlikely to give any consideration to these types of markets. From the ULCC perspective, the markets are too small, even with substantial low-fare stimulation, for the ULCC aircraft size. These markets also require specific business-friendly departure times to be successful, often ignored by the ULCC's in favor of keeping costs low.

However, this situation is the exact niche of Part-135 On Demand Carriers. Some Part-135 carriers, including Contour Airlines and JSX, specifically seek these types of specialized markets. By packaging opportunities together, the carrier gains efficiencies across fixed costs, such as airport rentals and aircraft rents, being shared across markets. Further, it creates the ability for such opportunities to be a semi-autonomous network, with lowered need to connect to the carriers existing network and greater ability to justify investment in local resources such as crew and maintenance bases.

Consider the following four markets from the Sunport: El Paso, Midland-Odessa, San Antonio, and Tucson. Each is a market worthy of consideration on its own merits. Each is a market which was previously served from ABQ or is a top unserved opportunity. In fact, we estimate that each market could support one roundtrip flight per day utilizing 30-seat regional jets typical of this business model, with long-term potential to grow. Because of the higher seat costs of the smaller jets, historic traffic levels will not be attained as higher fare levels are required for carrier profitability. Even so, the historic demand suggests each market has potential for sufficient demand at required fare levels for success. Thus, these markets should be marketed as individual opportunities to carriers in this category.

Forecast for Top 4 Regional Markets from ABQ						
Destination	**Average Fare**	**PDEW**	**Annual Passengers**	**Revenue Potential**	**Daily Roundtrips**	**Load Factor**
Tucson	$169	18.8	13,735	$2,321,173	0.9	73%
El Paso	$159	25.6	18,695	$2,972,560	1.0	85%
Midland/Odessa	$159	14.4	10,477	$1,665,768	0.6	84%
San Antonio	$174	24.3	17,761	$3,090,339	1.0	81%
Network	$166	83.1	60,667	$10,049,840	3.4	81%

Figure 27: Market Forecast: Top 4 Regional ABQ Markets

Each of the markets has short-term potential to produce over 10,000 annual passengers at profitable fare levels and healthy load factors. For carriers with operations at the Sunport or the destination airports, adding a route to 'connect-the-dots' would be a top growth consideration. Unfortunately, none of the Part 135 On-Demand operators currently operate at ABQ or the other airports. Therefore, the ability to present and market them as a package of potential markets with $10 mil in revenue potential is important.

Figure 28: Forecasted Regional ABQ Routes

ULCC Focus-City Development

Another option to structurally improve air access to New Mexico is to work with the ULCC's towards the development of a base at ABQ. All three of the ULCC's have developed their networks around focus cities – airports where they offer a range of flights which both increases their marketplace relevance and keeps costs low. Focus cities are generally commercial in nature, but often also support operational bases. An operational base may include domiciles

for pilots and/or flight attendants, maintenance services, and other operational support functions for the airline.

Allegiant has a somewhat unique structure among the ULCC's in this regard. Its commercial focus on packaging air travel with hotel, ground transportation, and destination activities lead it to form its initial focus cities in large destinations. Because they saw the potential to serve dozens of locations from the focus city, they also created operational bases in at the same airport to keep costs low. In recent years, Allegiant has developed smaller focus cities and bases, where the host communities experience economic benefits from both the additional visitors and increased local work force.

The other ULCC's can generate similar focus-city visitor impact but are less likely to create a multi-functional base in the same manner as Allegiant. However, as a single function base (e.g., aircraft maintenance) may be developed over time.

The key component to local ULCC employment bases is first establishing long-term viable ULCC air service at the Sunport. Fortunately, ABQ has strong potential for ULCC development, as only two of the three major ULCC's currently land at the airport offering less than two daily flights total. As reviewed earlier, thirteen of the top twenty unserved markets show indications that new ULCC service can be achieved and successful. Similarly, nine of the markets which are currently served nonstop from the Sunport have potential for service to be added by a ULCC.

Like the analysis of top unserved markets, each market with service from ABQ was analyzed for the conditions in which an additional carrier of each business model would the market. These conditions included an evaluation of the market size, fare environment, and network fit of potential new flights. Eight of the top ten ABQ markets with service are candidates for ULCC flights, two of which already receive them. Consider the case of Phoenix, which is a larger market than Denver situated a similar distance from Albuquerque. Average fare to Denver is slightly lower, thanks to the ULCC service provided by Frontier in that market. If ULCC service were to be added to Phoenix, average fare would decline while adding traffic, potentially returning Phoenix to the top market from ABQ as it had been in the past.

When combined, the ULCC opportunities among the top unserved markets and markets with other carrier types represents a substantial opportunity for New Mexico and the carriers that choose to service the markets. With 22 markets showing potential for ULCC service from the

Sunport, there are ample opportunities ULCC's to establish a focus city with the right size and scale required for long-term success.

Albuquerque's Non-Stop Destinations						Current Nonstop Carriers		
RK	Destination	Miles	PDEW	Fare	SDEW	Network	Value	ULCC
1	Los Angeles	721	608	$136	676	AA / DL	WN	✓
2	Phoenix	348	459	$132	1,439	AA	WN	✓
3	Dallas-Ft. Worth	494	457	$181	2,418	AA	WN	✓
4	San Francisco-Oakland	959	454	$151	600	UA	AS* / WN	✓
5	Denver	387	380	$130	1,383	UA	WN	F9
6	New York	1,778	321	$199	125	✓	B6	✓
7	Las Vegas	591	311	$116	560		WN	G4
8	Houston	685	266	$195	831	UA	WN	✓
9	San Diego	702	254	$111	340		AS* / WN	
10	Seattle	1,223	240	$151	212		AS	
11	Chicago	1,079	221	$209	645	AA / UA	WN	✓
12	Austin	563	187	$128	153		WN	G4
13	Portland, OR	1,185	151	$158	74		AS	
14	Baltimore	1,628	150	$230	213		WN	
15	Orlando	1,508	143	$176	29		WN*	F9*
16	Atlanta	1,194	124	$225	432	DL	✓	✓
17	Salt Lake City	485	105	$208	262	DL	✓	✓
18	Minneapolis-St. Paul	988	99	$212	93	DL		
19	Kansas City	678	91	$201	135		WN	
* Service cancelled in 2019 (pre-pandemic)								

Figure 29: Market Candidates for Additional Air Carrier Service

Air Service Development at Regional Airports

Transition of Intra-State Markets to Regional Hubs

As discussed earlier, New Mexico's regional airports were served with a long-established intra-state flight network until the fuel spike of 2007-2008. The carriers that supplied those services offered connections beyond New Mexico via relatively simple partnerships with other airlines called Interline Agreements. These agreements, pioneered prior to deregulation when commercial aspects of aviation were controlled by the Federal Government, were focused on

facilitating the passenger experience of connections between airlines. These agreements enabled connecting flights between two independent carriers by allowing the connection to be purchased as a single ticket and ensuring baggage transfer between airlines without a re-check by the passenger.

In most cases, there was no coordination to maximize benefits to customers or airlines with interline tickets. As fares were set independently for each segment of the journey by each carrier, the competitiveness of the total fare was not considered. Similarly, because the carriers are considered competitors, there is no advance coordination of schedules. To the extent there was any commercial coordination, it was through an iterative process of each carrier observing the public actions of the other and reacting to increase its own traffic.

When the intra-state networks failed during the 2008 fuel spike, communities like Roswell, Hobbs, and Santa Fe transitioned to regional jet service provided by major carriers via Capacity Purchase Agreements (CPA's). These CPA's include Codeshare Agreements, which are effectively franchise agreements where the operating carrier uses the branding of a major airline marketing carrier. The term code share refers to the concept of major airlines sharing the use of the two-letter airline code used in computerized reservations system with other carriers who operate the flights to grow their brand larger than their operation. This concept quickly grew beyond the airline code to incorporate elements from all areas of the major carrier's brand. In fact, all carriers who engage in this practice have created sub-brands (i.e., American Eagle) to create brand recognition while separating the product.

In a Capacity Purchase Agreement, the major airlines assume all the risk of regional operations by acquiring a set amount of capacity from regional jet providers at a set price. The major airline allocates that capacity as it sees fit and manages every commercial aspect as if the flights are their own, from market entry decisions to schedules and pricing. Thus, CPA's represent the most integrated commercial platform, where the carriers and communities' benefit from a coordinated effort to maximize traffic, revenue, and profitability.

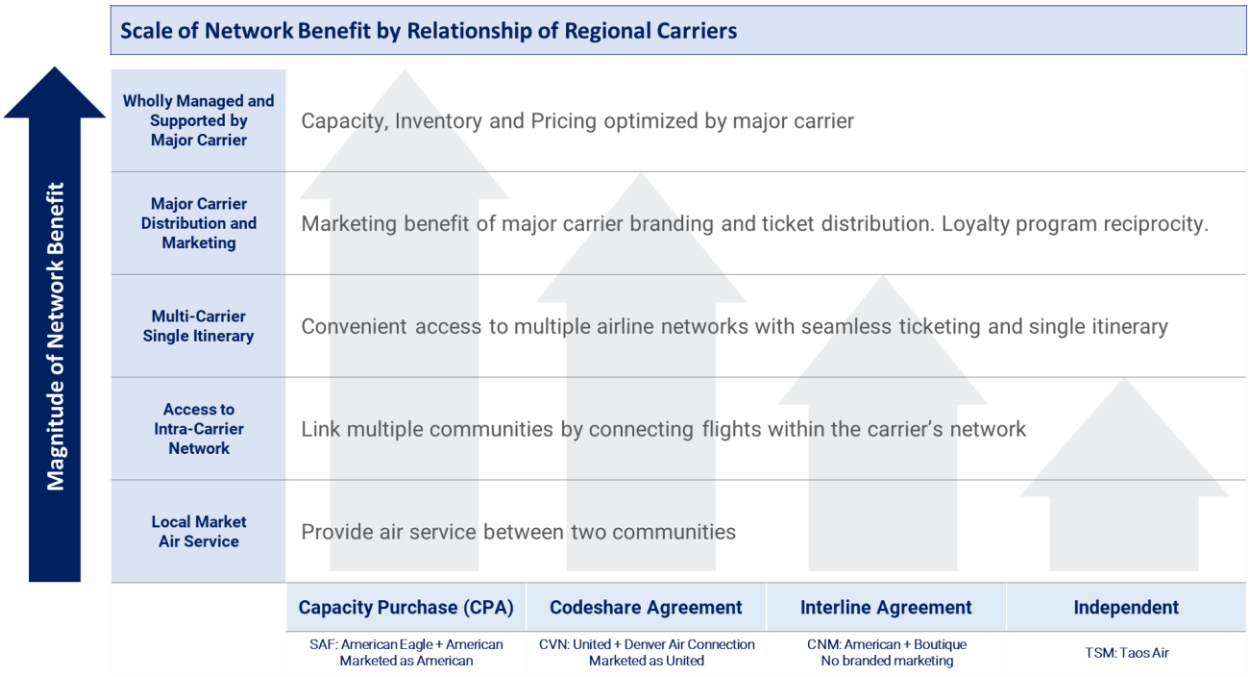


Figure 30: Network Benefit by Regional & Major Carrier Relationship

The impact of the transition from Interline Agreements to CPA's is well demonstrated in both Roswell and Hobbs. Each community saw a four-fold increase in traffic as it transitioned to CPA's. While the nature of CPA's replacing small turbo-prop aircraft with 50-seat jets would naturally increase capacity, it is the fact that a single entity made coordinated pricing and schedule decisions that drove the increased traffic to fill the growing supply of seats. With a single company now benefiting from the success of a route and in control of all elements of the commercial offer, previously unrealized demand was generated and met to the benefit of the airline and the community.

