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April 26, 2013

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

AIRPORT REGIONALIZATION

On February 26, 2013, on motion of Board of Supervisors' Chairman, Supervisor Ridley-Thomas, and Supervisor Knabe, the Board:

1. Reaffirmed its commitment to a regional strategy for the distribution of commercial air traffic and goods movement; and

2. Directed the Chief Executive Officer and County Counsel to review efforts made for the creation and implementation of a regionalization strategy for Southern California commercial airports, and to provide a report back in writing to the Board within 30 days.

Based on the Board's direction, this memorandum serves as the report back from the Chief Executive Office in consultation with the Office of County Counsel. The attached report, prepared by our airport consultant, contains detailed efforts undertaken by Los Angeles World Airports (LAWA) in creating and implementing a regionalization strategy for Southern California, as well as input from several stakeholders on LAWA's efforts. Below is a summary of major findings detailed in the report, as well as an update of recent regionalization-related developments that may be of interest to the Board:

Regionalization Efforts

- The Southern California Regional Airport Authority (SCRAA) was reactivated in 2006 to foster regional cooperation and planning, and held several meetings through 2007. The entity subsequently discontinued active meetings and has not met since 2008.

- LAWA spent over $2 million on marketing for Ontario airport (ONT) during 2006-2007, specifically to rebrand ONT and to fulfill a commitment to an airline carrier. LAWA's ONT marketing for fiscal year 2013 is less than $200,000.

- LAWA indicated that $506 million has been spent on ONT for capital improvements since the 1990s, including the construction of two terminals.

- LAWA has made several regionalization presentations and submitted consultant reports to the Los Angeles City Board of Airport Commissioners (BOAC) and Los Angeles City Council Trade Commerce and Tourism Committee since 2007, including:

    - Marketing of ONT (2007);
    - Airport Regionalization Update, including an establishment of an Office of Regionalization and an initiative to develop a regional ground transportation program (2008);
    - Summary of Service and Traffic Trends in Southern California (2009);
    - Regional Strategic Plan (2009);
    - Alternatives for Management and Operation for ONT (2010);
    - ONT Management and Operations Alternatives Update (2010);
    - ONT and LAWA Regionalization (2011); and
    - Management Initiatives and Marketing Efforts for ONT (2012).

- LAWA has implemented cost cutting measures at ONT since 2008 that reduced expenses by 23 percent, reduced employee headcount by 42 percent, and initiated efforts to 1) stabilize/improve airport costs for airlines; 2) increase non-airline revenues; 3) grow passenger traffic through marketing and other initiatives; and 4) improve yields from passenger service to improve airline economics.

- LAWA has attended 171 meetings with airline carriers on a regular basis since 2007, to present a case for additional service to ONT

- While LAWA had worked with the City of Palmdale to market the Palmdale Airport (PMD), the last airline carrier operating at Palmdale Airport (PMD) dropped its

service in 2008 when the subsidy ran out.

- An agreement was reached recently for LAWA to transfer the PMD lease to the City of Palmdale.

Update on Recent Regionalization Developments

Since the preparation of the attached consultant report, there have been recent regionalization developments that may be of interest to the Board, which include:

- On March 20, 2013, Chatten-Brown & Carstens, LLP filed a "Notice of Right to Cure" on behalf of Alliance for the Regional Solution to Airport Congestion (ARSAC) with LAWA pursuant to several provisions under the Stipulated Settlement Agreement. ARSAC, who opposed LAWA's expansion effort, alleges various defaults under the Stipulated Settlement Agreement, offers to meet and confer with LAWA to resolve issues, and requests that LAWA cures the alleged defaults in the required 60 days. The Los Angeles City Attorney responded to ARSAC's notice on April 23, 2013 by requesting clarification and additional information before providing a full response. County Counsel is reviewing ARSAC's claim and will be providing an analysis to the Board under a separate cover.

