

Figure 1 - Total Enplaned Passengers - SDIA vs. US Trend over Prior Year

The US economy is in severe recession. The gross domestic product decline in the fourth quarter 2008 (-6.3%) and first quarter 2009 (-5.5%) marked the most significant six month contraction since 1957–1958. As of April 2009 the California unemployment rate was 11.0% and the national unemployment rate reached a 25-year high of 8.9%. The economy has also lost over 4.3 million jobs since August 2008. Company payrolls had experienced 15 straight months of decline through March 31, 2009, and hourly wages have increased only 3.2% in the last 12 months. The Federal Funds Rate is at an all-time low; it has been fluctuating between 0.00% and 0.25% since December 2008. Home mortgage rates have been hovering near their all-time lows. National housing prices have dropped 32% since their peak in 2006, according to the S&P/Case-Schiller National Home Price Index.

Recent equity gains are encouraging, with major indices nearing positive territory year-to-date. From its low on March 11, 2009, to June 1, 2009, the Dow Jones increased 37%.

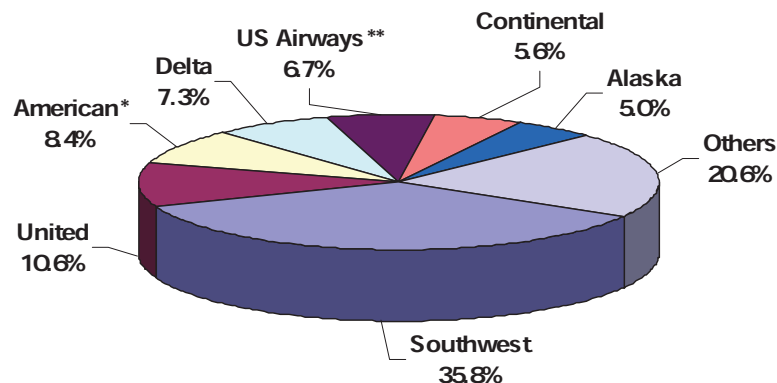
Dow Jones Industrial Average



The nation's airlines operate in an environment characterized by economic uncertainty, decreased passenger travel, fluctuating fuel prices, excess capacity and limited pricing power. While the airlines have taken steps to reduce capacity and passenger load factors have shown improvement, the airlines will continue to be impacted by these factors throughout the coming year. Most carriers have limited financial capability to absorb adverse business, economic or geopolitical shocks. Furthermore, legacy carriers continue to deal with pricing challenges posed by low-cost carriers.

Given these uncertainties, it is beneficial for an airport to be served by a diverse carrier base that includes both legacy and low-cost carrier operations. SDIA is an origin and destination (O & D) airport where no one carrier dominates and where a significant number of low-cost carriers serve the market. Service is provided by 20 scheduled passenger airlines. In CY 2008, Southwest Airlines served approximately 36% of all passengers who traveled through SDIA; their lead in market share is forecasted to continue. In CY 2008, low-cost carriers represented 42% of passenger enplanements at SDIA. Their presence in certain markets likely influenced pricing decisions by legacy carriers such as American, Delta and United in those markets, thereby further stimulating passenger demand.

