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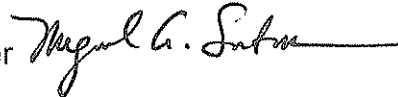
OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 21, 2012

CAO File No. 0220-04730-0000
Council File No. 12-0123, 12-0123-S1
Council District: 11, City of Ontario

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer



Reference: Motions (Zine-Rosendahl-Koretz, C.F. 12-0123) and (LaBonge-Wesson, C.F. 12-0123-S1) from January 24, 2012 and February 29, 2012, Respectively

Subject: **REQUEST FOR REPORT BY THE CITY ADMINISTRATIVE OFFICER ON THE DECLINE IN PASSENGER TRAFFIC AT LA/ONTARIO INTERNATIONAL AIRPORT, THE PROPOSED TRANSFER OF LA/ONTARIO INTERNATIONAL AIRPORT TO THE CITY OF ONTARIO, AND THE CURRENT JOINT POWERS AUTHORITY**

SUMMARY

At the March 20, 2012 meeting of the Trade, Commerce and Tourism Committee, two motions (Zine-Rosendahl-Koretz, C.F. 12-0123) and (LaBonge-Wesson, C.F. 12-0123-S1) directed the City Administrative Officer (CAO) to report back on the following: (1) developing alternatives for increasing passenger traffic at the LA/Ontario International Airport (LA/ONT; Airport), (2) determining the fair market value of the Airport (including the land, facilities, financial assets, and liabilities), and (3) determining a process by which the sale or transfer of the Airport to the City of Ontario (Ontario) could occur.

In addition to the direction given to the CAO, the Council motion requested the City Attorney to provide an opinion as to (1) the City of Ontario's proposal that the ownership and/or management of the Airport be transferred to Ontario (including the assumption of responsibility for all bond and debt obligations), and (2) the status of the current Joint Powers Authority (JPA) and any legal ramifications for amending or concluding the JPA.

Concerned with the decline in passenger traffic at the Airport (from 7.2 million in 2007 to 4.5 million in 2011) and what the City of Ontario sees as a residual effect on the region's economy, Ontario initiated a dialogue with the City of Los Angeles (City), as well as a media campaign (known as "SetONTario Free"), to promote local control of the Airport in the belief that a change of ownership and control would increase the passenger traffic and improve the regional economy. To that end, in December 2011, the City of Ontario presented to the City, through Los Angeles

World Airports (LAWA; Department), a conceptual proposal valued at \$246 million, to transfer the operations and fee title of the Airport to Ontario in return for (1) a \$50 million "Transaction Payment" to be paid to the City's General Fund, (2) assumption or payment of the Airport's \$71 million existing bond indebtedness, and (3) repayment of up to \$125 million in Passenger Facility Charges (PFCs) to the LAWA using future PFC revenue. The CAO has prepared this report to help identify and analyze the potential options for future ownership, operation, and management of LA/ONT.

To assist with evaluation of the options, the CAO obtained the services of Acacia Financial Group, Inc. (Acacia), a financial advisory group selected by way of a competitive process. The Acacia team includes William Blair & Company and AXIS Consulting, Inc., collectively referred to as the "Acacia Team." The Acacia report, entitled "Report to the City of Los Angeles Regarding Ontario International Airport," is attached for reference as Attachment 1.

The LA/ONT, despite the economic downturn affecting both the national and the local economies with its corresponding effect on airline service levels and passenger volume, is an important regional transportation asset. With a focused and innovative approach in creating a new business model for the Airport, LA/ONT could become a stronger driver of economic growth in the Los Angeles region.

Through our review of the information provided by Acacia, LAWA and the City of Ontario, we believe the best course of action would be to pursue an option that would achieve the goals of all parties. While the conceptual proposal by the City of Ontario has limitations, as explained later, it does provide a vehicle in which to open a dialogue between the City and Ontario and pursue commonalities between parties.

To that end, we recommend that the City and LAWA explore a potential acquisition by the City of Ontario and/or the Ontario International Airport Authority of LA/ONT, subject to the required FAA approvals. The City should bring together the City of Ontario, County of San Bernardino, Ontario International Airport Authority (OIAA), and other primary stakeholders to discuss common goals in an effort to increase economic growth across the region. All participants could potentially achieve their objectives and goals by consummating a transaction with the City of Ontario and/or the OIAA, and by providing certain financial and operational benefits to LAWA to enhance needed transportation infrastructure at LAX.

To effectuate this recommendation, the Mayor and the City Council should adopt the actions outlined below:

1. Respectfully decline the City of Ontario's December 2011 conceptual proposal;
2. Explore a potential acquisition of LA/ONT by the City of Ontario and/or the OIAA, or other regional authority;
3. The Council should review and endorse a set of principles developed by the Board of Airport Commissioners to provide guidance in negotiations; and
4. Establish a City negotiating team consisting of LAWA and CAO.

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Pursuant to Charter Section 385, any transaction would need approval by the Board of Airport Commissioners prior to consideration by the City Council.

Background of LA/Ontario International Airport

The City, through LAWA, owns, operates and maintains LA/ONT along with Los Angeles International Airport (LAX), Van Nuys Airport, and Palmdale Regional Airport. The Board of Airport Commissioners oversees the activities of the Department.