- On April 10, 2013, the City of Ontario formally rejected LAWA's offer to transfer ownership and control of ONT to the City of Ontario for a lump sum of $474.4 million. On April 11, 2013, the City of Ontario submitted an administrative claim to the City of Los Angeles in connection with Los Angeles' operation, management and control of ONT. Ontario claims that Los Angeles is in breach of its fiduciary obligation and the terms of written agreements between the two cities relating to ONT. Specifically, Ontario claims that Los Angeles is in breach of its "best efforts" obligation under a 1985 Joint Powers Agreement where Los Angeles' rights to ONT are conditioned on its continuing obligation to "attract and obtain additional regular schedule airline service for ONT."

Please let me know if you have any questions, or your staff may contact Frank Cheng at 213.893.7938 or fcheng@ceo.lacounty.gov.

WTF:FC:JR

Attachment

c: Executive Office, Board of Supervisors
County Counsel

Summary of Regionalization Efforts for Southern California Commercial Airports **Attachment**
Report to the Chief Executive Officer
A.C. Lazzaretto & Associates
March 20, 2013

INTRODUCTION

On February 26, 2013 the Board of Supervisors of the County of Los Angeles directed the Chief Executive Officer and County Counsel to "...review efforts made for the creation and implementation of the regionalization strategy for Southern California commercial airports, and provide a report back in writing to the Board within 30 days." In response, this summary report has been prepared for the Chief Executive Officer (CEO).

METHODOLOGY

Over the past several years the CEO and the County Counsel have received and compiled numerous documents relating to the issue of regionalization of commercial airport traffic. The prime source of these documents has been the offices of Los Angeles World Airports (LAWA) and more specifically in conjunction with the efforts by LAWA to upgrade the facilities of Los Angeles International Airport (LAX). The CEO staff and supporting consultants have attended many meetings over time and have been provided with attendant documents related to regionalization. This summary report is based on a compilation of the documents which have been provided to the CEO and its consultants.

INFORMATION AND ACTIONS PERTAINTING TO REGIONALIZATION EFFORTS ON THE PART OF LAWA

In **October 2006**, LAWA was instrumental in reactivating the Southern California Regional Airport Authority (SCRAA). The then Executive Director at LAWA cited two main reasons for re-activating SCRAA: 1) LAWA's Stipulated Settlement Agreement, and 2) the commitment to regionalism by the Mayor of Los Angeles. In January 2007 SCRAA held a follow-up meeting, and along with other actions set, a future meeting schedule for 5 additional meetings in 2007. The SCRAA Board met on March 8, and October 12, 2007. The intention of SCRAA as stated by the chair was "to foster regional cooperation and planning, not to dictate planning and operational decisions to any jurisdiction."

The City of Los Angeles Board of Airport Commissions (BOAC) received a presentation from LAWA on **February 5, 2007** announcing a new program entitled "Coming Soon More Planes to More Places from a Great Airport." The effort was aimed at educating the public about LA/Ontario (ONT) and showing what a convenient and less congested facility it is. LAWA made known at that time that a full-out marketing campaign was about to begin to attract more patrons to ONT. Media sources to be used included: outdoor advertising, print, radio and TV, internet, travel agents, and business presentations. The goal was to position ONT "as the best alternate airport in Southern California offering more planes to more places."

LAWA provided the Los Angeles City Council Trade Commerce and Tourism Committee with an Airport Regionalization Update on **December 3, 2008**. During the update the Committee was given an overview of the state of the airline industry, and told 'regionalization was working' based on the fact that in 1975, 71% of Southern California passenger traffic was going through LAX and by 2007 only 57% was using LAX. Due to the poor economic forecasts the Committee

was advised to expect more reductions in annual passengers in 2008, especially at LAX. LAWA reported that it had been working with the City of Palmdale for the past 5 years and was making progress on attracting air carriers to Palmdale International Airport (PMD). LAWA announced a subsidy program had been developed to bring United Express to Palmdale. At the same time LAWA predicted increase growth in passenger and cargo traffic at LA/Ontario. The update concluded with LAWA summarizing its regionalization plan and announcing three major initiatives: 1) Establish an Office of Regionalization, 2) Continue Air Service Development and Airport Marketing Effort, and 3) Develop a Regional Ground Transportation Program.