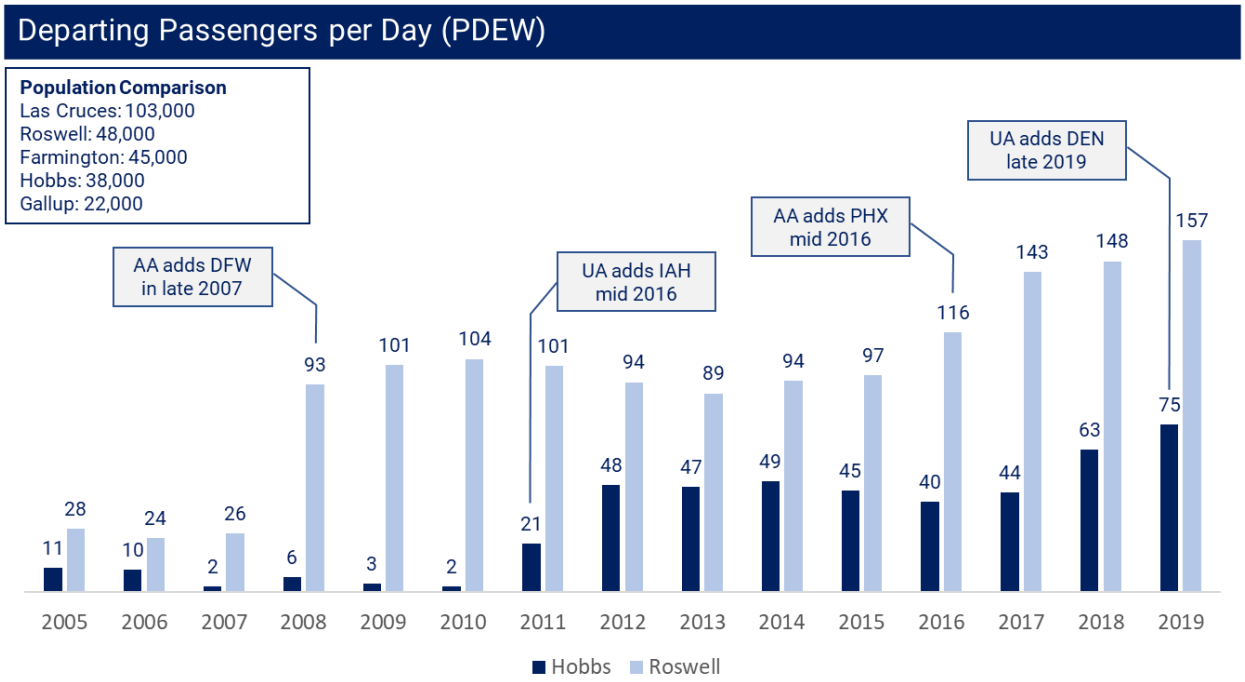


Figure 31: Hobbs & Roswell Market Size and Capacity Trends

Through this process, CPA-based regional jet service was introduced to Roswell in 2007, Santa Fe in 2009, and Hobbs in 2011. Initially, each community received multiple daily flights to a single large airline hub in Texas. While extremely successful, these services only offered practical service to the east of New Mexico. Over time each community was able to grow its service portfolio by adding a western hub and repeating the pattern with a new set of markets.

The transition to regional jets in New Mexico came some 15-years after the initial introduction of the regional jet. Although a strong and effective replacement for the New Mexico communities, the aircraft type had fallen out of favor with the major carriers. The introduction of larger 70-seat jets, increasing fuel and maintenance costs, airline mergers and hub consolidations, and negotiations with labor who view such aircraft as outsourcing union jobs to other providers all combined to a rapid deterioration of the economics of 50-seat jets. As a result, the once popular jet is being phased out of service in favor of jets seating between 70 and 76-seats.

In addition to preparing for larger jets, each community should begin preparing to recruit competitive air service. Santa Fe leads the states smaller communities in demonstrating the benefits of having two carriers in the community. While the remaining communities should

seek to emulate Santa Fe's service to at least Phoenix, Denver, and one hub in Texas, Santa Fe can likely develop services beyond those hubs.

Essential Air Service Markets

In New Mexico, air service to the communities of Clovis, Carlsbad, and Silver City are subsidized through the Essential Air Service (EAS) program administered by the U.S. Department of Transportation. The existence of the EAS program is continually challenged by funding and legislative concerns. Thus, each community and the State need to be prepared for the air travel needs should this program be materially changed.

Until 2005, the New Mexico EAS communities made up a portion of the intra-state network operated by Mesa Airlines. Although only three communities were subsidized, the programs' contribution to covering the fixed cost base of Mesa's ABQ network benefited every New Mexico community. Through the DOT's normal competitive bid process, the EAS markets were awarded to Great Lakes Aviation in 2006. As fuel spiked in 2007-2008, Mesa terminated the remaining 'at-risk' intra-state markets as reviewed earlier. Had Mesa remained the EAS carrier, more of the intra-state network may have made the transition to Part 135 carriers.

Like the transition of 'at-risk' markets to 50-seat jets discussed above, EAS communities across the U.S. demonstrate the potential for codeshare and CPA services within the program (see Figure 32). Numerous EAS communities have successfully transitions to jets while also reducing the need for subsidization. In fact, some EAS communities such as Joplin, MO and Manhattan, KS have achieved commercial success and been removed from the program.

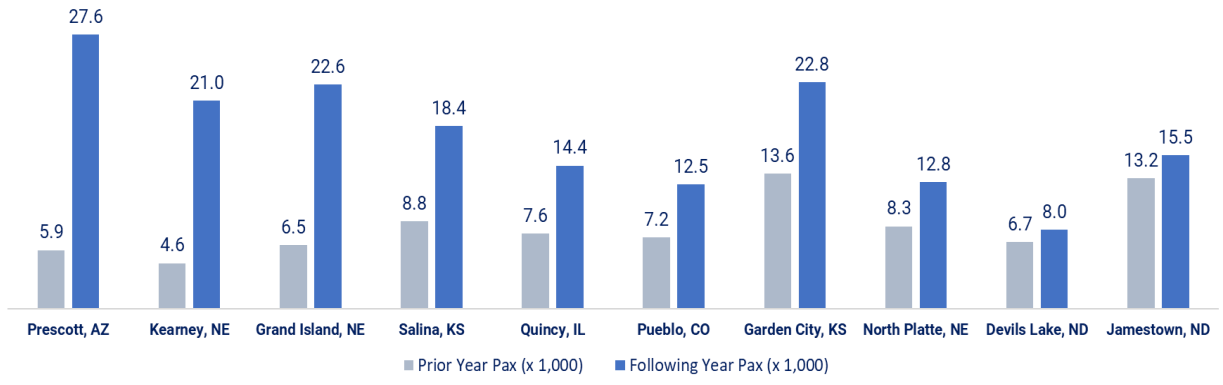


Figure 32: Essential Air Service Transitions

The potential to adjust EAS in southern New Mexico is high. The current traffic base from Silver City and Carlsbad is like other markets throughout the country which have moved into 50-seat jets in CPA or codeshare programs with major carriers that have generated substantial traffic growth. Further, coordination between the communities would allow for a single carrier to combine both markets into a combined service where each community receives service to two hubs to the east and west.

Restoration of Air Services

Since the intra-state network was dissolved in 2007, several communities have lost air service altogether. Each of these communities has significant tourism assets under long-term development and suffer from being difficult to reach. Farmington, Gallup, Taos, and Las Cruces should be prioritized for restoration of air service. The Part 135 carriers, potentially in partnership with the state, are likely the best to demonstrate market potential over time.

Although Farmington has recently had flights from Denver restored, it is likely to remain underserved compared to its historic traffic levels. In the short term, SkyWest operating as a codeshare service will only offer 73,000 seats per year – roughly half the number of passengers who flew through Four Corners Regional Airport in 1996. Further, we know that implementation of codeshare-based regional jet service grows demand. While initial demand will be defined in the coming months, we anticipate it will demonstrate greater potential for FMN, including the pattern of adding a second service to the service offering at the airport.

Taos Air represents a unique project to restore air service in northern New Mexico. The developers of Taos Ski Valley have recognized the importance of air access and have therefore created a virtual airline. Although Taos Air is designed to specifically to support the resort in the short-term, it is also intended to assist traditional long-term air service development by demonstrating that demand for air travel exists today and create passenger data for use by traditional airlines over time. Anecdotally, we know the impact of Taos Air goes further than Taos Ski Valley, with use by visitors to reach other areas of the Enchanted Circle and by area residents.

Part 135 Scheduled Carrier Intrastate Network

From the mid 1980's until 2007, Farmington-based Mesa Air Shuttle and its corporate successors flew at-risk and federally subsidized Essential Air Service flights from ABQ to communities across New Mexico. As recently as 2004, that network generated nearly 50,000 passengers. In 2006, the Essential Air Service communities of Carlsbad and Clovis selected

Great Lakes Aviation to replace Mesa subsidiary Air Midwest as their provider. Mesa continued forward with its at-risk markets until the end of 2007, when broader issues caused Mesa to closedown Air Midwest including the cancellation of all flights within New Mexico. Mesa cited soaring fuel costs (which reached a record high in 2008) and increasing maintenance costs of its 19-seat Beech 1900 fleet.

Following the termination of services by Air Midwest, Roswell quickly recruited American Eagle flights to Dallas/Ft. Worth. Great Lakes continued with its Essential Air Services from ABQ as well as Farmington service to Denver it had started a few years earlier. Other communities, including Hobbs, simply went without air service for a time. As the fuel price crisis subsided, no carrier showed any interest in resuming the former Mesa at-risk network. Although Great Lakes had the highest potential to replace the service, having already secured the subsidized Essential Air Service, its financial situation had also deteriorated and faced similar challenges to Mesa's subsidiary. Ultimately, Great Lakes ceased operations after failing to adapt to new pilot training, rest, and experience regulations which drove a shortage of regional airline pilots.

Despite all the challenges of the operators, the intrastate routes of Mesa and Great Lakes generated nearly 50,000 passengers as recently as 2005. A decade earlier, the intrastate operation supported over 180,000 annual passengers. As most communities did not have service outside of New Mexico, substantial numbers of those passengers were likely continuing beyond Albuquerque in a manner we cannot calculate as there is no proper public data source. Farmington, however, helps illustrate the potential of an intrastate network. In 2006, Mesa carried nearly 10,000 passengers to and from Albuquerque despite Farmington's other services to Phoenix and Denver. Although we cannot demonstrate exact traffic, this suggests there was significant demand for air travel to Albuquerque.

While it is difficult to separate historic regional airport traffic destined to the Sunport versus continuing to the world beyond, there are new mechanisms to estimate such traffic. Surveys which geo-target cells phone and similar devices can help define the total number of people from rural New Mexico traveling to Albuquerque. Further, this technology may be able to help identify new travel trends, such as the amount of rural New Mexico travel to Santa Fe.

Further, today's Part 135 Scheduled carriers are quite different from the commuter carriers they have replaced. By operating 9-seat aircraft, these unique carriers can offer the same capacity with double the flights per day, increasing schedule convenience to passengers. They can

invest in new aircraft technology such as the Tecnam P2012 Traveler and experimental electric-powered Grand Caravans. Because they fall under different pilot regulations, Part 135 carriers able to be a part of the solution to the recent regional pilot shortages instead of the victim.

Ground Transportation Challenges

In three communities air service development is severely handicapped by a lack of reliable ground transportation options. Before developing air service marketing programs, a ground transportation solution will need to be realized in Carlsbad, Silver City, and eventually Las Cruces. The Grant County airport serving Silver City is located roughly 20 miles away from the nearest car rental office. Historically, the airport supported an onsite rental car office, however, existing passenger demand has made that uneconomical.

Section 6: Recommendations

This section highlights Embark's recommendations for developing a comprehensive air service marketing and development program. Our recommendations will focus on the key three core areas discussed: Marketing Programs, Incentive Programs, and Air Service Development Opportunities.

Marketing Recommendations

The State of New Mexico (and many of the local DMOs across the State) have developed effective destination marketing programs to build awareness and consideration for tourism within the State. These programs can be modified to improve air service awareness; and with the introduction of dedicated air service budgets, increase the reach to new target travelers. Marketing programs are critical to the development of air service in the State as well as functioning as an incentive to attract new air service options. Our recommendations will focus on the five key areas introduced earlier in the paper.