LA/ONT is located approximately 35 miles from downtown Los Angeles in San Bernardino County. The Airport, originally known as Latimer Field, was built in 1923 on land leased from the Union Pacific Railroad. In 1929, the City of Ontario purchased 30 acres adjacent to the original site and renamed the airport Ontario Municipal Airport. In 1941, Ontario purchased an additional 470 acres surrounding the Airport, and in 1942 built new runways. During World War II, the Airport was used by the Army Air Corps as a training facility for the P-38 Lightning and the P-59 Airacomet fighters. In 1946, as a result of international cargo flights that began to originate from the Airport, "International" replaced "Municipal" in the Airport's name and Ontario Municipal Airport became Ontario International Airport. Regularly scheduled passenger flights began in 1950 followed by nonstop flights and passenger jets in the 1960s.

On October 18, 1967, at the request of the City of Ontario, the City of Los Angeles and the City of Ontario entered into a JPA for the development, operation, management, and control of the Airport with the intent to leverage the Department's resources and expertise in airport management while utilizing the extensive nearby transportation network. As part of the JPA, the City of Los Angeles, Department of Airports, paid the City of Ontario \$7,873,329.58 for (1) the value of the portion of Ontario property previously acquired by the City of Ontario, subject to certain credits for making capital improvements; (2) retiring outstanding airport revenue bonds issued by the City of Ontario; and (3) "reimbursement for expenditures made for capital improvements at LA/ONT from funds derived from {1} the 1941 and 1950 General Obligation Bond Issues, including interest thereon, and {2} expenditures made from other City funds...." According to LAWA, annual passenger traffic in 1967 was less than 400,000.

On June 19, 1985, the City of Los Angeles acquired the Ontario International Airport and the corresponding "rights, title, and interest" from the City of Ontario, with the exception of four water wells. At the time, LAWA paid Ontario \$58,329.58 to settle various obligations remaining from the JPA. According to the Department, annual passenger traffic at the time of acquisition was just under four million.

LA/ONT is a medium hub airport that encompasses approximately 1,463 acres with extensive aviation and supporting facilities for commercial, air cargo¹, and general aviation activities. The

¹ LA/ONT is the second most important air cargo gateway in the Southern California Region, second only to LAX in terms of domestic air freight processed for the period 2002 to 2011. The Airport's air cargo operations remain successful at a time when domestic carriers have been switching to truck transportation and the airlines are reducing their commitment to transporting cargo aboard passenger aircraft.

Airport primarily serves residents of San Bernardino and Riverside Counties (collectively referred to as the Inland Empire) and a population of 4.2 million within an approximately 27,000 square mile area. The Airport is approximately 52 miles from Burbank-Bob Hope Airport, 57 miles from LAX, 47 miles from Long Beach Airport, and 45 miles from John Wayne Airport. The Airport is located within an area that is characterized as primarily industrial, with office, commercial, mixed use, and residential usages in the immediate vicinity. With respect to passenger capacity, in expectation of a steady increase in passenger traffic, two new terminals were constructed by LAWA in 1998 enabling the Airport to handle 10 million passengers annually.

In terms of demographics, the Inland Empire has been affected by the recent economic downturn, more so than the neighboring counties of Orange and Los Angeles. Average personal incomes are the lowest for the region and compounded annual income growth lags that of Orange and Los Angeles Counties while unemployment is higher for the period 2007 to 2011. The delinquency rate for mortgages and foreclosures exceeds that for both Orange and Los Angeles Counties as well. These demographics, along with other factors, affect the propensity for air travel from the Airport's primary service area and airline decisions regarding what airports to serve and the scheduling of flights. Thus, there is a strong correlation between demographic trends and passenger activity trends.

The Federal Aviation Administration (FAA) prepares an annual Terminal Air Forecast (TAF) Summary that forecasts airport passenger volume for a 30-year period on a Federal Fiscal Year (FFY) basis. The FFY 2011 TAF projects a long-term annual growth rate of 0.9 percent for the LA/ONT, following a decline in passenger traffic for FFY 2012. The TAF forecasts a 2.2 percent annual growth rate for medium hub airports (such as LA/ONT) in general for the period between FFY 2011 and FFY 2040. According to the TAF forecast, it will be after FFY 2040 before the Airport's passenger volume returns to the 3.5 million enplaned passenger level of FFY 2007, the year in which LA/ONT recorded its highest passenger volume. Additionally, as noted in the Acacia report, medium hub airports like LA/ONT are "particularly sensitive to intra-regional differences in demographics," meaning that the Airport's air service levels provided by commercial airlines and passenger traffic depend, to a large degree, on the economy of the Inland Empire.

Though LA/ONT is financially self-supporting, the region's unique demographics, the Airport's 37 percent decline in passenger traffic between 2007 and 2011; its Cost-Per-Enplaned-Passenger—considered by the industry as an indicator of an airport's efficiency—being the highest of the region's medium-hub airports; and reduced revenue from concessions, parking, and rental cars, present LAWA with distinct challenges to the successful operation of LA/ONT. It is within that context that the options for changes in the way the Airport is operated and managed are presented in this and the Acacia Team's report should be viewed.