On **March 23, 2009** LAWA consultants presented a Summary of Service and Traffic Trends in Southern California to the BOAC. The report showed a downturn in total passenger traffic at most airports in the region.

In **October 2009** LAWA unveiled its 2010 Regional Strategic Plan and presented it to the BOAC. The plan focused on developing strategic regional partnerships and concentrated on visitors to Disneyland and Orange County. LAWA used an outside consultant to develop and implement the Strategic Plan.

In **August 2010**, Jacobs Consultancy presented a report, commissioned by LAWA, entitled Alternatives for Management and Operation – LA/Ontario International Airport, to the BOAC. Jacobs found that ONT had high Cost per Enplaned Passenger (CPE) rates, compared to other western and national airports of similar size. ONT's total operating expenses per enplaned passenger (were) more than twice as high (as) the average for U.S. medium-hub airports. ONT's terminal building Maintenance and Operation (O&M) expenses per square foot, based on the terminal buildings, (was) approximately $80 p.s.f., higher than the comparable airports used in the study. The report offered several options that LAWA could consider, short- medium- and long-term options, to overcome the high operating costs at ONT and put the airport back into economic operating condition.

On **December 20, 2010**, LAWA provided BOAC with another update: LA/Ontario Management and Operations Alternatives Update. The primary reason for the update was to advise BOAC that LAWA planned to distribute a "Request for Expressions of Interest" (ROI). The goal of the ROI was to identify independent third parties that might be interested in managing the airport on behalf of LAWA. The ROI grew out of the Jacobs study alternatives on ways to improve the economics and O&M expenses at ONT.

Regionalization was the subject of an update which LAWA presented to the BOAC on **December 15, 2011** entitled: ONT and LAWA Regionalization. The update was in partial fulfillment of the Stipulated Settlement Agreement which required LAWA to "...develop a regional strategic planning initiative...(which) will be prepared annually..." The presentation summarized the efforts LAWA had made toward regionalization at PMD and ONT. In the update, LAWA noted that:

- The economy had not fully recovered;
- Passengers were returning to LAX, but not to the regional airports; and
- Six airlines (TWA, Northwest, Continental, Air Tran, Frontier, America West) had either merged or been acquired by other air carriers which reduced the number of competitors vying for airport slots.

Overall because of the global recession, fewer carriers, airlines opting to use larger airports (e.g. LAX, SFO), the changed economic environment, and other related factors led to regional airports losing market share; service disappeared at PMD and ONT has been one of hardest hit. Solutions offered: reduce costs at ONT, work with the airlines on cost reductions, and explore the option of closing one of the ONT terminals.

LAWA made a presentation to BOAC on **September 17, 2012** regarding Management Initiatives and Marketing Efforts for ONT. The update showed that since 2008 LAWA had:

- Implemented cost cutting measures that reduced expenses at ONT by 23%
- Reduced employee headcount at the airport from 430 to 248 (42%)
- Planned a new round of management efforts to go beyond cutting costs that would include:
  - Stabilize/Improve airport costs for airlines
  - Increase non-airline revenues
  - Grow passenger traffic through marketing and other initiatives
  - Improve yields from passenger service to improve airline economics

These and other initiatives were designed to mitigate the downturn in passenger demand at ONT, and increase the number of passengers using the airport. An update was presented to BOAC in May 2012.

IN SUMMARY

In answer to a perennial question '*What has LAWA done to regionalize air traffic to Ontario?* LAWA has provided a body of information summarizing its efforts including:

