Q&A
LA/Ontario International Airport

Common Questions and Answers About the Airport
Why does the City of Los Angeles run an airport that is in the City of Ontario?

On October 18, 1967, the City of Ontario requested that the City of Los Angeles enter into a Joint Powers Agreement (JPA) for the operation, management, and control of Ontario International Airport (ONT). The City of Ontario wanted to develop the airport but lacked the required financial resources. Under the JPA, the Los Angeles Department of Airports agreed to develop and improve ONT, and pay the City of Ontario $5 million (the value of the portion of ONT property previously acquired by the City of Ontario), subject to certain credits for making capital improvements. The Department also agreed to pay Ontario $2 million for outstanding airport revenue bonds issued by the City of Ontario. Since 1967, Los Angeles World Airports (LAWA) has expanded ONT’s 485 acres of land to over four times its original size, now approximately 1,700 acres, and invested over half a billion in improvements.

On June 19, 1985, an “Agreement between the City of Los Angeles and the City of Ontario for the Acquisition of Ontario International Airport by the City of Los Angeles,” was signed. The agreement acknowledged LAWA’s complete satisfaction of the primary monetary obligations contained within the JPA, and provided that the City of Ontario shall transfer right, title, and interest it possessed to Ontario International Airport and all parts thereof to the City of Los Angeles.

In the 1980s and early 1990s, there was pressure from the City of Ontario to expand and modernize ONT’s aging 65,000 square-foot terminal facility (built in the 1960s) which was designed to handle only 3 million annual passengers. Meanwhile, ONT saw impressive increases in air service and passenger numbers in the 90s, while ONT’s old terminal was handling over 6 million annual travelers. In 1998, ONT’s 530,000 square-foot twin terminal complex was completed, which could handle 10 million passengers a year. The state-of-the-art facility and airport improvements associated with the expansion provided new recognition nationally and internationally for Ontario.

Since the JPA, what has LAWA done to develop and modernize ONT as promised in the JPA and Acquisition Agreement?

Over the past 48 years, LAWA has been committed to improvements at ONT invested over half a billion dollars from a combination of funds including: $128 million from Passenger Facility Charges (PFC’s) collected from passengers at Los Angeles International Airport (LAX), ONT PFC’s, bonds secured by LAWA, and federal grants. The list below represents some of the larger investments made at ONT since 1998 (see appendix for detailed chart):

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Terminals Project</td>
<td>$276,000,000</td>
</tr>
<tr>
<td>In Line Baggage System</td>
<td>$70,000,000</td>
</tr>
<tr>
<td>Runway 26R Reconstruction</td>
<td>$55,000,000</td>
</tr>
<tr>
<td>Consolidated Rental Car Facility</td>
<td>$30,000,000</td>
</tr>
<tr>
<td>Taxiway 'N' Extension</td>
<td>$18,000,000</td>
</tr>
<tr>
<td>Perimeter Fence Project</td>
<td>$17,000,000</td>
</tr>
<tr>
<td>Airport Drive Improvements--Grove Ave. to Haven Ave.</td>
<td>$14,500,000</td>
</tr>
<tr>
<td>Land Acquisition--East of Haven Avenue</td>
<td>$12,800,000</td>
</tr>
<tr>
<td>Parking Lot 5</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Runway 8L/26R Runway Safety Area Improvement</td>
<td>$3,900,000</td>
</tr>
<tr>
<td>CCTV Upgrade</td>
<td>$3,700,000</td>
</tr>
<tr>
<td>Archibald Ave. Grade Separation</td>
<td>$2,300,000</td>
</tr>
<tr>
<td>TOTAL ABOVE</td>
<td>$510,200,000</td>
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</tbody>
</table>
LAWA placed its focus on investing and developing capacity at ONT before any major capital improvements were made to LAX.

**What has LAWA provided to the City of Ontario in the way of benefits since ownership of the airport was transferred?**

Over $115 million ($45 million funded by LAWA) has been used over the last 20 years to noise insulate over 1,100 homes around the airport as well as acquire approximately 240 noise-impacted properties for future redevelopment. The City of Ontario also receives between $2.2 and $2.4 million each year for parking tax assessed on vehicles that park at the airport.

Since 1967, the growth and development of ONT passenger and cargo activity, has resulted in considerable economic benefit to the City of Ontario and the Inland Empire. The airport, which has been deemed the “Economic Engine” of the Inland Empire, has contributed billions of dollars in to the regional economy through industries such as travel, tourism, hospitality, trade, manufacturing and distribution, logistics, etc. In addition, ONT has provided greater access to travelers and commerce throughout the region.