LAWA Actions to Improve Airport and Reduce Costs at Ontario

In the last few years, LAWA has taken steps to improve the Airport and reduce operating costs in an effort to increase passenger traffic and promote new air service. Examples of those efforts include the following:

- For the most recent Fiscal Years (FY) 2011 and 2012, the LA/ONT full-time equivalent staffing has been reduced by 23 percent or 75 positions (from 326 to 251 positions)
- Comparing the staffing levels for FY 2007 and FY 2012, the overall reduction is 41.6 percent (from 430 to 251 positions), also reflecting shared staffing between LAX and LA/ONT
- Shuttle bus and parking operations have been consolidated
- Utility costs, contractual services, and operating expenses have been reduced by 16 percent, 23 percent, and 18 percent, respectively
- A new marketing consultant was hired exclusively for LA/ONT

City of Ontario Proposal for Transitioning Airport to Local Control

The December 14, 2011 letter to the LAWA from the City of Ontario, proposed that the operations and fee title to the LA/ONT be transferred from the City of Los Angeles to the City of Ontario. The primary terms of the transfer include:

- Paying to the City of Los Angeles' General Fund a \$50 million Transaction Payment, unrelated to the Airport's valuation and not to be construed as a payment for purchase; rather, the payment would be to defray the City's costs of transferring the Airport back to Ontario
- Assuming, or retiring, approximately \$71 million in existing bond debt and any other LA/ONT-related financial obligations, including indemnification of any and all liability pertaining to those obligations
- Paying LAWA, in years when the Cost-Per-Enplaned-Passenger (CPE) to airlines operating at LA/ONT is \$5.00 or less, up to one-third of annual LA/ONT PFC collections up to a cumulative amount equal to the amount of LAX PFC collections contributed to capital projects at LA/ONT (estimated by Ontario to be \$125 million)
- Entering into an Employee Protection and Transition Services Agreement to protect existing LAWA employees, including their pension and retirement benefits and obligations, for a minimum period
- Refraining from imposing any operating restrictions, caps, curfews, aircraft type bans on, and any other barriers to, future growth at the Airport

- Maintaining all current operating covenants for the Airport, as well as terminating or revising the original 1967 JPA

The City of Ontario believes that, by transferring the ownership and management of LA/ONT to Ontario, it would (1) return an economic asset to local control; (2) further the concept of Southern California airports regionalization; (3) increase passenger traffic; (4) eliminate a potential conflict of interest; (5) reduce freeway congestion; and (6) allow LAWA to focus its efforts exclusively on LAX. Because the proposal did not contain full details on the proposed transaction, it is difficult to ascertain the total value of the transfer proposal.

Viability of City of Ontario's Proposed "Transaction Payment"

The \$50 million Transaction Payment to the City of Los Angeles' General Fund is meant by Ontario to be a reimbursement of the City's costs for transferring the Airport; however, such a payment appears to be viewed by the FAA as a potential revenue diversion under federal aviation law.

The FAA regulations define airport revenue as any revenue that the sponsor (owner) derives from the use or sale of airport property. Likewise, federal airport grants like those received by LAWA require that airport revenue be used solely for capital and operating costs of (1) the airport, (2) the local airport system, or (3) "other local facilities which are owned or operated by the airport owner and are directly and substantially related to the air transportation of passengers or property."

As background information, the City's General Fund has started repaying LAWA in the last few years for monies that were deemed to be airport revenue as a result of an audit by the federal Department of Transportation, Office of Inspector General and the FAA. The City is awaiting the results of a subsequent audit relative to payments made by LAWA to the Los Angeles Police Department for police services at LAX; the audit findings could result in the City having to repay LAWA for the police department charges. In both instances, the issue of diversion of airport revenue is at the forefront.

As a consequence of the FAA's definition of airport revenue, and upon a review of the proposed Transaction Payment, the City Attorney is of the opinion that payment to the City's General Fund would likely violate the FAA revenue use diversion rules and conflict with Section 635 of the City Charter. Thus, given the likelihood that the proposed Transaction Payment would be viewed by the FAA as an unlawful diversion of airport revenue—unless paid directly to LAWA, and consistent with the opinion of the City Attorney that will be presented to the Council, we do not recommend that the City of Ontario's proposed Transaction Payment to the City of Los Angeles' General Fund be considered.

LA/ONTARIO INTERNATIONAL AIRPORT OWNERSHIP/MANAGEMENT OPTIONS

Considering the economic realities of the Inland Empire, the decline in the Airport's passenger volume since peaking in 2007, and the issues of local control and airport regionalization, alternative methods for operating the Airport should be explored. To that end, this report is presenting several options for the ownership and management of LA/ONT, which are outlined below and discussed in greater detail in the attached Acacia report.

Alternative 1: No Transfer or Acquisition by Another Entity

The status quo continues with LAWA retaining ownership and management of LA/ONT. While this option would continue LAWA's ownership, management, and operation of the Airport, improvements to the current operations, many of which are being actively considered and in many cases implemented by LAWA, could be made, including (a) continuing the Department's cost cutting measures for Maintenance and Operations (M&O) expenditures; (b) making optimal use of the terminals by shifting certain airlines' exclusive use premises to reduce space utilization; (c) reducing, where possible, LAWA's 15 percent of the M&O Administrative Fee²; (d) automating the parking operations; (e) examining both parking lot shuttle bus operations and the in-line baggage handling and screening maintenance for possible savings and efficiencies; (f) investigating the possibility of restructuring the Airport's long-term debt; (g) emphasizing direct marketing to both the airline industry and potential passengers; and (h) developing vacant on-airport facilities and off-airport land. Additionally, while retaining ownership of the Airport, LAWA could consider a third-party contract manager option.

In January 2011, LAWA issued an Expressions of Interest (EOI) for the third-party management and operation of LA/ONT. The EOI was (1) a means to identify interested parties, (2) a method for obtaining a neutral assessment of a third-party management structure for the Airport, and (3) a mechanism for gathering information about how to best structure any future competitive process. The EOI respondents were asked to provide ideas on how to:

- Return LA/ONT to pre-2008 passenger levels
- Increase the Airport's share of air traffic in the Los Angeles region
- Cost effectively market the Airport to airlines, passengers, and air cargo companies
- Operate the Airport more efficiently
- Balance short-term improvement initiatives that are in process with maintaining the Airport's long-term growth capacity

²The LAWA 15 percent (of the Airports' Maintenance & Operations costs) surcharge or administrative fee is charged to both LA/ONT and Van Nuys Airport to pay for airport-specific human resources, risk management, engineering, information technology, marketing, planning, finance, accounting, procurement, and environmental services. A reduction in these costs would likely result in a reduction of essential services. According to Acacia, the administrative fee comprises approximately \$4.00 of the \$13.00 LA/ONT CPE.