Figure 33: 5 Key Areas of Air Service Marketing Strategy

<u>Air Service Improvement Tax</u>

Given the required investment for air service development and marketing, Embark recommends legislation to create an air service improvement tax. This optional tax could be leveraged by municipalities to create a funding mechanism to support air service marketing, development, airport ground transportation, and risk mitigation programs. This new tax of up to five percent

(on goods and services to be determined) would be developed based on forecasted program costs for air service marketing, development, airport ground transportation, and risk mitigation programs. These additional funding mechanisms could require matching contributions from other funding sources in the public and private sector to ensure local support from the communities. Regional communities that surround an air service community could also be eligible for this optional tax if a regional air service marketing organization is formed to support air service.

While these taxes may seem excessively high, air service will stimulate significantly more visitors then realized today and will likely stay multiple nights. Additionally, air travel visitors have larger discretionary income, so they will spend more in the community. While it may appear uncomfortable today, air service will drive higher demand for accommodations, tourism activities, restaurants, shopping, and other economic activities.

Owned Channel Messaging

The State and each community with airline service should complete an audit of all owned channel materials. This would include City, Tourism, Chamber of Commerce, Economic Development, or any other relevant channel. Any material that discusses 'how to get to' the community should lead with air service messaging. Prominent home page or other website placements should also be added to promote air service access. Sample messaging can include:

Fly non-stop to Silver City on Advanced Airlines from Albuquerque or Phoenix. Easy connections are available at Albuquerque to cities worldwide. Book your flights to Silver City at www.advancedairlines.com, your preferred travel agency, Expedia, Travelocity, or Orbitz.

The State has developed a robust and content rich website that provides valuable trip planning tools. The State should update the website to include prominent placement of air service messaging. This could include:

- Adding airplane icons to the regional maps to call out availability of air service
- In the regions and cities section include a 'Getting here' line that leads with air service messaging.
- Develop a 'Fly New Mexico' page that provides details on ease of access to the State by air with links to the respective websites to book travel. This page will also serve as a landing page for any State supported advertising targeting airline service.
- On 'Plan' page add a 'Fly New Mexico' tile linked to the 'Fly New Mexico' page that shows how easy it is to access the State

Community Engagement

Once the owned channel messaging has been audited and updated, each community needs to develop a 'Fly Local' air service marketing toolkit (refer to Appendix 2). As discussed, the tourism entity or Chamber of Commerce in the community likely administers the program. The program should include a web page toolkit with resources to promote air service locally. It should include images, language for websites and other channels, logos, and digital advertising assets.

The community should then encourage all key businesses, hotels, resorts, and other prominent organizations to leverage the toolbox and promote local air service. Visitor research demonstrates the importance of local participation. As figure 34 demonstrates, a significant number of visitors use local websites for trip planning. With 24% using a hotel or resort website and 16% from advice from relatives and friends, a strong local network promoting air service can be powerful resource.

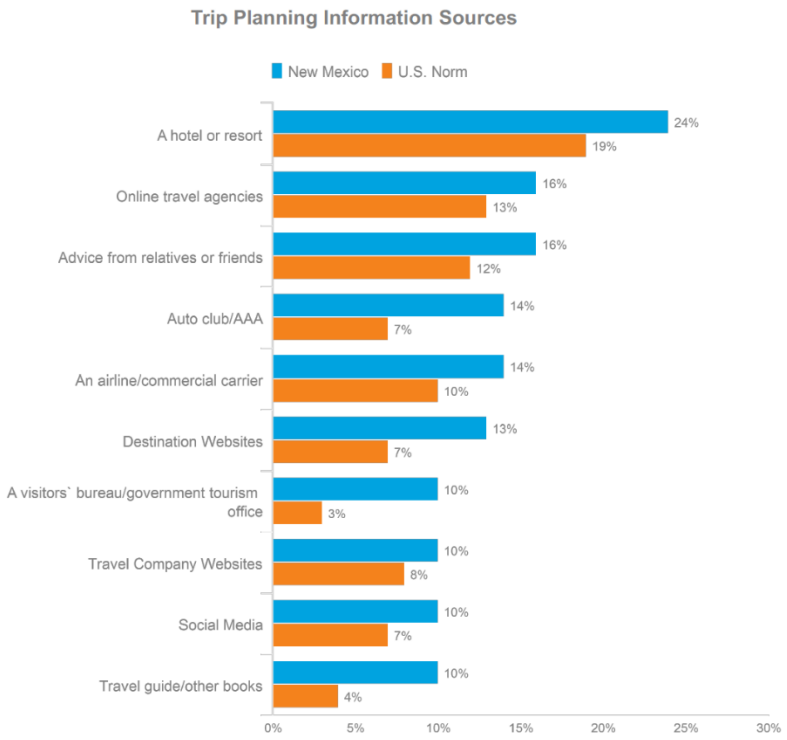


Figure 34: Trip Planning Information Sources

To incentivize participation, the State could develop a grant program that matches the value of air service in-kind marketing efforts with State funds that can be used for air service marketing initiatives in a community.

Paid Media

Embark recommends developing paid advertising programs in communities that have established air service. In addition to being used to expand and develop existing services, these advertising programs will be critical components for a robust airline incentive program. Since the DMO already has marketing programs in place to attract visitors, Embark recommends the DMO initially own air service marketing for the community. This will include planning for both the inbound market, the local market, and assisting the airport in the development of an Air Service Incentive Program. While this seems counter intuitive at the local level, the DMO likely has the planning and agency resources to more efficiently and cost effectively deliver a program. From a funding perspective, additional funding allocations will need to be resourced to accommodate spend focused on air service, especially since dollars will need to be focused locally. That said, if the community has well developed owned channel and community engagement programs in place, local spend can be quite nominal.

Funding Considerations

Air service development and marketing is a significant investment in time and money. However, well developed air service will generate significant return on the investment and economic benefit. While expensive, there are creative ways to develop an air service marketing budget. Embark recommends the following approach:

1. **Identify Optimum Budget.** Based on best practice, a budget of $100,000 for new service and $50,000/year for maintaining and growing existing service has produced the best results. However, this can vary based on the market, type of service, amount of air service, and local engagement.

   The community will want to identify the optimum budget for each category – beginning with developing the owned and community engagement channels first. These can largely be free and have significant impact.
2. **Identify Funding Mechanisms.** This can be a very collaborative, regional approach with contributions from various organizations. The economic impact from air service is not just felt in the community with the airport, but region wide. Identify key regional partners that will benefit from air service and solicit support. Funding can come from a variety of sources, including but not limited to: general fund, taxes, private businesses, real estate, homeowner dues, grant programs, etc.

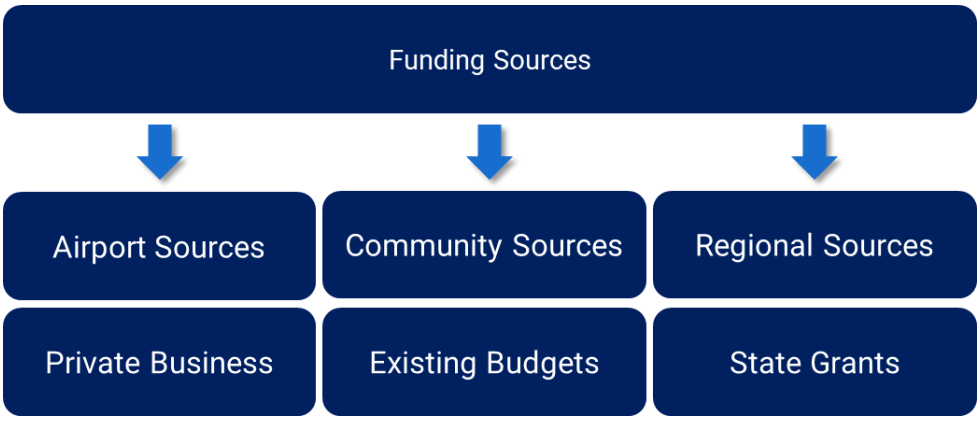


Figure 35: Funding Mechanisms

3. **Build Program.** Identify who will own air service marketing in the community, generally this is managed by the DMO. The program owner will develop the program, identify funding, and execute the plan.

As air service grows and develops, or a community pursues developing a comprehensive Air Service Development Program, Embark recommends creating an organization like the Northern New Mexico Air Alliance in Santa Fe. The city of Santa Fe and surrounding regions developed the Northern New Mexico Air Alliance and promote a Fly Santa Fe program. The NNMAA is a non-profit organization that advocates and educates for air service. The program raises funds from multiple local/county governments, tourism DMOs, and private entities to develop air service through the Santa Fe airport. This has predominately focused on developing comprehensive air service marketing campaigns that augment the general tourism marketing spend for Santa Fe and the region. This organization would also manage any potential MRG programs implemented in the community. Each community would create a non-profit air service marketing organization to receive and spend the funds (noted in figure 35). An air service development firm can provide direction and facilitate this process.

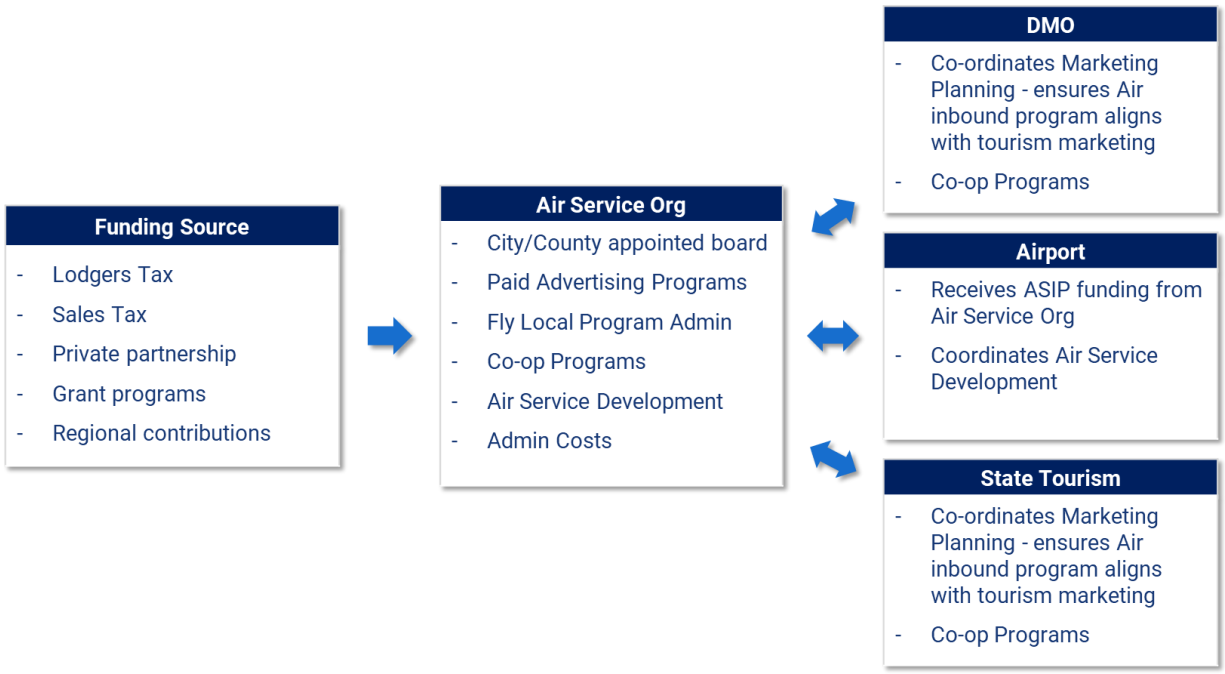


Figure 36: Hypothetical Air Service Marketing Organization

As discussed, air service marketing will need to be budgeted and approached with a focus on these two tactics:

1) Build awareness and consideration for new air service
2) Maintain awareness and increase conversion of existing air service

Local advertising spend can be relatively simple, particularly if a strong 'Fly Local' program is in place. Since New Mexico has a large percentage of visitors (41%) in the VFR (visiting friends/relatives) category making up overnight trips, ensure a local advertising program is in place to support and augment the plan targeting inbound visitors. A local budget will help build local awareness and generate more word of mouth promotion of air service.