**What is the passenger traffic trend at ONT?**

Passenger traffic at ONT has grown substantially since 1967 when annual traffic was just under 400,000. As the chart on the following page shows, ONT’s near peak traffic year was in 2007 when over 7.2 Million passengers used the airport, just prior to record fuel price spikes and subsequent economic recession. Traffic declined sharply between 2007-2009 as Express Jet, a startup regional carrier focusing an operation at ONT, discontinued operations, the economy fell into recession, and uncertain fuel price volatility took over the market.

Traffic declined from 2009-2013, which reflected periods covering both the Great Recession and the more recent but slow economic recovery, especially as experienced in many parts of the Inland Empire. The airlines have maintained discipline in moderating service across their respective routes, and most experts believe this will continue into the foreseeable future. Profitability remains a top priority, and airlines have significantly trimmed or eliminated marginal routes, down-gauged aircraft type (going from ‘mainline’ to ‘regional jet’ aircraft), and controlled the number of seats in a given market. These actions have been most pronounced at small and medium hub airports, like ONT. This is graphically shown in the table located on page 6 below.

What may be seen as good news at ONT is that the airlines on the whole appear to have achieved their goals of appropriate service levels for the region, and they indicate that their financial bottom-line goals for ONT are being met. This is not to imply that air service will remain static. Direction and intensity of economic forces will continue to have impact on airline decisions at ONT. If the current trends continue for sustained periods, the opportunity for increased service becomes more likely. To this end, it is vital that local and nearby, regional residents support the airport by booking flights from ONT.

Passenger traffic increased in 2014 for first time since 2007. The year-end, overall totals reflected a reasonably healthy increase of nearly 4% compared to 2013. This increase occurred in spite of overall reductions in available airline seats. International traffic (Mexico) ended the year with more than 90,000 passengers served, which reflects an increase of nearly 58%. ONT has two carriers serving Guadalajara, Mexico—AeroMexico and Volaris. The response to these flights has been positive, and ONT remains ready to support additional service.
LAWA has taken great care to undertake efforts that showcase ONT’s strengths (ease of access, modern facilities, etc.) to the greater public. These in and of themselves are not necessarily expected to move the needle, so to speak, with respect to increased air service, but they serve as reminders about ONT’s core strengths. In addition to these efforts, ONT meets regularly with airlines about opportunities for future air service opportunities as the airline industry continues on a course of overall improvement. ONT has used a variety of media platforms to market air service offerings as shown below. ONT will continue with these efforts as it appears that economic conditions in the surrounding areas are improving. Markets for International service (especially to and from Latin America are especially strong at this time).

![Ad used in various media outlets (hardcopy)](image1)

While these are positive signs, LAWA remains careful to keep ONT positioned to accept more traffic over time and is continuing efforts and initiatives for a successful ONT. These include regular meetings with existing and potential airlines, creative air service marketing aimed at
showcasing ONT’s strengths, building brand awareness in the local area, and building partnerships with external stakeholders wherever possible.

### Why has passenger traffic declined?

A combination of factors has contributed to the reduction in passenger traffic at ONT including:

- **Economic factors** are a primary indicator for air travel. Empirical data show that strong per capita income levels, high employment levels, and a solid/growing population base help generate robust air travel demand. Although there is a strong population base, the Inland Empire (IE) has been disproportionately hard-hit by the recession with extreme local impacts in the construction industry and housing market. The economic rebound in the IE will play a strong role in the recovery of ONT’s air travel.

- Over the last seven years, the commercial aviation business model has changed significantly. Legacy airlines (US Airways, Continental, Delta, Northwest, United, and American) entered bankruptcy or consolidated/merged (Northwest is Delta, Continental is United, and US Airways is American), and throughout the country carriers have reduced capacity in an effort to regain pricing power. Whereas Low Cost Carriers (LCCs) like Southwest, jetBlue, Spirit, etc., previously sought to dominate secondary airports, they are now competing directly with Legacy airlines and concentrating schedules in larger hub airports often reducing service to small and medium hub secondary airports.