Ten responses were received by LAWA from local, national, and international private airport operators, investment firms, and infrastructure investors, which allowed LAWA to gain valuable information from the airport management industry regarding opportunities for future Ontario Airport management. Until now, LAWA has not pursued the next step, that of releasing a Request for Proposal (RFP). However, with much of the background work completed, it would be a relatively short process for LAWA to complete the RFP process to select a management company to manage various operations at LA/ONT.

As noted in the Acacia report, the estimated time needed to structure and execute a management services contract could take as little as six months; the contract could be structured to comply with the Internal Revenue Service requirements for tax exempt bonds; the contract could be tailored to cover a range of options, from the entire terminal and landside operations to smaller components like security, parking, shuttle services, and food and beverage services; and LAWA could retain management and control of airfield operations if it chose to do so.

Alternative 2: Transfer of LA/Ontario International Airport to the City of Ontario

This option, proposed by the City of Ontario, would transfer both fee title and operations from the City of Los Angeles to the City of Ontario to be owned and operated by Ontario (the initial proposal) or a Joint Exercise of Powers Agreement between the City of Ontario and the County of San Bernardino through a recently-created Ontario International Airport Authority (OIAA) established in August 2012 (a variation of the initial proposal).

The OIAA was created to operate, maintain, manage, develop, and market the LA/ONT for the benefit of the citizens of San Bernardino County and the economic development of the Inland Empire region. The Authority would be empowered to, among other things, (1) issue revenue bonds or other forms of indebtedness for the purpose of raising funds necessary to carry out its obligations; (2) negotiate price and the method for acquiring land, airport facilities, and related facilities; (3) make and execute contracts with other local governments and agencies; (4) employ staff; (5) acquire, hold, and dispose of property; (6) conduct environmental impact studies; (7) incur debt; (8) grant franchises, permits, licenses, and leases; (9) apply for grants; (10) exercise the power of eminent domain; (11) develop, advertise, and promote commerce and tourism; (12) employ and retain legal counsel; (13) adopt a budget; and (14) impose and collect airport Passenger Facility Charges.

As part of this proposal, provision would have to be made for defeasing LAWA's bond indebtedness consisting of Ontario International Refunding Revenue Bonds Series 2006A and 2006B and repaying LAWA for approximately \$128 million in LAX PFCs.

Additionally, provision would have to be made for the redeployment of current LAWA employees managing Airport operations, and the City of Ontario or the OIAA would have to obtain an Airport Operating Certificate from the FAA. In the event that those provisions could be adequately addressed, there is no guarantee that such a transfer would result in increased passenger volume or financial benefit to the owner/operator or to the Inland Empire economy. A decision

about how the Airport would be operated--whether by the City of Ontario, a Regional Airport Authority, or a third-party contract manager--would also have to be made. It is contemplated that LAWA could continue to operate the Airport during a transition period if such assistance is required.

Depending upon whether the City of Ontario or the OIAA would be the recipient of the Airport, consideration must be given to the financial strength of the recipient. It is possible that the financial reserves and bonding capability of the OIAA, which combines the resources of the City of Ontario and those of the County of San Bernardino, may be greater than the City of Ontario alone.

In terms of the LA/ONT debt structure, it is illustrative of the complexities that must be considered when proposing any change of ownership or management to review the debt structure and defeasance process for the LA/ONT Bonds Series 2006A and 2006B as noted in Attachment 2 of this report. According to LAWA, while the outstanding amounts total \$70.57 million, the actual cost to retire both bonds is approximately \$83 million. The total cost is higher because (1) the Series 2006A bonds are not callable until May 2016 and, until that time, both interest principal and interest payments must be deposited into an escrow account; and (2) the Series 2006B bonds have what is known as a "make whole call provision," meaning if the bonds are called prior to maturity, bondholders require that they be "made whole" with regard to the interest income that was expected to be earned through the final maturity of the debt as of the date of its issuance.

Alternative 3: Alternative Management Model or Privatization

The sale or lease of the Airport, or certain of its operations, to a private firm using the FAA's Privatization Pilot Program is possible. Likewise, using an Alternative Management Model, the Airport could be owned, leased, managed, or developed by a private party on a for-profit basis. A Regional Airport Authority could also be used or developed to partner with the private sector using a third-party management contract to manage Airport operations. Depending upon the options and the extent of the privatization, the process of privatization could take between 12 and 24 months to implement.