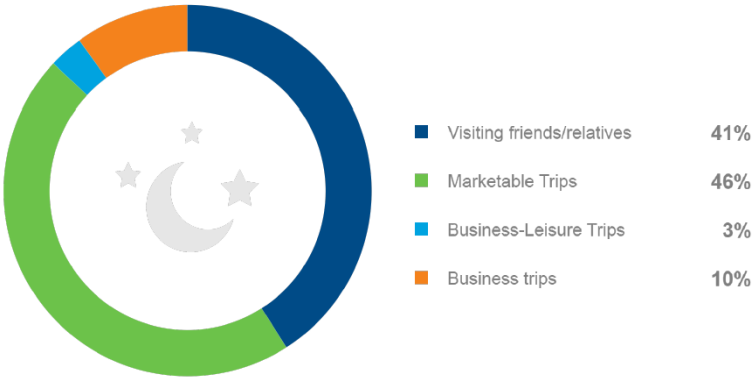


Figure 37: Type of Trips Pie Chart

Media Planning Considerations

Seasonality

Air service is most vulnerable in the off-peak periods of the year and represent the greatest opportunity for marketing support; this is also generally the period that airlines cut service. To ensure growth and consistency year-round, build airline media plans targeting inbound markets around the off-peak periods. Airline bookings generally build momentum and peak between 30 to 60 days prior to departure, so a plan that targets air travel roughly 60 days from the period you want to support is most ideal. Figure 38 shows the annual demand index for all airports served in the State. Demand between January and May is the weakest, with the most demand materializing in the Fall months (notably October). To target travel January through May, the plans should be executed 30-60 days in advance.

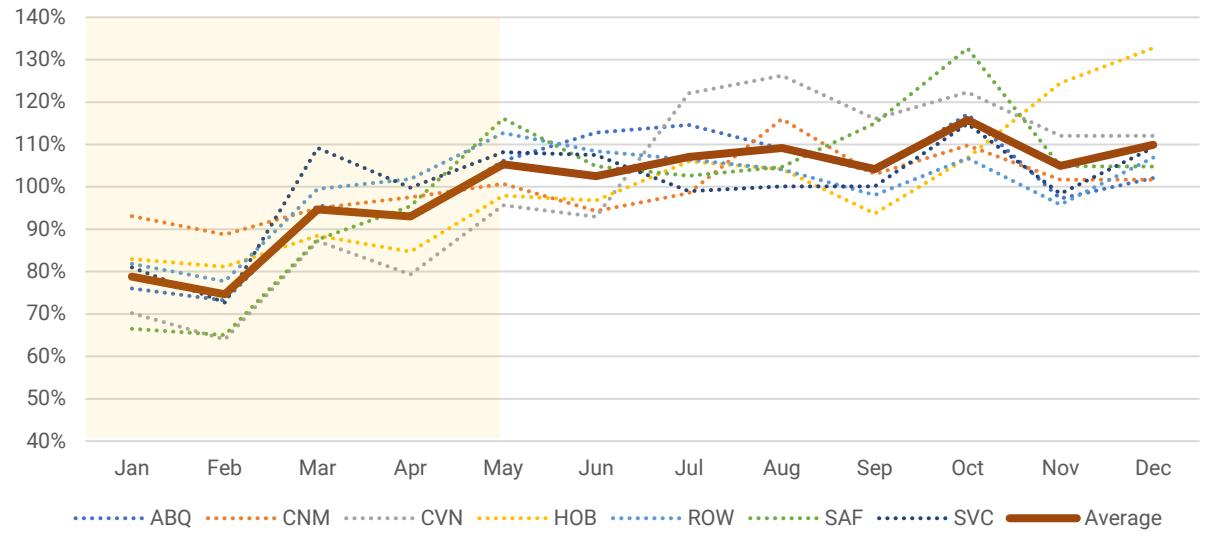


Figure 38: Airline Demand Seasonality

Targeting

Based on the A4A's annual survey, only 45% of Americans traveled by air in 2019 and of that total 71% traveled for personal reasons and 29% for business. For most, it is still an expensive proposition and over-indexes with an audience that generally has more discretionary income to afford leisure travel. From a marketing perspective, that allows focused and specific targeting to ensure budgets are utilized effectively. Demographic targeting for airlines should include the following variables:

- Adults between the ages of 35-54
- Male 60%/Female 40%
- College educated
- HHI $75,000+
- Propensity to travel at least 1-3 times per year by air

As the State or local DMOs develop an airline marketing budget, focusing on the above demographics will help maximize the budget and provide a laser focus on an audience that has the highest likelihood to utilize air service.

Cross-agency Planning

Today, there are primarily two levels of tourism advertising being planned and executed in the State. The first, is at the State level and is largely oriented towards building awareness and consideration for visiting the State of New Mexico. The second, is more specific at the local level and focuses on attracting visitors to specific New Mexico destinations (building on the

efforts of the State). In some cases, the messaging overlaps and even can 'compete' with each other. Once a community has identified and planned their air service marketing programs, they should collaborate with the State and Regional DMOs to ensure plan alignment.

Recommended Marketing Strategies

As the State and local Communities build out marketing programs, Embark recommends the following strategies going into 2021.

Post-Covid Travel

While it is difficult to forecast a return to 'normalcy' following Covid-19, we do know that outdoor leisure destinations are recovering more quickly and will likely accelerate once a vaccine is introduced in early 2021 (see figure 39).

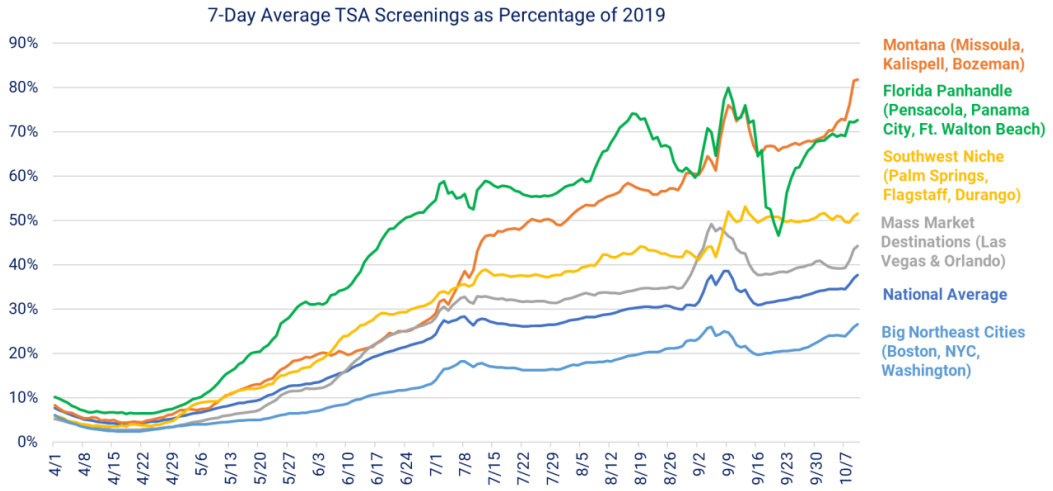


Figure 39: 7-day Avg. TSA Screenings as Percentage of 2019

Given New Mexico's focus on outdoor recreation, the State and local DMO's should aggressively implement campaigns immediately upon the Governor lifting quarantine restrictions and consider a higher budget than 2019 given the pent-up demand across the country. With lodger tax receipts significantly lower than 2019, and other funding likely a challenge to raise, the State should consider a Covid-19 grant program to close the gap for communities across the State based on 2019 fiscal year spending.

Airline traffic peaks between August and December (figure 38), this timing gives New Mexico an advantage for planning and executing effective campaigns leading up to the 2021 peak season, especially if vaccines are more widely deployed by late Spring. This could include the following tactics:

- **Work from _____.** Develop campaigns around the emerging 'digital nomad' culture and shift from office to work from home. Working from home is likely now here to stay for a lot of businesses, with some planning to forgo their corporate office facilities completely. This emerging dynamic is creating a whole new segment of 'bleisure' traveler – mixing work with play. With business travel not likely to return to normal for as much as four years, partnership from hotels and resorts deeply discounting mid-week stays could help incentivize travel.
- **Small Town USA**. Travel is shifting away from large cities and crowded tourist attractions and moving to smaller cities with authentic experiences. This is also materializing in the form of more second home purchases in popular leisure destinations.
- **Travelers have become more interested in the outdoors.** Aggressively target popular outdoor destinations in New Mexico's competitive set. This should include moving share from Arizona, Colorado, and Montana. Programmatic ad buys should target these destinations and potentially intercept visitors. This can be particularly effective in OTA or Kayak advertising platforms.

Develop regional marketing programs

New Mexico markets six distinct regions across the State and while this concept is not new, reinvigorating regional marketing programs that integrate air and ground components can help create longer stays and broader awareness of air service options. Increasing connectivity both in the regional markets as well as through an intra-State system could significantly impact tourism growth in regions outside the North Central and Central regions, with specific opportunity in the Southeast and Southwest regions. However, these regions are currently largely under-developed in terms of air service marketing and regional cooperation. As indicated in the 2019 Travel USA New Mexico Visitor Study, outside the Central and North Central regions, the remaining regions have significantly fewer overnight visitor volumes. By collaborating at a regional level, DMOs can create multi-day itineraries that will lead to extended stays and

increased economic activity throughout the region. Regional collaboration would also create more funding flexibility across multiple budgets.

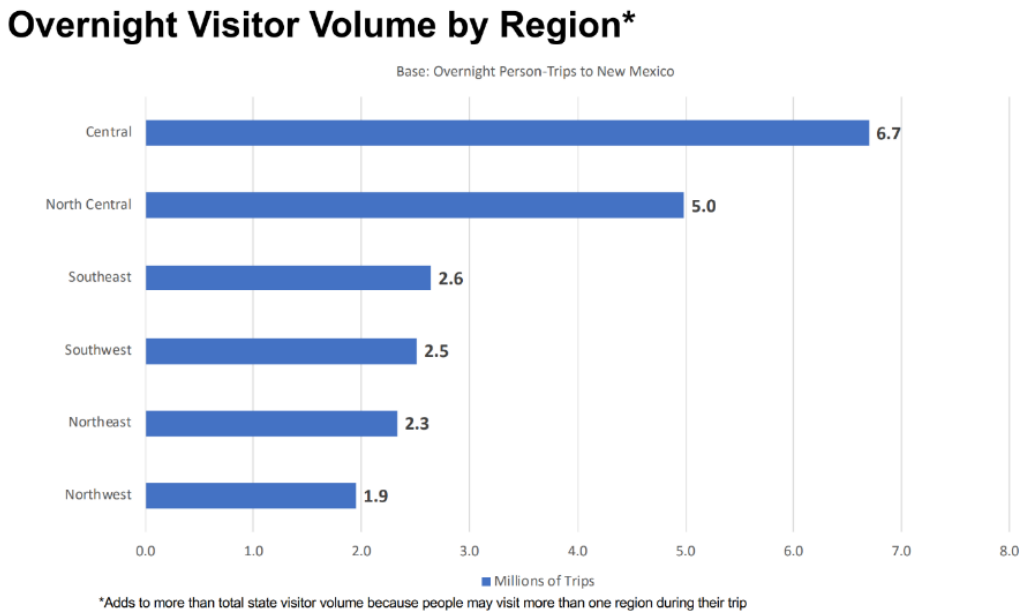


Figure 40: Overnight Visitor Volume by Region - Source: 2019 Travel USA Visitor Profile

Immediate Regional Opportunities

Embark identified two potential concepts (one North and one South) that can be developed into regional partnerships.

Arts and Adventure

Airports: Santa Fe and Taos

Communities: Santa Fe, Taos, and Enchanted Circle region

Non-community partners: Taos Air, American Airlines, Car Rental partner

Target Markets: Austin, Los Angeles

Concept: Fly/Drive promotion that allows visitor to fly into one airport and out of another. The car rental partner could waive drop off fees for cars on either end. Participating communities would provide value added offers when they show their Taos Air or American boarding pass with Taos or Santa Fe as the airport destination. American provides a wide range of one-way pricing options from Los Angeles, Dallas, and Austin. The best DMA marketing opportunity would be Los Angeles or Austin since both airlines use of the same airport in Austin or are near Los Angeles (LAX) or Long Beach for Uber.