- In April 2007, Express Jet, a start-up, 50-seat jet operator, began regional service at ONT offering lower fares for 18 months before ceasing operations. At its peak, the airline was offering 9,700 seat departures (19,400 roundtrips) a week to the ONT market: however, Express Jet was using regional aircraft and when the unprecedented rise in fuel costs hit, its operation became economically unsustainable. Express Jet
discontinued service at ONT in September 2008. Express Jet’s brief service to ONT drove significant growth in traffic. The airline carried over 543,000 total passengers from May 2007 through April 2008. The loss of Express Jet in September 2008 led to a significant decline in seats compounded by Southwest Airlines’ subsequent cuts in service and all the other incumbent carriers serving ONT.

- In September 2008, jetBlue discontinued its single daily flight to JFK. Although only a single flight, the impact of this carrier loss contributed to passenger declines.

Are ONT’s recent traffic reductions unique?
No, although ONT’s reductions have been larger than most airports in its peer group. Many airports similar in size to ONT (medium hubs) have experienced double digit declines. In fact, for the latest 12 months of data available, 27 of the 35 medium hub airports in the U.S. experienced a decline in traffic since 2007. Overall, domestic enplanements at large hubs have increased by 1.7% since 2007, whereas medium hubs declined 14.6% (table below). In general, network/legacy carriers and LCCs are focusing service in the large hub airport markets at the expense of medium hub airports -- evidenced in several markets across the country and even more pronounced in Northern California. Comparing 2007 levels to 2014, San Francisco (SFO) and Oakland (OAK), OAK declined by almost 4.3 million passengers (29.3%), while SFO increased by 11.36 million passengers (31.8%). Passenger traffic at Sacramento and San Jose is down 16.7% and 11.9% respectively from 2007 through 2014.

<table>
<thead>
<tr>
<th>Hub Size</th>
<th>Psgr Enplanements CY2007</th>
<th>Psgr Enplanements CY2014</th>
<th>Perc Chg 07 vs '14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>446,803,218</td>
<td>454,213,231</td>
<td>1.7%</td>
</tr>
<tr>
<td>Medium</td>
<td>153,667,209</td>
<td>131,161,767</td>
<td>-14.6%</td>
</tr>
<tr>
<td>Small/Non</td>
<td>85,761,812</td>
<td>82,406,413</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Total</td>
<td>686,232,239</td>
<td>667,781,411</td>
<td>-2.7%</td>
</tr>
</tbody>
</table>

Source: USDOT T-100, domestic, scheduled on-board psgrs only;
### Change in Total Passengers at U.S. Medium Hub Airports
#### 2007 vs 2014

<table>
<thead>
<tr>
<th>Airport</th>
<th>Total Passengers</th>
<th>Abs Chg 07-14</th>
<th>Perc Chg 07-14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Med Hubs</strong></td>
<td>303,820,382</td>
<td>-43,047,477</td>
<td>-16.0%</td>
</tr>
</tbody>
</table>
| **Source:** Airport records, total passenger traffic**

* Excludes Rickenbacker (LCK) – approximately 80,000 passengers in 2014; **Kahului traffic through YE February 2014
Traffic trends over the last 12 months have improved at most of the U.S. medium hub airports. ONT experienced a 3.9% passenger increase from 2013 to 2014 while U.S. medium hub airports on average increased 2.2%. Through the first five months of 2015, passenger traffic is up nearly 2%, and International traffic reflects very healthy growth of 66% compared to the same period last year.

Are ONT’s airport costs the driving factor in the air traffic decline?

ONT’s costs are not the primary factor in the reduction in ONT’s air service. While the leading edge of recession and high fuel prices were the main drivers for reductions in air service, the recognition by airlines that capacity control and the need for increased profitability have moved to the forefront in reasons for slower and uneven growth at airports not considered strategic to an airline’s business planning. ONT was among the hardest hit airports economically, affecting airline revenues proportionately hard, so airlines cut more at ONT than at other airports. The reduction in air service decreased the number of ONT passengers, but the costs of running ONT could not be reduced by the same percentage as the passenger numbers. Consequently, the cost per enplanement rose because of falling traffic, not the other way around.

High airport costs, volatile fuel prices, and a difficult local economy all will make it harder to regain traffic at ONT moving forward. That is why LAWA has cut costs aggressively and has begun to implement programs to attract more airlines and travelers to ONT than the economy would otherwise allow. A more competitive cost structure will always add to an airport’s attractiveness but is no guarantee against service reductions or of service additions. LAWA has been implementing considerable efforts over the past several years to lower airport costs at ONT.