Privatizing the Airport—whether by a lease, third-party management contract, or sale—is provided for in Section 149 of the FAA Authorization Act of 1996. With the 2012 Reauthorization Act, the number of airports that can participate in the Privatization Pilot Program to sell or lease a public airport was increased from five to 10; with three airports under consideration for the program, there is capacity for seven additional airports. For FAA approval of a sale or lease, the airport owner or lessee must abide by certain provisions as follows:

- The Airport will continue to be available for public use on reasonable terms and conditions without unjust discrimination
- Operation of the airport will not be interrupted if the private operator experiences bankruptcy or other financial difficulty

- The private operator will “maintain, improve, and modernize” airport facilities through capital investments, and submit a plan for these actions
- Airport fees imposed on air carriers will not increase faster than inflation unless a higher amount is approved by at least 65 percent of the air carriers using the airport and the air carriers having at least 65 percent of the landed weight of aircraft at the airport
- The percentage of increase in fees imposed on general aviation operators will not exceed the percentage increase in fees imposed on air carriers
- Safety and security will be maintained “at the highest possible levels”
- Adverse effects of noise from operations at the airport will be mitigated to the same extent as at a public airport
- Adverse effects on the environment from airport operations will be mitigated to the same extent as at a public airport
- Any collective bargaining agreement that covers airport employees and is in effect on the date of the sale or lease of the airport will not be abrogated by the sale or lease
- In addition, the FAA must find that the transfer will not result in unfair and deceptive trade practices or unfair methods of competition, and that the interests of general aviation users are not adversely affected

Additional features of an airport privatization lease option whereby all operations, management, and development would become the responsibility of a private operator would include, at a minimum (1) executing a long-term lease with a private operator/lessee with the possibility of up-front payments to LAWA; (2) ongoing lease payments to LAWA; (3) the need to defease all outstanding LA/ONT-related debt and existing financial obligations; and (4) the need to revise the Airport Use and Lease Agreement with the resident airlines.

Alternative 4: Acquisition of LA/Ontario International Airport by the City of Ontario, the Ontario International Airport Authority, or a Separate Party.

Acquisition of a commercial airport by another municipal agency is allowable under FAA regulations providing that (1) FAA approval is obtained, and (2) the proceeds go to LAWA as airport revenue used to benefit the City’s airport system.

This alternative would, at a minimum, provide for the new owner to (1) obtain an FAA Airport Operating Certificate; (2) compensate LAWA financially for the value of the airport, as well as the costs for transition to a new owner; (3) defease all outstanding Airport debt and assume existing financial obligations, which would include indemnification of all liabilities (including environmental) pertaining to those obligations; (4) execute an agreement that protects existing LAWA Airport employees’ compensation, pension and retirement benefits for a minimum period; (5) agree to refrain from imposing operating restrictions, caps, curfews, bans on aircraft types, or any barriers to growth; (6) dispose of any fund balances held by the Airport; (7) assume responsibility for outstanding grant assurances; and (8) assume responsibility for the airline Use and Lease Agreement (which would also require the consent of the airlines). Many of the above considerations were acknowledged and agreed to by the City of Ontario in its December 2011

conceptual proposal. In addition to the above, a determination of the Airport's value would have to be made and agreed to by LAWA and the new owner(s), and affirmed by the City.

Alternative 4 Considerations

With respect to the City of Ontario's proposed terms for the transfer of the Airport, there is an offer to transfer to the City of Los Angeles' General Fund \$50 million as a Transaction Payment. While it is unlikely that the \$50 million payment to the General Fund would be legal, given the FAA regulations pertaining to diversion of airport revenue, it could be accepted by LAWA as airport revenue. However, if the \$50 million payment were to be accepted by LAWA as airport revenue, then the issue of Airport valuation would still be relevant since the City and LAWA believe that the \$50 million is well below the Airport's valuation. Although the City of Ontario's proposal appears to offer compensation totaling \$246 million (e.g., a \$50 million Transaction Payment, \$71 million to defease LA/ONT's bond debt, and \$125 million to repay LAX PFC collections), there has yet to be a full discussion between the interested parties of the Airport's fair and reasonable value and the timing of such transaction.

As of September 2012, \$70.57 million in existing bond debt and other related financial obligations is outstanding for LA/ONT. This obligation, and any liability pertaining thereto, will have to be assumed or retired by a new airport owner. Accordingly, any assignment or assumption of LAWA's LA/ONT-related debt (1) could have implications for its credit rating and (2) require approval by the bondholders. Details of the bond defeasance process are included in Attachment 2 of this report. Likewise, and as discussed under the Transfer alternative above, the financial strength of the purchaser or lessee is important. The financial reserves and bonding capability and rating may be greater with the combined resources of the City of Ontario and the County of San Bernardino, within the OIAA structure, than with the individual municipalities. The two governmental agencies could issue taxable bonds supported by their respective taxing authorities to retire the LA/ONT-related debt.

Repayment of the PFCs to LAWA is another issue to be considered. Over the years, LAWA has invested over \$560 million in Airport improvements paid from FAA grants, PFCs collected from passengers at LAX, issuance of LA/ONT Revenue Bonds, PFCs collected from passengers at LA/ONT and other LA/ONT revenue. Any proposed sale, lease or transfer of the Airport would need to include a means for LAWA to recover the PFCs contributed by LAX to LA/Ontario International Airport.

While an acquisition by the City of Ontario is possible, for the reasons discussed in the preceding paragraph, it appears that a stronger case could be made (in terms of available resources, bonding and taxing capability, etc.) for a sale or lease to the combined municipalities using the Ontario International Airport Authority as the mechanism. Such an approach would also mitigate, to some extent, any concerns with the City of Ontario's conceptual proposal with respect to (1) the \$50 million proposed payment to the City of Los Angeles General Fund and any relationship that may have to the valuation of the LA/ONT; (2) the questions of financial capability to defease

the bond indebtedness, repay the \$128 million in LAX PFCs, and compensate LAWA for the value of LA/ONT; and (3) experience with managing the airport.

It should be noted that the OIAA or any other authority set up for the purpose of owning and operating LA/ONT would be able to implement any of the management options outlined in this report, including management by staff, implementation of a management contract.