- Capital Improvements – ONT has been expanded and modernized. Total capital improvements have reached $506 million including the construction of two new terminals in the late 1990's.
- Marketing Partnerships with Airlines – LAWA has offered and accomplished marketing partnerships with air carriers during the past ten years.
- Airline Meetings – Each year LAWA regularly attends key meetings of the industry to meet with carriers to present a case for additional service to ONT. Since 2007 LAWA held 171 such meetings with US and international carriers.
- City of Ontario Assistance in Marketing – In 2011, LAWA offered to transfer the ONT marketing budget to the City of Ontario, but the City has yet to accept the offer.
- Cost Reductions – Operating costs at ONT have been reduced in various ways by LAWA, and LAWA is currently working with the signatory air carriers to further reduce costs by having them take over several airport operational functions.
- Market Analysis and Research – Several ONT related market studies have been conducted by LAWA last year.
- Efforts At Palmdale – LAWA has tried to attract permanent air carriers to PMD. Between 2003-2006, LAWA worked to bring in airlines. In 2007 in conjunction with US Department of Transportation and the City of Palmdale, LAWA subsidized United Express air service from Palmdale to San Francisco. Poor

demand led to cancellation as soon as the subsidy lapsed. LAWA is now working with the City to assign the airport lease to Palmdale.

VIEW OF REGIONALIZATION EFFORTS BY OTHER PARTIES

In an effort to obtain as much input as possible on the question of regionalization CEO staff sent inquiries on March 6, 2012 to several stakeholders in the region asking for their comments on two questions:

Question 1: What is your organization's assessment of Los Angeles World Airport's efforts on regionalization?

Question 2: Do you have recommendations to further facilitate and promote regionalization in Southern California?

In response to these questions the City of Ontario a letter dated March 14, 2013. In summary the Ontario letter made the following comments:

"LAWA has abandoned it's commitment to regionalization and is in violation of written agreements between the City of Ontario and the City of Los Angeles relating to ONT...The result of LAWA turning its back on ONT can be seen in the sharp decline in passenger traffic from 7.2 million in 2007 to 4.3 million in 2012 – a 40 percent reduction...LAWA has failed to take action to effectively market ONT and ensure that its costs remained at a competitive level...Returning ONT to local control will promote regionalization...Under local control ONT will simultaneously reduce its cost structure and increase its marketing, advertizing and promotion spending to promote the airport capacity Southern California needs in the long-term to protect its tourism economy."

In response to the same two questions noted above, ARSAC Alliance for a Regional solution to Airport Congestion sent a letter to the CEO dated March 15, 2013 which included the following comments:

"ARSAC gives LAWA a "Fail" grade for regionalization..." A copy of the ARSAC letter is attached and re-caps selected LAWA regionalization efforts which ARSAC believes illustrates the failed attempts.

In regards to actions to further facilitate and promote regionalization ARSAC cites several recommendations:

"LAWA needs to implement Metro's initiative to connect ground transportation to Southern California airports...ONT and PMD (Palmdale airport) marketing efforts made public...LAWA needs to update the air service marketing studies for ONT and PMD...ONT destination marketing...Creative thinking...Transfers of ONT and PMD to local control."

In response to the invitation from the CEO staff the Southern California Association of Governments (SCAG), also responded to the two questions posed above. SCAG sent an email response dated March 14, 2013 and included the following remarks pertaining to regionalization:

"Based on both the legal and physical capacity constraints of our airports and our region's forecasted future air traffic demand, SCAG continues to strongly support regionalization of our airport system... Consistent with SCAG's 2012-2035 Regional Transportation Plan/Sustainable Communities Strategy (RTP/SCS), the Los Angeles World Airports' (LAWA) LAX Master Plan approved by the Federal Aviation Administration (FAA) in 2005 includes a strong commitment to plan for the regional distribution of air traffic demand... According to SCAG's latest analysis, ONT is capable of easily handling 30.7 MAP (compared to the 4.9 MAP that it handled in 2009), making it the most likely candidate to relieve LAX of future demand pressures."

With respect to the second question on actions to further facilitate and promote regionalization SCAG provided these comments in part:

"The demand for air travel in our region is expected to grow from approximately 80 MAP today to about 145 MAP by 2035... agencies should work in a cooperative manner across jurisdictional boundaries in order to allow ONT to realize its potential and play a key role in a more sustainable regional airport system...Provide enhanced rail access to our airports...Provide enhanced bus access to our airports... serve San Bernardino International Airport as an extension of express bus service to Ontario Airport from Union Station or Van Nuys..."