In July 2013, LAWA and the Signatory airlines worked collaboratively to create a consortium that consolidated contracts and certain terminal services into a single entity that accomplished operational efficiencies and significant cost savings for the passenger airlines operating at ONT. By having a private, third-party contract to provide these core services, the airport achieved a $6.5 Million annual savings, with $3.5 Million in net savings in annual operating expenses.

In 2014, LAWA and its partner airlines worked collaboratively in an effort to allow for right-sizing of the airlines operational/business spaces at ONT to better align space needs with current activity. This resulted in significant net savings for many of the carriers. This is yet another example of LAWA working to help its partners on the cost side so that as the economy improves, ONT stands out as a competitive and cost-conscious choice.

There is a misperception that ONT has high landing fees. This is simply not the case. In a comparison of landing fees at Southern California airports, ONT’s ranks the third lowest (just slightly higher than John Wayne) as compared to other airports as illustrated in the table on the following page:
Are there any Bright Spots at ONT?

2014 showed nearly a 4% increase in passenger traffic, and International traffic was substantially up from 2013 over this same period. LAWA will remain careful to keep ONT competitive to help support this trend and to ensure that airlines remain aware of ONT’s strengths.

ONT is a full service, commercial airport and supports aviation interests beyond passenger air carriers. Among these are companies providing service to private and corporate aircraft, fueling agents, ground handlers, and of course cargo operators. ONT is home to two major air cargo operators—UPS and FedEx. Both have long histories at ONT and are committed to growing their respective businesses on and off the field. Both undertook significant construction projects in 2014 that will support increased cargo movement for years to come. Since 2010, ONT has seen its total cargo volume increase, and this increase continued in 2014. Cargo movement is but one measure of the health of a region’s economy, but it is nonetheless a positive sign as we track many indicators that reflect the state of region’s economic health.

Source: Airport Records; Rates for Signatory Passenger Carriers as of July 1, 2015
What has LAWA done to reduce airline costs at ONT?

LAWA has made significant efforts to reduce operating costs at ONT and include reductions in utility use, administrative office consolidations, and staff redeployments to LAX. These efforts serve as examples of LAWA’s commitment to effectively manage ONT costs while balancing the airport’s service levels and employee needs.

Since Fiscal Year 2007, the following reductions have been made at ONT:

- Reduced operating expenditures 30.4%
- Reduced contractual services 30%
- Reduced utility usage: Electricity -20.6%, Water -48.4%, Natural Gas - 57.6%
- Reduced personnel 55% (full-time employees from 430 to 195)
- Consolidated shuttle bus and parking operations
- Partnered with Airlines to create an Airline-run Consortium, saving the airlines $3.5 Million annually in operating expenses
- Worked with its partner airlines to right-size their operations to reduce operating expenses
Tight budget management continues to be a top priority, and any savings realized from the current fiscal year will be refunded to the signatory air carriers.

ONT’s terminal rents and landing fees are calculated based on a “residual” model. Under this structure, terminal rental rates and landing fees are set to recover the difference between the costs of operating and maintaining the airport and the revenues received at the airport. Under the ONT Use & Terminal Lease Agreement, two cost centers are used to calculate rates and charges at ONT including the airport’s Airfield Cost Center and Terminal Cost Center. These cost centers cover distinct and separate operating areas of the airport so that costs and revenues are appropriately accounted for and allocated to calculate the terminal rental rates and landing fees.

ONT’s terminal rental rates are less competitive compared to smaller/older airports in Southern California such as Burbank and Long Beach because those facilities lack a modern, 530,000 square-foot twin terminal complex that requires additional resources to operate and maintain.

**Why does the City of Los Angeles and LAWA say they have an investment interest in ONT when no City of Los Angeles General Fund dollars were used at ONT?**

The City of Los Angeles has assets and sources of revenue that are separate from the general fund taxpayer monies (Port of LA, Department of Water & Power, and LAWA). Revenue derived from those assets is the property of the City of LA even though uses are regulated or restricted. In the case of LAW, airport revenues are generally used to pay for operation and development associated strictly with each particular airport. In the case of ONT, however, airline and passenger fees collected at LAX were invested to acquire ONT property and fund capital development. There has never been any use of ONT earnings to fund operations or development of any airport in Los Angeles.