THE PATH FORWARD

Notwithstanding the tepid annual growth forecast, changing airline industry business models, and a static or declining domestic passenger base (as detailed in the Acacia report), the Airport will continue to operate, albeit, at less than its 10 million passenger capacity. There is no ongoing financial burden to the City of Los Angeles or LAWA from the operation of the LA/ONT. In addition, the Airport fulfills an important role in the Southland's regional transportation infrastructure network. It is the one airport in the region that has virtually no constraints on air traffic; it has significant untapped passenger capacity; by virtue of both its location and its recent modernization, it is uniquely positioned to assume an even more prominent role in the region's air traffic management ("regional distribution") plan; it has a demonstrated history of effectively accommodating a large passenger volume; and it is uniquely situated—both geographically and in terms of demographics—to profit from an upturn in the regional and national economies.

It is the City of Los Angeles' goal to (1) maximize the inherent value in, (2) facilitate the success of, and (3) benefit the region served by the Airport by considering a different model for management and operation of the LA/ONT. Depending upon the decision to implement an alternative management model, any new ownership, governance, or management structure will need to further these goals and release a transition plan, timetable, and the concurrence of all the interested parties.

Additionally, the Board of Airport Commissioners should develop a set of guiding principles, to be endorsed by the City Council, similar to those approved by the City Council (8/11/11; C.F. 11-0023) for the Downtown Stadium and Events Center, to assist with analyzing and pursuing alternative Airport management and governance structures including, but not limited to, the following:

- To the greatest extent possible, avoid or mitigate any disruption of service at the Airport
- The Airport must continue to be operated as a commercial airport
- The Airport shall be operated in the most efficient manner possible
- The City and LAWA should receive reasonable compensation in respect to its investment in LA/ONT
- All existing employees shall be treated fairly in accordance with the existing labor contracts
- The City's existing and future General Fund base must be fully protected

CONCLUSION

The LA/ONT, despite the economic downturn affecting both the national and the local economies with its corresponding effect on the airlines, airline business models, the airline passenger, and the Airport specifically, is an important regional transportation asset. With the proper mix of innovative management and operational models and efficiencies, LA/ONT could become a strong contender for the busiest regional medium-hub airport in the Los Angeles Basin. An improved economy would hasten the process, as would adoption of the recommendations contained in this report.

A change in ownership could potentially benefit all interested parties. As one of the goals is to enhance airport regionalization, the City should bring together the interested parties to discuss the common goal of increasing economic growth across the region. All parties can potentially achieve their objectives by consummating a transaction with Ontario and its partners, and by providing resources to LAWA to enhance needed infrastructure at LAX.

It is important to also note, that in order to ensure a seamless transition of the ownership or management of the Airport, consideration must be given to other stakeholders' (e.g., airlines and air cargo companies) views early in the process and the effect that such a transition would have on their operations. The FAA's review of the process and its effect on the airlines operating from LA/ONT, as well as the overall compliance with FAA requirements, would also have to be considered. In addition, there may be other concerns (e.g., legal, financial, regulatory, etc.) that may require the services of outside legal counsel, financial analysts, and the regulatory agencies in order to facilitate the sale or lease of the Airport to another party.

As previously mentioned, as part of any discussion of the transfer, lease, or sale of the LA/ONT, consideration must be given to the \$70.57 million bond defeasance and \$128 million repayment of the LAX PFCs. In addition, consideration should be given to (i) the Airport's land value and the potential for future growth, when estimating the fair and reasonable valuation of the Airport and (ii) ensuring the cost of any City employee protection and compensation program arising from a transaction is not directly or indirectly borne by LAWA or the City. LAWA's own consultant valuation placed the upper end of the range at over several hundred million dollars. The final value will be determined through negotiations between the parties but should not be less than the fair and reasonable recovery of LAWA's investment.

RECOMMENDATIONS

That the Mayor, subject to the approval of the Council:

1. Respectfully decline the City of Ontario's December 2011 conceptual proposal to transfer the operations of and fee title to the LA/Ontario International Airport to the City of Ontario;

2. Instruct the City Administrative Officer to facilitate negotiations between Los Angeles World Airports, City of Ontario, County of San Bernardino, Ontario International Airport Authority, and other primary stakeholders to determine the most effective and appropriate ownership and management alternative, and the assigned value of such alternative, for the LA/Ontario International Airport; and
3. Request the Los Angeles World Airports and direct the City Administrative Officer to report back on the result of the meetings with the City of Ontario and other stakeholders.

FISCAL IMPACT STATEMENT

Approval of the sale or lease of the Airport, or establishment of a new Joint Powers Authority, may impact the City's General Fund, LAWA's budget, or both depending upon the options that are selected. Any proceeds from the sale of the Airport, outside of the FAA Pilot Program, should go to LAWA in order to avoid a diversion of airport revenue--a violation of federal aviation law. A final determination as to fiscal impact will depend upon any changes to the existing Airport ownership arrangement.

MAS:WRK: 10120125

Attachments: *Report to City of Los Angeles Regarding Ontario International Airport –*
Acacia Financial Group, Inc.