Marketing: Historically, these communities have worked together through the Northern New Mexico Air Alliance. While the NNMAA was designed to stimulate travel through the Santa Fe airport, this regional, satellite approach could encourage longer stays and increase airline traffic for both airports. The NNMAA, Taos, Enchanted Circle DMOs would collaborate to develop the program and campaign and promote through owned and paid channels. Paid media would be targeted in the Austin or Los Angeles DMAs. Given the high cost of media in Los Angeles, State marketing funds could be used to match the media plan, or existing State plans in those geographies adjusted to promote the campaign.

Parks and Peaks

Airports: Carlsbad and Roswell

Communities: Carlsbad, Roswell, Ruidoso, National Park Gateway Communities

Non-community partners: Boutique, American Airlines, Car rental partner

Target Markets: Dallas and key visitor markets throughout U.S.

Concept: Fly/Drive promotion that allows visitor to fly into one airport and out of another. The car rental partner could waive drop off fees for cars on either end. Participating communities would provide value added offers when they show their Boutique or American boarding pass with Carlsbad or Roswell as the destination. Since Boutique has an interline agreement with American and American serves Roswell, there are a significant number of marketing opportunities. Further collaboration between American and Boutique could create more favorable interline pricing for the Carlsbad segment.

Marketing: These communities have not collaborated since non-stop flights were launched from Roswell to Dallas/Ft Worth. This program may take a little longer to develop until a regional organizational structure is created. This program provides a lot of flexibility for media targeting. Starting with Dallas, media would also target key visitor origin markets that are available by way of connections on American Airlines. Since flights will need to be purchased through an Online Travel Agency (Expedia, Travelocity, etc.) partnering with an OTA as the distribution channel may also provide value. State marketing funds could be used to match the media plan, or existing State plans in those geographies adjusted to promote the campaign.

International Market Development

While international development has focused primarily on Mexico, Embark see's long term opportunity to support air service from Canada and Europe, which from an air service perspective, generates the most air travelers (refer to figure 24 in Air Service Development). New Mexico can start laying the foundation for air service to Canada and Europe by beginning to develop marketing programs targeting these regions.

From a marketing standpoint, international air service to New Mexico is a natural fit as the State is the personification of all things 'Southwest'. New Mexico should own that distinction and has every right to it – from arts, culture, and geography. New Mexico should be the gateway for any trip originating in the Southwest region. With international visitor spending nearly 5x greater than domestic spending, the economic impact is compelling.

Visitor Volume and Spending

Amounts in millions of visitors, millions of nominal dollars, and dollars per person

	2015	2016	2017	2018	2019	2019 Growth
Total visitor volume	**34.04**	**35.02**	**36.07**	**37.46**	**38.16**	**1.9%**
Domestic	33.39	34.37	35.40	36.80	37.48	1.8%
International	0.65	0.65	0.67	0.66	0.68	4.5%
Total visitor spending	**$6,294**	**$6,427**	**$6,631**	**$7,092**	**$7,446**	**5.0%**
Domestic	$5,695	$5,866	$6,054	$6,543	$6,872	5.0%
International	$599	$561	$577	$549	$573	4.4%
Per visitor spending	**$185**	**$184**	**$184**	**$189**	**$195**	**3.0%**
Domestic	$171	$171	$171	$178	$183	3.1%
International	$924	$866	$865	$838	$837	-0.1%

Source: Longwoods International; Tourism Economics

Figure 41: Visitor Volume and Spending Stats

Arizona attracts by far the largest share of international visitors, which could be an advantage for New Mexico. In terms of culture and geography, Arizona and New Mexico are most similar and could be unique partners, delivering a truly authentic Southwest experience. Since New Mexico has a portfolio of American/OneWorld served cities (Albuquerque, Roswell, and Santa Fe) it is a natural fit for American connectivity via Phoenix, but more importantly, creates the support for non-stop service on American partner British Airways to Albuquerque.

State	Intl Visitors	Intl Spend	Hub	Intl Gateways
Arizona	6.1	$4,600	PHX – American	22
Colorado	1.1	$1,830	DEN – United*	21
Utah	0.8	$742	SLC – Delta*	11
New Mexico	0.7	$573	None	1

2019 Numbers stated in millions of visitors and dollars

*DEN and SLC benefit from hub carriers in major international alliances and have more international service than could realistically support without.

Sources: AOT, CTO, UOT, NMOT

Figure 42: International Visitor Stats by State

Marketing Considerations

- **Mexico Maintenance.** The size and strength of the drive market today requires maintaining a marketing program targeting this region.
- **European Expansion.** Given the impact of Covid-19, travel from international gateways is not likely to recover for at least two years. This gives New Mexico Tourism time to develop a budget; and target investing in Europe beginning Summer/Fall of 2022. Normally, it takes over a year to establish solid links to critical tour operators and other sales agents. Partnering with American/British Airways in the UK and other European cities to develop marketing programs, sales missions and media familiarization trips would be valuable in 2021.
- **Northern Neighbors.** Vancouver and Toronto are key markets to develop and have the strongest potential for service in the future. Like Europe, partnering with United/Air Canada to develop marketing programs would begin to lay the foundation for future service.
- **Regional Partnership.** Since Santa Fe also attracts a significant number of international visitors that mirrors ABQ, partnering with SAF on European and Canadian efforts will help increase traffic for both cities and create a more compelling value proposition.

Space Tourism/Las Cruces Development

With the development of Spaceport America near Truth or Consequences, New Mexico has an opportunity to develop a space tourism industry. Broward County in Florida (home to the Kennedy Space Center) has developed a successful program for marketing the region. Known as the 'Space Coast' it provides a variety of trip planning tools to view rocket launches throughout the year. With the growth of SpaceX, these launches are now even more frequent and are contributing to growth along the 'Space Coast'. While the primary 'event' is a rocket launch and a visit to Kennedy Space Center, much of the content for visitors is geared around other activities and attractions (including beaches, boating, and theme parks). New Mexico's rich military and space history create an opportunity to develop a much deeper and immersive experience by tying other regional space exploration attractions into a 'Space-cation.'

Infrastructure

While Spaceport America is closest to Truth or Consequences, Las Cruces is the closest major city that can support the infrastructure and visitor volumes for space tourism. This is required for two different segments of space tourism, the first being those training as astronauts and traveling into space. The second segment are launch spectators or interested in exploring the facility.

Las Cruces currently has a large inventory of rooms across several hotel brands and chains. It is anchored on the luxury end with the Hotel Encando de Las Cruces which has been designated as the official hotel of Virgin Galactic for Spaceport America. The region also provides a wide array of restaurants and other amenities that make it the perfect hub for space tourism and the astronauts participating.

Resumption of air service is critical to providing the most convenient and competitive link to the region. While only an hour from El Paso International Airport (the closest airport to Las Cruces) direct service to LRU ensures visitors are generating an immediate economic impact to the State. If served by a major network brand such as American Airlines, it provides seamless access to the World, making Las Cruces and the region more accessible. While close to El Paso, the population, tourism, and business community can likely support limited air service and begin to develop an air service niche like Santa Fe (which is roughly the same travel time to ABQ).

While the 'hub' for astronaut training, it can also serve as the hub for spectators and those interested in space exploration.

Ultimate Space-cation

While the opportunity to train as an astronaut and experience space travel is limited to a wealthy minority today, the region can still exploit the Spaceport to develop a 'Space-cation'. Working with other communities in the region, the Space-cation includes developing a multi-day itinerary leveraging Las Cruces as the hub, or if part of a fly/drive program, could include Roswell as a gateway airport.

Itinerary components:

- **Launch parties.** When launches are planned, the Space-cation marketing entity will publish the launch calendar and develop exclusive launch parties or viewing areas for each launch.
- **Ride the Space Highway.** Regional integration of activities that serve as the core space-cation experience:
    1. Spaceport astronaut training and 'certification'
    2. Post training exploration of Truth or Consequences (hot springs, recreation, more 'eclectic' experience)
    3. Visit to White Sands National Park and White Sands Missile Museum
    4. Alamogordo activities at the NM Museum of Space History and the Sunspot Astronomy and Visitor Center
    5. While further away to accomplish a day trip, integrating Roswell and its world-famous UFO Museum and 'site' tours would be a fantastic component. Incorporating Roswell would be a good fit for inclusion in fly/drive itineraries where visitors fly into Las Cruces and out of Roswell, or vice versa.

Embark recommends creating an air service development program in Las Cruces and begin to lay the groundwork for attracting and securing air service. Concurrently, the region can begin forming a regional partnership with other communities to develop and structure the Space-cation experience. While not as preferred, Las Cruces can initially leverage the El Paso Airport as the 'gateway' airport (60 minutes away). While retaining all dollars in New Mexico is ideal, the nearest major gateway is Albuquerque over three hours away, which makes the space-cation

experience less convenient and less accessible. Once air service is established in Las Cruces, the messaging can transition from El Paso.

Incentive Recommendations

As figure 43 illustrates, there are several components that make up an effective incentive program. The more elements a community can support, the more likely the community will attract an air carrier. Incentives and marketing are only effective if the market opportunity is economically viable. It is imperative that any potential new air service be well vetted to ensure the market can be successful.

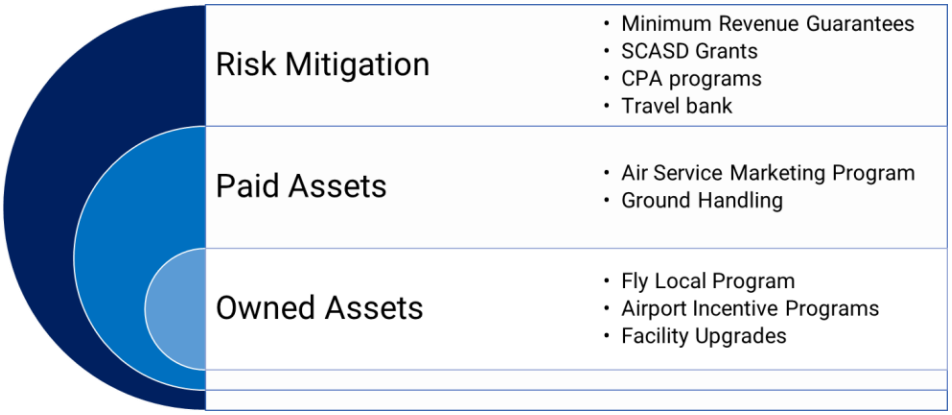


Figure 43: Components of an Effective Community Incentive Program

Each community and airport will need to commit to developing an air service incentive program and determine how much they want to invest in air service. This process can be as simple as providing fee waivers and marketing support (low cost/effort) to developing an MRG funding mechanism and portfolio of incentives (high cost/effort). For the best chance of attracting air service, Embark recommends developing a comprehensive portfolio of incentives and identifying the funding mechanisms to accomplish this. An air service development firm can provide direction and facilitate this process.

<u>Airport</u>

At the airport level, develop an FAA approved airport specific air service incentive program as the foundational elements of the complete community incentive program. The airport will want to identify what qualifies for incentives and create parameters for the program, while also identifying what incentives it can provide.