**The City of Ontario wants to regain control of ONT. What is LAWA’s response?**

LAWA and the City of Los Angeles have the requisite base of revenues and management experience to steer ONT through this protracted economic slump and ensure the airport is well positioned to thrive as the economy strengthens. “Setting Ontario free” will not instantaneously increase air service and passengers at ONT. Operating and maintaining an airport is incredibly complex and requires substantial financial commitment. The City of Ontario so far has not demonstrated in detail that they are capable of either or both.

It is important to note that the City of Ontario does not want to purchase ONT from the City of Los Angeles. They prefer the airport be given back. The Board of Airport Commissioners believes it to be their fiduciary responsibility to obtain full and fair value if they were ever to consider a change in ownership of a City of Los Angeles asset. As a result of direction from the Los Angeles City Council, in October 2012, LAWA began negotiations with officials from the Ontario International Airport Authority on the possible sale of ONT. Since this time and continuing into 2015, LAWA and the City of Los Angeles remain committed to negotiating a possible transfer of ONT subject to agreeing on mutually agreeable price and terms. This commitment to negotiate remains in effect even with pending litigation that was initiated by the city of Ontario.

The Board of Airport Commissioners (BOAC) adopted the “Guiding Concepts and Principles for Negotiations Related to Potential Divestiture of ONT” on December 17, 2012. The document establishes criteria for LAWA to consider a potential transfer of ONT, including that any potential
new owner must continue to operate ONT as a commercial airport, that measures will be taken
to protect current employees of ONT and that any transfer will protect LAWA’s financial
interests. LAWA continues to adhere to the principles adopted and reflected in its prior
resolution.

A copy of the guiding concepts and principles can be found at:
www.lawa.org/uploadedFiles/board_agenda/Reports/boac121217x1330_reports.pdf

ONT currently operates on a cost neutral basis. No ONT revenues have ever been transferred
to any other LAWA airport. LAWA operates three airports within its system and assesses a 15
percent nominal fee to the ONT budget to cover overhead expenses incurred at ONT. LAWA
employees who work at LAWA’s headquarters and based in LA County (therefore not on ONT’s
payroll) perform numerous functions in support of ONT including administration, legal, finance &
budget, IT, accounting, operations, public safety, facilities planning, engineering, environmental,
and community relations, among others. Other items of value such as business reports, market
studies, and bond analyses are provided for the benefit ONT. Any entity managing an airport
will incur these costs, whether an airport authority or a municipality.

Rather than engage in a campaign battle, LAWA remains focused on cost containment
successes and attempting to develop air service opportunities for ONT. LAWA wants to avoid
participation in negative public debate and activities that may create an adverse environment for
ONT’s stakeholders and the traveling public ONT serves. The Board of Airport Commissioners
has directed staff to concentrate on aggressively managing the airport in light of the current
market realities for ONT and focusing on communicating our cost containment successes and
air service development efforts with airlines.

Staff has responded to the Board’s objectives and is working on identifying short, medium, and
long term tasks and projects that will create revenue and air service opportunities, continue the
practice of cost savings initiatives, reduce PFC’s assessed to departing passengers, and
develop a true and comprehensive marketing strategy to position ONT as an attractive
transportation facility.
### Funding Sources for Investment at ONT

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Grants</td>
<td>$160,243,478</td>
</tr>
<tr>
<td>ONT PFCs</td>
<td>133,869,700</td>
</tr>
<tr>
<td>LAX PFCs</td>
<td>127,990,081</td>
</tr>
<tr>
<td>ONT Bond Proceeds</td>
<td>90,000,000</td>
</tr>
<tr>
<td>ONT Airport Revenues</td>
<td>52,125,569</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$564,228,828</strong></td>
</tr>
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### ONT Airport Revenue Bonds
- Year issued: 1996
- Year refinanced\(^{(1)}\): 2006
- Amount outstanding\(^{(2)}\): $63.4 million
- Amount of annual principal and interest payments: $7 million
- Year bonds will be retired: 2026
- Purpose: bonds were originally issued to finance the construction of new terminals, the ground transportation center, and purchase of special equipment.

\(^{(1)}\)Bonds were refinanced to lower annual principal and interest payments
\(^{(2)}\)Amount outstanding as of 01/26/2015

### ONT PFCs for Noise Mitigation
- $40.8 million
LA/ONT has 62\(^{(1)}\) Daily Departures to 15 Nonstop Markets

Source: Official Airline Guides (OAG) June 2015

\(^{(1)}\)62 daily departures reflect the peak summer and December schedule. Seasonal, historic adjustments to flights occur throughout the year.