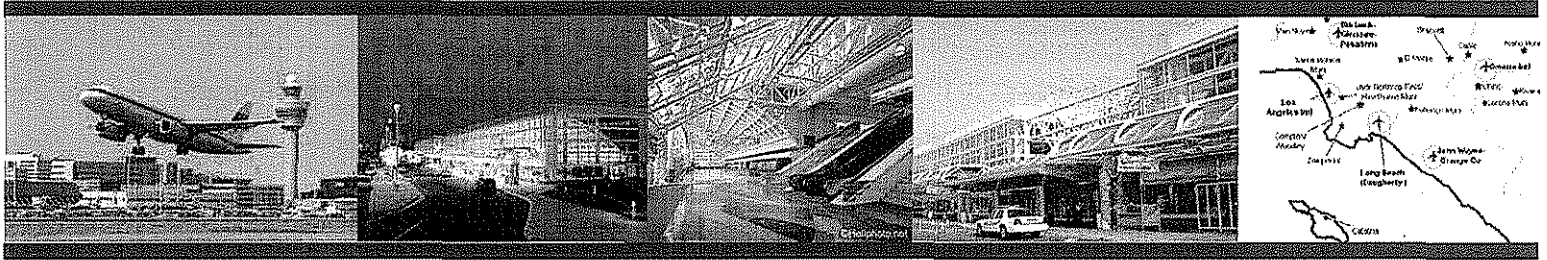
Retirement of LA/Ontario International Airport Bond Indebtedness

ATTACHMENT 1



REPORT TO CITY OF LOS ANGELES REGARDING ONTARIO INTERNATIONAL AIRPORT

SEPTEMBER 21, 2012



William Blair



Report to City of Los Angeles Regarding Ontario International Airport
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ES. Executive Summary

A. Introduction

The City of Los Angeles, California ("Los Angeles" or the "City"), through its Department of Airports (the "Department") operates and maintains Los Angeles/Ontario International Airport ("LA/ONT" or the "Airport"), along with Los Angeles International Airport ("LAX"), Van Nuys Airport ("VNY") and Palmdale Regional Airport ("PMD," and collectively, the "Airport System" or "LAWA"). The Board of Airport Commissioners of the City (the "BOAC") supervises the activities of the Airport System.

For the purposes of this report, the Greater Los Angeles Region (the "Region") is assumed to consist of the five county area that includes Los Angeles, Orange, Riverside, San Bernardino and Ventura Counties. In addition to LAWA, the Region has available air service from Long Beach Airport ("LGB"), John Wayne Airport in Orange County ("SNA"), and Burbank Bob Hope Airport ("BUR"). LA/ONT's primary services area consists of Riverside and San Bernardino (collectively the "Inland Empire").

In 1967, at the request of the City of Ontario, California ("Ontario"), Ontario and the City entered into a Joint Powers Authority (the "1967 JPA") for the development, operation, management and control of the Airport with the intent to leverage the Department's resources and expertise in airport management while utilizing the nearby transportation network. In 1985, pursuant to a new JPA, (the "1985 JPA"), Los Angeles acquired the Airport and the corresponding "rights, title, and interest" from Ontario, with the exception of four water wells. According to the Department, annual passenger traffic at the time of acquisition was just under 4 million.

Under LAWA's management, major capital projects have been completed at the Airport, including construction of two passenger terminals having a total of 26 gates and related improvements. Air service and passenger traffic increased and peaked in 2007. Since that time, the national recession has hit the Inland Empire especially hard and the Airport has experienced a significant decline in air service and passenger traffic. As a result, the Cost Per Enplaned passenger ("CPE") has increased to the extent that the Airport's CPE for the fiscal year ("FY") 2013 budget is \$13.07, the highest of any airport in the Region in the Medium Hub category as designated by the Federal Aviation Administration ("FAA").

B. Purpose of Report

In December 2011, Ontario presented to the City, through the Department, a proposal to transfer the operations and fee title of the Airport to Ontario. At the request of the City Council of Los Angeles ("City Council"), the City Administrative Officer ("CAO") is preparing a report to identify and analyze the potential options for future ownership, operation and maintenance of LA/ONT. Several alternatives are available to the City which the CAO is in the process of evaluating.

To assist with the evaluation of the alternative scenarios, the City issued a Request for Proposals ("RFP") and selected Acacia Financial Group, Inc. ("Acacia") to provide financial advisory services. The Acacia Team includes William Blair & Company ("WB") and AXIS Consulting, Inc. ("AXIS" and collectively the "Acacia Team"). The resulting Report to the City of Los Angeles regarding Ontario International Airport (the "Report") contains the results of the Acacia Team's engagement, the scope of which

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included five Tasks (the "Tasks") assigned in the Financial Advisor Services Agreement. The overall results of this engagement are contained herein.

C. Summary of Work Performed

The Acacia Team's scope of services included an analysis of the economic trends in the Region, the Airport's historical financial and operating trends, benchmarking of certain financial and operating metrics to a selected group of airports, potential options for improving financial and operating results and analysis of various alternative governance models. The Report was prepared on behalf of the CAO as outlined below, for the purpose of assisting the CAO's office with preparing its report to City Council. As a result, the purpose of the Report is to identify and analyze options for consideration, rather than to make a specific recommendation as to the preferred alternative. A brief summary of the procedures performed is as follows:

1. Analysis of the Airport's Historical Aviation Activity and Financial Performance

The Acacia Team analyzed Regional economic activity and demographic trends, the Airport's historical activity levels and financial performance, characteristics of the airline industry, and air service, passenger and cargo activity trends at the Airport. The overall focus of this analysis is to understand the Airport's significant declines in activity levels since 2007 that resulted in an increased CPE. Favorable cargo trends were noted and analyzed.

2. Benchmarking of Current Airport Operations

The Acacia Team analyzed the Airport's key activity and financial metrics compared to other airports in the Region and other potentially comparable airports. The airports selected include LAX, BUR, LBG and SNA from the Region and other mid-size airports including Palm Springs ("PSP"), Oakland ("OAK"), Sacramento ("SMF"), San Jose ("SJC") and Tucson ("TUS"). Key benchmarking metrics include CPE, Non-Airline Revenues (such as concessions, parking and other sources), debt per enplaned passenger, employee costs and total operating expenses.