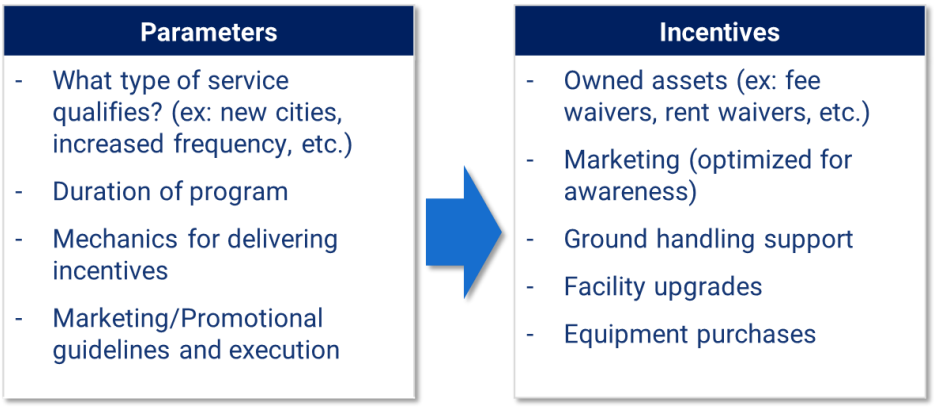


Figure 44: ASIP Development Process

If the airport budget can support it, the airport will want to establish a marketing budget that includes the two components: communicating new service and maintaining awareness in the local market. The second component should be an 'always on' annual program. In some cases, the airport marketing plan is managed by the local DMO or agency of record for the DMO. If the airport cannot support marketing, it should be managed and funded by the DMO. Every airport with commercial air service should be working with New Mexico DOT to leverage grant funds to market air service in the State.

Community

The community elements will be by far the most impactful and most critical for attracting air service. Embark recommends creating a Minimum Revenue Guarantee Program (MRG) and if the airport has a strong business community, establish a travel bank program. The MRG program should only support routes that have been identified as strong candidates for economically viable service. The community (working with the airport and potentially air service consultants) should identify these opportunities in advanced and work with key community and business leaders to ensure they are supported. These potential opportunities will be discussed in more detail later in the air service development section. Figure 45 recaps the mechanics of developing an MRG program. This will require significant investment in resources and development of a funding mechanism, so ensuring the markets are the best opportunities will increase the probability of success.

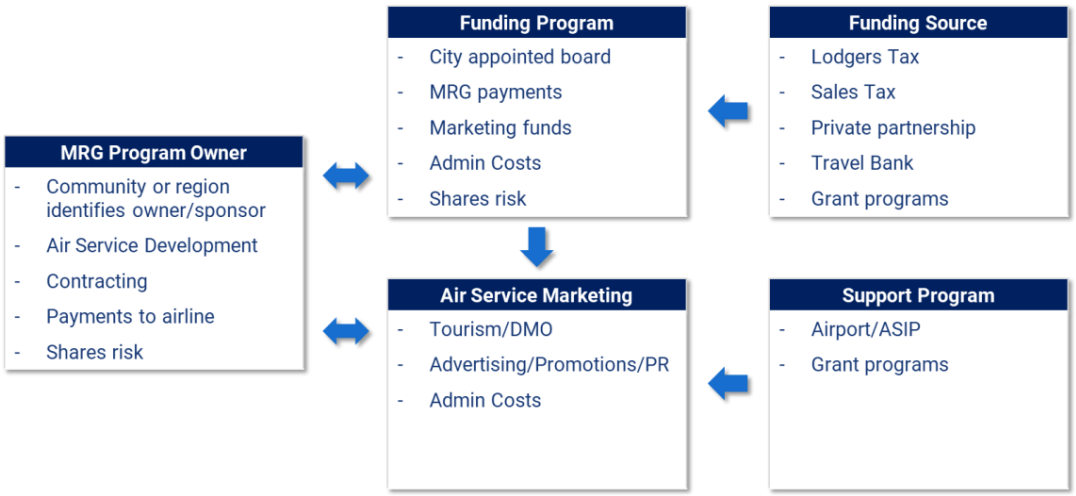


Figure 45: Mechanics of a Minimum Revenue Guarantee Program (MRG)

Air Service Improvement Tax

Given the required investment for air service development and marketing, Embark recommends legislation to create an air service improvement tax. This optional tax could be leveraged by municipalities to create a funding mechanism to support air service marketing, development, airport ground transportation, and risk mitigation programs. As discussed earlier, these additional funding mechanisms could require matching contributions from other funding sources in the public and private sector to ensure local support from the communities. Additional regional communities that surround an air service community could also be eligible for these provisions if a regional air service marketing organization is formed to support air service.

Chamber of Commerce/DMO

With the foundational elements in place at the airport level, the marketing strategy will largely become the responsibility of the DMO, specifically when targeting the inbound visitor in new markets. After establishing an air service marketing budget, the DMO will want to work closely with the airport and community on new air service development initiatives and support any new air service derived from the air service incentive program.

As discussed earlier, every community with air service needs to develop a strong 'Fly Local' program. This program can be administered by the DMO or Chamber of Commerce. Eventually this responsibility can be transitioned to a local air service development organization.

Air Service Development Recommendations

Goals for Albuquerque International Sunport Air Service Development

- Continue to recruit service to top unserved markets with a focus on matching opportunity to carrier business model.
- Restoration of previously served markets by matching opportunity to business model likely to be successful in the future.
- Package and market groups of complimentary opportunities to assist target carriers in justifying fixed costs of service additions while minimizing financial risk to the carriers.
- Drive increased international traffic through marketing in a long-term effort to recruit nonstop international flights

Goals for Regional Airport Air Service Development

- Restore air service to previously served airports, including Gallup and Las Cruces
- Each regional jet airport should be served by two major airline brands, with American and United being most logical based on hub proximity
- Each regional jet airport should maintain service to Phoenix, Denver, and either Dallas/Ft. Worth or Houston-Bush Intercontinental Airports
- Reestablish intra-state airline network

Adjust Air Service Development Priorities for Covid-19

Destinations that offer abundant outdoor and socially distanced activities are recovering at a faster rate. These communities may benefit longer-term from increased exposure now and further development of outdoor recreation for tourism. This requires a concerted effort from interested parties across the state to allow visitors to enter the state in a manner safe for them and residents alike.

State to Lead Ground Transportation Coordination

A substantial challenge to developing regional air service across the state is a lack of focus on ground transportation. Some regional airports simply lack car rental vendors. Regional airports that do have car rental vendors often have different vendors than neighboring airports. These challenges create difficulties for travelers and tourists who want to fly directly to more remote

parts of New Mexico but find ground transportation options incompatible with their overall travel plans.

Embark recommends exploring different strategies to close the ground transportation gap. The state can lead an effort to ensure all regional airports have sufficient car rental options, including at least one brand with a location at every regional airport with commercial service. By doing so, regional airports will be able to better meet the complete need of travelers, which will allow traffic to grow.

1. **Establish a relationship Enterprise.** Currently, Enterprise is the largest operator in the State and located in every existing air service community. New Mexico DOT could begin a dialogue with the franchise or corporate office to collaborate on accessibility options and potential costs.
2. **Establish a grant program or incentives.** The State or Community may need to develop a grant program to encourage establishment of a branch at the airports until air service creates sustainable rental car business. This could include reimbursing the participating agency for moving staff/vehicles to airport to facilitate rental, waiving rent at the airport for rental car facility and vehicle parking, or local/State tax rebates based on volume of cars rented at regional airports.
3. **Establish transit link.** Alternatively, each community has a transit system that could be extended to the airport during flight arrival/departure times. This would allow visitors to access car rental facilities downtown.

Create a State-supported CPA Program for Rural Markets

Embark recommends exploring the development of two CPA programs to support rural New Mexico markets. The first is focused on building on the success of air service models in Hobbs, Roswell, and Santa Fe. As demonstrated in the Air Service Development section, we believe air service to nearby hubs is crucial for success. To attract long-term major airline interest, an opportunity exists to develop air service in Farmington, Gallup, Taos, and Las Cruces through a CPA-like arrangement to a nearby hub. The second explores establishing a CPA program that develops an intra-State network.

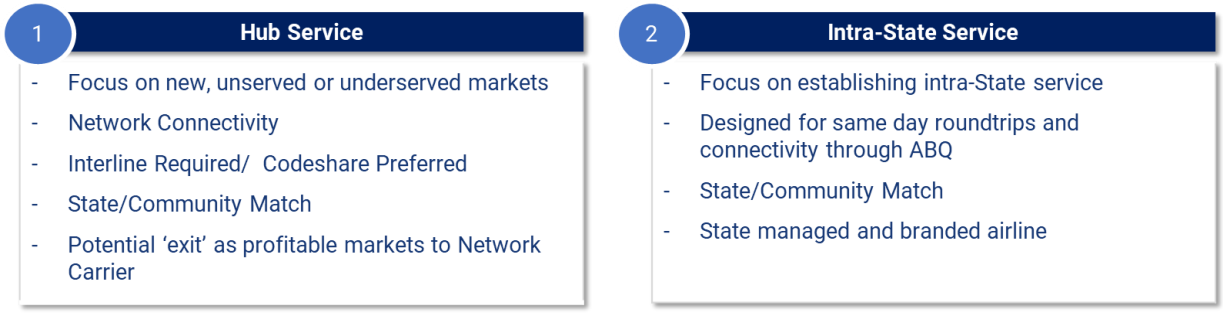


Figure 46: State Funded CPA Program Options

There are two potential business models for such a project, both of which rely on the concept of the state managing service through Capacity Purchase Agreements, like the major airlines. The first option would rely upon each carrier's branding and sales infrastructure, which would have certain minimum requirements defined in a Request for Proposal.

The second involves the creation of a unique airline brand and sales infrastructure to be led by the state, with flight operations contracted to reputable operators in a manner like the Rail Runner service. Although this intra-state program likely requires long-term subsidies like those provided by the Essential Air Service program, some markets show potential for profitability.

Important note: Before exploring either option, a detailed forecast and business case needs to be developed. The costs described below are estimates based on industry data and DO NOT include any revenue projections that would ultimately reduce the cost of the program to the State and Communities.

Program 1: Hub Service CPA

For hub service, the State would work with hub candidate communities to identify the new service needs for the community. Once the portfolio of communities is identified, the State would issue an RFP to qualified air carrier candidates. The candidate communities would evaluate the options and identify the winning bidder. The State would then develop a CPA with the carrier whereas the State pays a fixed rate for the service. The airline then credits the State with the revenues generated by the program. Any profit is reflected in the form of credits for future service and split with the participating communities based on the community match. Conversely, any losses incurred by the State are shared with the community.

Hub service candidates:

Phase 1: Phoenix: Farmington, Gallup, Taos, and Las Cruces

Phase 2: Denver: Gallup, Taos, Las Cruces, Roswell

Phase 3: Houston: Las Cruces, Roswell, Santa Fe

Embark initially recommends a phased approach, beginning with Phoenix.

1) The market candidates have the greatest need with no, or limited airline service.
2) Phoenix is the closest hub, which would limit the overall cost exposure to the State and participating communities. Phoenix (and Arizona in general) is also a key origin market for visitors.
3) There are two potential regional jet operators that can provide network connectivity. The first being American Airlines with seamless connections, one fare, and loyalty program participation. It also complements the existing American services in other New Mexico communities. Contour Airlines also is a compelling option. While Contour does not codeshare with American, it does have an interline agreement with the ability to book Contour/American itineraries and baggage transfers through aa.com and OTAs.

As the program matures and markets become profitable, the State can then focus on future phases of support and remove profitable markets from the program.

Any shortfall in either of the two the program revenues is covered by the State and matching funds from each participating community. Conversely, profits would be shared at the same rate. Matching support would be based on tiered market need and funded through local sources (examples: sales tax initiative, a State air service improvement tax, private partnership, etc.)

Tier 1 - No Air Service: No air service in a commercially viable market (match: 20%)

Tier 2 - Limited Air Service: 1-2 routes, non-Network hub access, seasonal (match: 40%)

Tier 3 - Established Service: Multi-hub access, multi-carrier options (match: 60%)

Other requirements:

- Municipalities or counties shall have a minimum population of fifty thousand persons residing within a fifty-mile radius of the airport unless the municipality or county has existing air service
- Air carrier must operate regional jet equipment and have at minimum an interline agreement with the dominant hub carrier, or most preferred, a codeshare or CPA relationship with the dominant hub carrier
- Airline operator will be required to meet minimum service levels based on USDOT established metrics for schedule completion and on time performance
- Routes to be served by the program shall be new air routes that were not served prior to program or previously served routes that were discontinued within the past twelve months; and
- Program needs to be in place for a minimum of three years to adequately develop the markets.