SDIA Enplaned Passengers, CY 2008

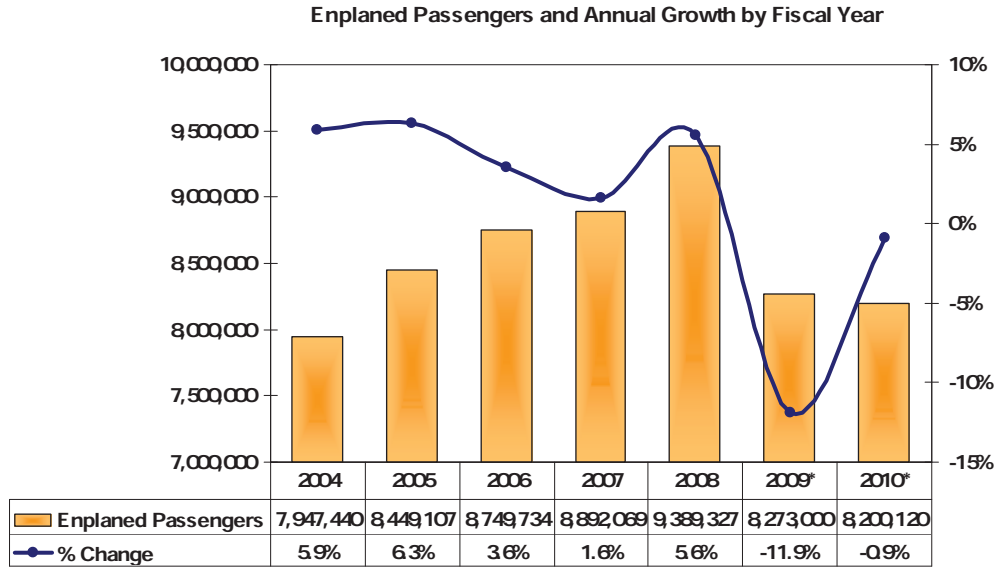


*Includes American Eagle

**Includes America West

Figure 2 - SDIA Enplaned Passengers by Carrier

Based on a slowing economy and the financial challenges currently faced by the airline industry, for the purpose of calculating projected FY 2010 revenues, enplaned passenger growth at SDIA has been projected to decline by -0.9%, reflecting the economy's projected impact on routes and travel habits.



*Projected FY 2009 and Budgeted FY 2010

Figure 3 - Enplaned Passengers and Annual Growth

Passengers departing from SDIA can fly directly to 55 cities and, with one-stop connections, to over 250 international cities around the world. This increased access now means that 77% of San Diego travelers can reach their destination on a nonstop flight. The Authority's Air Service Development Program will continue to pursue international and domestic opportunities.

The Air Trade Area for the airport includes San Diego County as well as portions of neighboring Orange and Riverside Counties and Baja California del Norte, Mexico. The California Department of Finance estimates the population of San Diego County to be 3,173,407 as of January 1, 2009. The county is the second largest county in California in terms of population, and the City of San Diego ranks as the second largest city in the state. The majority of the county's population is concentrated in its western portion adjacent to the ocean. The largest cities in the county are San Diego (43%), Chula Vista (7%), Oceanside (6%), Escondido (5%), Carlsbad (3%) and El Cajon (3%). The combined San Diego/Tijuana metropolitan population is estimated to exceed 5 million inhabitants.

San Diego County has enjoyed a stable economic climate during the past five years, with lower unemployment rates than the State of California and the nation as a whole. The US Bureau of Labor Statistics notes that the county's average annual unemployment rate for 2008 was 6.0% compared to 7.2% for the state. This reflects the nature of the region's economy, which was once highly dependent on the defense industry but is now more diversified, providing an attractive mix of leisure and business sectors. The county is home to more than 150 publicly traded companies.

Passenger Satisfaction

Measuring passenger satisfaction at SDIA is critical in order to keep up with passenger expectations and the ever-evolving airport experience. Since 2004, SDIA has been measuring passenger satisfaction on a quarterly basis, resulting in cumulative annual passenger satisfaction trends. In 2008, Phoenix Marketing International (PMI), a top marketing and research firm recognized by the American Marketing Association, reported an 87% satisfaction rating among passengers at SDIA, compared to 83% in 2006. This means that 87% of passengers rated their overall satisfaction a score of "4" or "5" (using a scale of 1 to 5, where 1 equals "very dissatisfied" and 5 equals "very satisfied"). Average airports are reported to score in the 60th percentile, several standard deviations lower than SDIA.

Financial Plan

The financial plan, as outlined in the FY 2010 Adopted Budget, is a result of several factors that control the Authority's planning and budgeting efforts. The San Diego County Regional Airport Authority Act, the Authority's enabling legislation, frames the Authority's financial parameters. As part of that act, the Authority must recommend a strategy for meeting the region's future airport needs. Costs associated with the near-term improvement of SDIA are also included in the budget. Other significant factors impacting the Authority's budget process include the airline operating agreement, Master Bond Indenture and certain provisions required in SB 10.

The airline agreement, discussed later in this narrative section, provides the rate-setting formula by which airlines pay for the facilities and services they use. Debt management policies are directed under the Master Bond Indenture, which establishes various reserves as described in the Funds Summary and Debt Service sections of the budget. Funding of the required reserve balances affects the fund equity portion of the budget and FY 2010 rate-setting process. Detailed descriptions are provided in the section titled "Overview of Financial Policies and Guidelines."

Budget Summary

The FY 2010 budget assumes 8.2 million enplaning passengers, compared to the 9.3 million forecasted in the FY 2009 budget. The Authority currently expects to end FY 2009 with 8.3 million enplaned passengers. The enplaned passenger projection for FY 2010 was determined by evaluating consultant and FAA forecasts, recent trends and airline service announcements. Since the Authority's revenues and daily operations are significantly impacted by passenger traffic, these projections are used in part to develop the FY 2010 revenue and expense budget.