Cost Detail

Destination	Distance	Daily Frequency Each Way	Daily Seats Each Way	Annual Departures	Annual Cost
Las Cruces	306	1.7 x	51	1,251	$4,400,000
Farmington[1]	313	1.7 x	51	1,251	$4,000,000
Gallup[2]	233	0.7 x	21	521	$1,000,000
Taos[3]	415	0.4 x	13	156	$700,000
	Total	**10.2**	**137**	**3,181**	$10,100,000

Figure 47: Estimated Annual Cost of Hub CPA Service

Costs assume operation utilizing an Embraer 135 regional jet aircraft configured to 30 seats. Additionally, we assumed one of the daily roundtrips between Phoenix and Farmington[1] has an intermediate stop in Gallup[2]. This would help limit the cost exposure for both Gallup and Farmington and as the markets developed, would eventually be separated. Taos[3] estimate based on Summer and Winter service.

Based on the success of regional jet programs in Hobbs, Roswell, and Santa Fe (refer to figure 31), Embark is confident that regional jet service is feasible in Las Cruces, Farmington, and Gallup and will largely offset the costs of the State run program.

Program 2: Intra-State CPA

The State would identify one (or more) airlines to operate the intra-State service on behalf of the State for a fixed rate each month. The State would then be responsible for managing the commercial functions of the airline, including distribution, revenue accounting and collection of all revenues. Revenue shortfalls/profits would be invoiced or credited to the community based on the State/Community risk sharing model at the end of each fiscal operating year. A percentage of the profits could also be retained to support other State air service initiatives. Using a model developed for Taos, the State could bid the management of the airline out to an airline management firm. In addition to managing the day-to-day commercial entity, the firm would also work with various local and State entities to help develop and market the air service. In this scenario, the intra-State airline service would follow a model like the structure of the Rail Runner program.

Potential Intra-State candidates:

Farmington, Taos, Las Cruces, Roswell, Hobbs, **Carlsbad**, and **Silver City**.

(Bold indicates cities subsidized by the federal EAS program – any inclusion in an intra-state CPA program would require coordination with the federal program to ensure eligibility in that program is maintained.)

Any shortfall is covered by the State and matching funds from each participating community. Matching support would be based on tiered market need and funded through local sources (examples: sales tax initiative, a State air service improvement tax, private partnership, etc.)

Tier 1 - No Air Service: No air service in a commercially viable market (match: 20%)
Tier 2 - Limited Air Service: 1-2 routes, non-Network hub access, seasonal (match: 40%)
Tier 3 - Established Service: Multi-hub access, multi-carrier options (match: 60%)

Other requirements

- Municipalities or counties shall have a minimum population of twenty thousand persons residing within a fifty-mile radius of the airport unless the municipality or county has existing air service
- Aircraft to be used to service proposed new air routes shall be served at a minimum with twin engine turboprop aircraft
- Airline operator will be required to meet minimum service levels based on USDOT established metrics for schedule completion and on time performance
- Routes to be served by the program shall be new air routes that were not served prior to program; and
- Program needs to be in place for a minimum of three years to adequately develop the markets.

Cost Detail

Destination	Distance	Daily Frequency Each Way	Daily Seats Each Way	Annual Departures	F/A Annual Cost
Farmington	148	2.7 x	24	1,970	$1,300,000
Roswell	169	2.7 x	24	1,970	$1,400,000
Las Cruces	190	1.7 x	15	1,240	$1,000,000
Hobbs	254	1.7 x	15	1,240	$1,200,000
Taos	111	1.4 x	13	1,021	$500,000
	Total	**10.2**	**92**	**7,442**	$5,400,000

Figure 48: Estimated Annual Cost of Intra-State CPA

Costs assume operation utilizing a Cessna 402 twin engine aircraft configured to 9 seats.

Next Steps

Since both programs would be a significant investment for the State and candidate communities, Embark recommends developing a comprehensive route forecast and business case. This will establish a model for forecasting program revenues and provide guidance on profit or loss for the program. The forecast modeling can be completed during the first quarter. Concurrently, the State will want to work with the task force on community funding feasibility, particularly around Lodgers Tax statutes and other public funding sources. If the forecast and

business case are promising, the State could identify potential airline operators and target a Fall/Winter 2021 program launch.

Given the larger economic impact to the State, Embark recommends focusing on the Hub CPA program first and potentially adding intra-State service the following year.

Finally, since aircraft are highly mobile assets, the state's interests in creating intra-state air service and restoring flights to unserved communities through access to nearby hubs can be combined. In fact, combining the effort will create a larger opportunity for potential airlines, increase economies of scale across fixed costs, and minimize risk for the carrier, thus enhancing the potential for success of such a program.

Recruit Ultra-Low-Cost-Carrier Service

The conditions at Albuquerque International Sunport are ideal for the expansion of service from existing ULCC's, as there are several markets that appear ready to respond should service be added. A partnership with New Mexico Department of Tourism or Visit Albuquerque would amplify the potential to develop a destination focus city with a carrier like Allegiant that explicitly works to develop packaged vacations in addition to low-fare airline service. Such a partnership has high likelihood for success in the near-term as leisure travel shifts to niche, outdoors, and easily socially distanced destinations like New Mexico, should Covid-related travel restrictions be eased. Efforts to establish ULCC service can be followed with a longer-term effort to drive additional New Mexico employment through local fulfillment of airline support services.

Additional forecasting work is required to firmly define the top ULCC opportunities and the best target carriers for each. It will also be important to review and ensure that the existing ASIP for the ABQ airport has a compelling package of incentives that can significantly offset operating costs. The city may also consider developing a risk mitigation program to support this and other new market opportunities.

Establish an International Air Service Plan

Given the success of multiple communities with strong but unique tourism sectors to develop international air service, New Mexico should immediately begin work to recruit such service.

The first steps will require driving additional visitation from target countries, most likely via the network carriers currently serving the Sunport. Strong, targeted, and coordinated marketing campaigns though New Mexico Department of Tourism and Visit Albuquerque are likely required. Through the increase of international visitors and air passengers, officials can begin the process to recruit limited tours and charters that will ultimately lead to the establishment of international service to the markets which develop fastest. It is important to note, that both Austin and Charleston established a robust incentive program that included risk mitigation programs.

Estimated Economic Impact of Service Recommendations

While the cost and effort required to develop air service can be substantial, the economic impact can be exponential. Embark has estimated the potential impact of each scenario utilizing New Mexico Tourism visitor research and airline industry data and best practice. Figure 49 provides a summary of the three key concepts, including the two State/Community funded programs. The two CPA programs include the markets noted above, while the ULCC base assumes entry into six markets from Albuquerque: Washington, DC, Boston, San Antonio, Miami, Philadelphia, and Sacramento. Otherwise, the impact will vary depending on the number of cities the ULCC enters.

Model	Intra-State CPA	Hub CPA	ULCC Base
Incremental Visitors (low)	5,200	16,500	51,900
Incremental Visitors (high)	8,200	26,300	77,900
Avg. Trip Spend per Visitor	$182	$195	$195
Incremental Visitor Spend (low)	$0.9M	$3.2M	$10.1M
Incremental Visitor Spend (high)	$1.5M	$5.1M	$15.2M
New Employment Salary	$4.8M	$2.7M	$4.7M
Fuel & Facility Fees		$1.1M	$4.8M
Economic Impact (low end)	**$5.7M**	**$7.0M**	**$43.0M**
Economic Impact (high end)	**$6.3M**	**$8.9M**	**$48.1M**

Figure 49: Forecasted Economic Impact

Specific market level detail and assumptions can be found in Appendix 2.

Conclusion

New Mexico has a diversified and unique mix of air service and is well positioned for growth. While air service development can be a daunting and expensive task, the economic impact derived from these efforts can be exponential. By developing comprehensive Marketing, Incentive, and Air Service Development programs at the State and Local level, New Mexico can be well positioned to attract and retain air service from a variety of air carriers. Opportunity exists to develop air service in new communities, reestablish an intra-State network, and broaden reach to existing markets. While 2020 has been an incredibly challenging time, New Mexico should leverage 2021 to lay the foundation for an air service renaissance and position the State for years of growth.

Section 7: Appendix

Appendix 1: Economic Impact Studies

Intra-State CPA Economic Impact

Destination	FMN	ROW	LRU	HOB	TSM	Total
Daily Frequency	2.7	2.7	1.7	1.7	1.4*	9.5
Incremental Visitors (low)	1,500	1,500	900	900	400	5,200
Incremental Visitors (high)	2,300	2,300	1,500	1,500	600	8,200
Avg. Trip Spend per Visitor			$182			$182
Incremental Visitor Spend (low)	$270,000	$270,000	$160,000	$160,000	$70,000	$0.93M
Incremental Visitor Spend (high)	$420,000	$420,000	$270,000	$270,000	$110,000	$1.49M
Operating Investment (Minus Ownership)	$1.10M	$1.40M	$0.90M	$1.10M	$0.30M	$4.80M
Economic Impact (low end)	$1.37M	$1.67M	$1.06M	$1.26M	$0.37M	$5.73M
Economic Impact (high end)	$1.52M	$1.82M	$1.17M	$1.37M	$0.41M	$6.29M

* TSM service limited to Summer and Winter seasons

Forecast Assumptions

- Based on industry experience, new airline seat capacity stimulates between 0.5 and 0.8 passengers per seat. These are the baseline assumptions for the low- and high-end forecast ranges.
- Average trip spend per customer is derived from the Economics Impact of Visitors in New Mexico 2019 report, prepared by Tourism Economics
  - Avg. trip spend was reduced by X%, as we anticipate a higher ratio of day-trips with air travel
- Operating investment is included, as airline expenditures such as employment and fuel expenses are stimulus to local economies
- **Total economic impact for year 1 of operations with a frequency of service as defined, is forecast to be from $5.7M to $6.3M**

Hub CPA Economic Impact

Origin (to PHX)	LRU	FMN	GUP	TSM	Total
Daily Frequency	1.7	1.7	0.7	0.4*	4.3
Incremental Visitors (low)	6,500	6,500	2,700	800	16,500
Incremental Visitors (high)	10,400	10,400	4,300	1,200	26,300
Avg. Trip Spend per Visitor			$195		$195
Incremental Visitor Spend (low)	$1.27M	$1.27M	$0.53M	$0.16M	$3.23M
Incremental Visitor Spend (high)	$2.03M	$2.03M	$0.84M	$0.23M	$5.13M
New Employment Salary	$0.67M	$0.67M	$0.67M	$0.67M	$2.68M
Fuel & Facility Fees	$0.44M	$0.44M	$0.16M	$0.06M	$1.10M
Economic Impact (low end)	$2.38M	$2.38M	$1.36M	$0.89M	$7.01M
Economic Impact (high end)	$3.14M	$3.14M	$1.67M	$0.91M	$8.91M

* TSM service limited to Summer and Winter seasons

Forecast Assumptions

- Based on industry experience, new airline seat capacity stimulates between 0.5 and 0.8 passengers per seat. These are the baseline assumptions for the low- and high-end forecast ranges.
- Average trip spend per customer is derived from the Economics Impact of Visitors in New Mexico 2019 report, prepared by Tourism Economics
- New scheduled air-carrier service will create new local jobs. Assumed 15 new employees at each NM station, include airline, airport & TSA staff
- NM stations will collect facility fees and fuel sales from the schedule air carrier
- **Total economic impact for year 1 of operations with a frequency of service as defined, is forecast to be from $7.0M to $8.9M**

ULCC Economic Impact

Destination (from ABQ)	Wash. D.C.	Boston	San Antonio	Miami	Philadelphia	Sacramento	Total
Daily Frequency	0.4	0.4	0.4	0.3	0.3	0.3	2.1
Incremental Visitors (low)	10,500	10,600	10,100	5,300	7,500	7,900	51,900
Incremental Visitors (high)	15,700	15,900	15,100	8,000	11,300	11,900	77,900
Avg. Trip Spend per Visitor	$195						$195
Incremental Visitor Spend (low)	$2.1M	$2.1M	$2.0M	$1.0M	$1.5M	$1.5M	$10.1M
Incremental Visitor Spend (high)	$3.1M	$3.1M	$3.0M	$1.6M	$2.3M	$2.3M	$15.2M
New Employment Salary	$4.7M						$4.7M
Fuel & Facility Fees	$1.1M	$1.3M	$0.5M	$0.7M	$0.8M	$0.5M	$4.8M
Economic Impact (low end)	$7.8	$8.0	$7.2	$6.4	$6.9	$6.7	$43.0M
Economic Impact (high end)	$8.8	$9.0	$8.2	$7.0	$7.6	$7.5	$48.1M

Forecast Assumptions

- Routes selected based on high level review of opportunity. Volume of flying fulfills typical Allegiant utilization for 2 based aircraft
- Based on industry experience, ULCC seat capacity stimulates between 0.6 and 0.9 passengers per seat. These are the baseline assumptions for the low- and high-end forecast ranges.
- Average trip spend per customer is derived from the Economics Impact of Visitors in New Mexico 2019 report, prepared by Tourism Economics
- A ULCC hub will create new local jobs. Allegiant suggests a new hub adds 66 new high paying jobs, which our estimate is based
- **Total economic impact for year 1 of operations with a frequency of service as defined, is forecast to be from $43M to $48M**

Appendix 2: Air Service Toolkit Content

Toolkit Checklist – do this first

Before reaching out to community partners with recommend air service language, it's important to start with the following items that community partners will reference.

Checklist

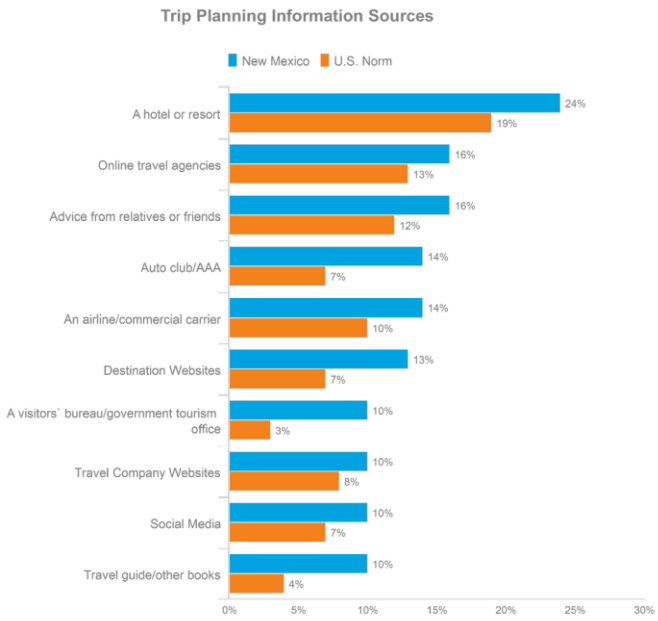
- ☐ Build out an air service page on tourism/chamber website and include all details related to air service including links to the different airline providers
- ☐ Be sure air messaging is integrated into your 'getting here' pages and on the home page that links to the air service page. Always feature air service first. Those that drive will know how to use mapping tools to identify driving options. Ideally always feature an air service web tile on your homepage
- ☐ Create a variety of digital banner ads that include air service messaging and leverage the same creative/campaign that is being used for general tourism advertising. These banner ads can then be integrated into community partner assets
- ☐ Create a photo library of a few aircraft/airline shots at the local airport

Messaging for Toolkit

Leveraging the assets above (and the messaging below) provide a toolkit of messaging and creative assets that partners can use to promote air service through their channels. This can be a simple Word document, or PowerPoint document with examples. Partners will be encouraged to direct air messaging to the Tourism air service landing page (unless partner would prefer to build their own assets). The text below can be used to create this document.

Air Service Toolkit Language

Welcome to the INSERT CITY air service marketing toolkit! Air service is critical to the economic vitality of INSERT CITY and the surrounding region. High quality air service provides opportunities for business relocation, increased tourism activity, and better access and convenience all residents. In fact, based on New Mexico visitor research local channels such as resorts and hotels, advice from friends and family, and destination websites were critical trip planning resources. Additionally, over 40% of those taking overnight trips were visiting friends or relatives. Local support and promotion of air service can be highly effective for developing air service locally.



This toolkit will provide all the assets and information you need to help INSERT CITY effectively promote and grow air service.

Tourism Link:

Please use the following link to our air service page. It provides all the information to easily communicate air service options.

INSERT LINK TO CHAMBER OR TOURISM AIR SERVICE LANDING PAGE

Homepage placement:

Air service should be promoted in a prominent location on your website. Ideally, this can include two primary elements:

1) Banner Ads
2) Textual messages with links

Digital Banners:

Use digital banner assets found in the toolkit on your home page and other prominent web pages to 'link' to your transportation or 'Getting Here' page.

IDEALLY THE CHAMBER/TOURISM ENTITY WILL CREATE A FEW STANDARDIZED AIR SERVICE BANNERS FOR USE THROUGH PARTNER CHANNELS – THESE SHOULD REFLECT THE TOURISM MARKETING BRAND/MESSAGING

Textual messages:

If you prefer textual messages instead of digital banners, here a few options to choose from:

Generic:

Getting here is easy with daily flights from CITY to CITY - Fly to CITY on AIRLINE (use 'Air Service Page' link above)

'Getting here' Placement

"Getting here' or 'Transportation' placements are key areas to promote and build awareness of air service messaging. Ensure that air messaging is the prominent, 'headline' message before other options. You can follow the same copy/creative direction found under 'homepage placement', but here is some additional copy that may be helpful:

Non-stop messaging examples:

You can reach Taos non-stop from Los Angeles, Carlsbad/San Diego, Austin, and Dallas/Love Field during the Winter season on Taos Air.

Airport shuttles and car rental agencies are available at the Taos Regional Airport.

(Use 'Air Service Page' link above)

Non-stop and connecting market messaging example:

You can reach Roswell from over 100 cities worldwide – including Las Vegas, Orlando, Los Angeles, Chicago, and Houston. Enjoy convenient year-round flights on American Airlines to Roswell from Dallas/Ft Worth and Phoenix.

You can use your airports top connecting markets in this example, or if Tourism is focused on key feeder markets, use those.

Learn more (use 'Air Service Page' link above)

Groups/Meetings Product

Most airlines provide group and meeting rates. In some cases, these airlines will negotiate generous discounts for large groups depending on time of day, day of week, and season. You can use the following information to promote and communicate group travel options: Traveling with a group or planning a meeting? Find attractive group pricing options for parties of 10 or more.

Learn more (use 'Air Service Page' link above)

Call hold Messaging

If your property has hold messaging for callers, consider adding a hold message to promote air service to CITY.

Sample Message:

Non-stop messaging examples:

You can reach Taos non-stop from Los Angeles, Carlsbad/San Diego, Austin, and Dallas/Love Field during the Winter season on Taos Air.

Ask our customer service representative for more details

Non-stop and connecting market messaging example:

You can reach Roswell from over 100 cities worldwide – including Las Vegas, Orlando, Los Angeles, Chicago, and Houston. Enjoy convenient year-round flights on American Airlines to Roswell from Dallas/Ft Worth and Phoenix.

Ask our customer service representative for more details

Confirmation Page Link:

One of the easiest ways to build awareness of air service is by creating messaging on your confirmation page (the page your guest ends a booking transaction) with link to book air. Like the 'homepage messaging', these messages would be ideal for placement on confirmation pages:

A) **NON-STOP:** Getting here is easy with daily flights from Carlsbad to Albuquerque and Dallas/Ft Worth - Fly to Carlsbad on Boutique Air (use 'Air Service Page' link above)
OR
B) **NON-STOP/CONNECTING:** Getting here is easy with daily flights from Dallas/Ft Worth, Denver, and Phoenix to Santa Fe - Fly to Santa Fe and connect from hundreds of cities worldwide (use 'Air Service Page' link above)

Alternatively, you can use digital banner assets found in the toolkit and link to the link options above.

Phone Reservations Messaging:

After a customer books a reservation over the phone, customer service representatives could cross-sell air after booking.

Sample script:

"Thank you for staying at xxxx. Just a reminder, you can fly to Santa Fe. Flights operate year-round via Dallas/Ft Worth, Denver, and Phoenix – or connect from hundreds of other cities worldwide."

If your hotel property provides free airport transfers, this could also be integrated into the messaging.

Email Channels:

Email channels include web banners, copy, and links. Like the 'homepage' placements, these messages work well in email content as well as email signature 'sign-offs':

One-line, simple options:

A) **NON-STOP:** Getting here is easy with daily flights from Phoenix to Silver City - Fly to Silver City on Advanced Airlines (use 'Air Service Page' link above)

B) **NON-STOP/CONNECTING:** Getting here is easy with daily flights from Hobbs to Houston/IAH - Fly to Hobbs on United Airlines – or connect to Hobbs from over 100 cities worldwide (use 'Air Service Page' link above)

Social media channels:

With any reference to 'getting to' Mammoth Lakes, always sign off with air.

General Air Messaging:

Like the home page messaging, these messages would be ideal for Twitter

Twitter Copy:

A) Getting here is easy with daily flights from Phoenix to Silver City - Fly to Silver City on Advanced Airlines (use 'Air Service Page' link above)
B) Getting here is easy with flights from Hobbs to IAH - Fly to Hobbs on United and connect to Hobbs from hundreds of cities worldwide (use 'Air Service Page' link above)

Facebook Copy:

At the end of your post, add an air call to action:

A) **NON-STOP:** Getting here is easy with daily flights from Carlsbad to Albuquerque and Dallas/Ft Worth - Fly to Carlsbad on Boutique Air (use 'Air Service Page' link above)
OR
B) **NON-STOP/CONNECTING:** Getting here is easy with daily flights from Dallas/Ft Worth, Denver, and Phoenix to Santa Fe - Fly to Santa Fe and connect from hundreds of cities worldwide (use 'Air Service Page' link above)

Facebook (ads):

- **Text**: Fly to Taos
- **Image**: Recommended size is 1200x627. Not supposed to have any text overlay.
- **Headline**: Flights to Taos
- **Description**: Enjoy the fastest route to the Rockies – Fly from private terminals with transfer to the resort and ski rentals included.

Blog stories or Editorial Content:

Always add an air call to action at the end of your content, especially if you speak to 'Getting to' CITY. Air should always be the preferred method.

General Air Messaging:

Ready to experience Ruidoso? Enjoy convenient year-round flights to Roswell with connections from hundreds of cities worldwide. Learn more (link if digital – or vanity URL to air service page)

Social influencers:

Social influencers can have a dramatic impact on building awareness of a destination, particularly to get authentic, trusted information. More visual in nature, you might encourage the influencer to take pictures during the flight or on the ground (with plane in background). If there is an opportunity to include copy, these short messages could be integrated by the influencer:

A. Fly to Santa Fe year-round
B. Fly to Taos and be on the slopes in three hours
C. Fly to Roswell from Phoenix or Dallas where you can make connections worldwide on United Airlines
D. Flying to CITY is fast and affordable

FAM Trips or Travel Writers:

Travel writers or other influencers hosted by the region can have a dramatic impact on building awareness of a destination, particularly to get authentic, trusted information. As a rule of thumb, always recommend and provide air transportation to CITY and build air service into the narrative. Like the influencers, encourage this group to take pictures during the flight or on the ground (with plane in background). In terms of copy, build air service into the itinerary and suggest inclusion in editorial content.

Short content:

A. Fly to Santa Fe year-round
B. Fly to Taos and be on the slopes in three hours
C. Fly to Roswell from Phoenix or Dallas where you can make connections worldwide on American Airlines
D. Flying to CITY is fast and affordable

Longer content:

General Air Messaging:

A) **NON-STOP:** Ready to experience all that the Carlsbad region has to offer? Getting here is easy with daily flights from Carlsbad to Albuquerque and Dallas/Ft Worth - Fly to Carlsbad on Boutique Air (use 'Air Service Page' link above)
OR
B) **NON-STOP/CONNECTING:** Getting to Santa Fe is convenient and easy with daily flights from Dallas/Ft Worth, Denver, and Phoenix to Santa Fe - Fly to Santa Fe and connect from hundreds of cities worldwide (use 'Air Service Page' link above)