3. Options for Revitalization of the Airport Through New Management Initiatives

The Acacia Team was charged with identifying and analyzing options for the Airport's revitalization. Options considered include:

- Options for better management of operating expenses and debt service
- Opportunities to improve Airline Revenues
- Opportunities to improve Non-Airline Revenues
- Alternative management options

4. Alternative Governance and Management Structures for the Airport

The Acacia Team identified and analyzed alternative governance options for the Airport, including:

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1. Status quo or "No Transfer"
2. Regional airport authority structures
3. Alternative management options
4. Outright transfer to Ontario

Given the Airport's recent financial and activity trends, and the interest of all parties in finding ways to improve activity levels and financial performance of the Airport, the Acacia Team was charged with analyzing alternative governance and management options. In this section of the Report, the CAO instructed the Acacia Team to outline the key elements and public policy implications of each alternative and to identify potential opportunities for commonality of interest among the City, LAWA and Ontario.

This section includes the Acacia Team's analysis of private sector airport value drivers such as the cost of capital, taxes, capital funding requirements, operating revenues and expenses, and activity levels and analyzed current market trends for each.

D. Conclusion

The Acacia Team has documented the issues impacting the Airport, including the impact of the Regional and national recession on the Airport and the airline industry. While there are many factors that have contributed to the decline in the Airport's activity levels and the increase in CPE and other metrics, many of which have had a role in the Airport's current challenges, there is cause for optimism at this time.

Over the last year in particular LAWA has been aggressive in analyzing the issues facing the Airport and implementing improvements including cost saving measures, many of which require multi step processes. The Inland Empire's stakeholders have highlighted the value and importance of the Airport to the Region and have been active in identifying opportunities for improvement as well as proposing that the Airport be transferred from the City to Ontario.

The Acacia Team believes that the best solution for the City of Los Angeles, LAWA and the City of Ontario has to be fully identified and that none of the proposed measures taken in isolation will provide the type of lasting solution that stakeholders seek. In particular, cost saving measure will not in and of themselves increase air service and passenger and cargo activity levels. Similarly, a transfer of the Airport from LAWA to Ontario or any of the various authority options, absent a fully developed business strategy, is not expected to achieve the desired results. Furthermore, there would be risks associated with any transfer of governance and those risks need to be carefully analyzed and managed in the context of developing an overall business strategy.

The CAO's search for areas of commonality of interest, which is more fully analyzed herein and in the CAO's report, represents the best starting point for fostering a productive Regional dialog. It is likely that in the interest of moving forward with any discussion of a change of ownership, consideration will need to be given to LAWA's prior infrastructure investment. At a minimum, defeasance of the existing debt (expected to require \$82.9 million of funding) and recovery of \$128

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million LAX Passenger Facility Charges will need to be addressed. Other factors, such as the cost of placing the Airport's current employees must be addressed as well.

Further consideration should be given to the value of the Airport now and in the future, in various scenarios.



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I. Introduction

The City of Los Angeles, California ("Los Angeles" or the "City"), through its Department of Airports (the "Department") operates and maintains LA/ONT, along with Los Angeles International Airport ("LAX"), Van Nuys Airport ("VNY") and Palmdale Regional Airport ("PMD," and collectively, the "Airport System" or "LAWA"). The BOAC supervises the activities of the Airport System. For the purposes of this report, the Greater Los Angeles Region (the "Region") is assumed to consist of the five county area that includes Los Angeles, Orange, San Bernardino, Riverside and Ventura Counties. The airports of LAWA are not alone in serving the Region, which is also served by Long Beach Airport ("LGB"), John Wayne Airport in Orange County ("SNA") and Burbank Bob Hope Airport ("BUR").

A. Purpose of the Report to the City of Los Angeles Regarding Ontario International Airport

In December 2011, the City of Ontario, California ("Ontario") presented to the City, through the Department, a proposal to transfer the operations and fee title of the Airport to Ontario. At the request of the City Council of Los Angeles ("City Council"), the City Administrative Officer ("CAO") is preparing a report to identify and analyze the potential options for future ownership, operation and maintenance of LA/ONT. Several alternatives are available to the City, which the CAO is in the process of evaluating.

To assist with the evaluation of the alternative scenarios, the City issued a Request for Proposals ("RFP") and selected Acacia Financial Group, Inc. ("Acacia") to provide financial advisory services. The Acacia Team includes William Blair & Company ("WB") and AXIS Consulting, Inc. ("AXIS" and collectively the "Acacia Team"). The resulting Report to the City of Los Angeles Regarding Ontario International Airport (the "Report") contains the results of the Acacia Team's engagement, the scope of which included the Tasks assigned in the Financial Advisor Services Agreement. The overall results of the analyses performed in conjunction with this engagement are contained herein.

B. History of Los Angeles / Ontario International Airport Governance

On October 18, 1967, at the request of Ontario, Ontario and the City entered into a Joint Powers Authority ("JPA" or as used here, the "1967 JPA") for the development, operation, management and control of the Airport with the intent to leverage the Department's resources and expertise in airport management while utilizing the nearby transportation network. As part of the JPA, the Department paid Ontario \$7,873,329.58 for (1) the value of the portion of Airport property previously acquired by Ontario, subject to certain credits for making capital improvements; (2) retiring outstanding airport revenue bonds issued by the Ontario; and (3) "reimbursement for expenditures made for capital improvements at LA/ONT from funds derived from {1} the 1941 and 1950 General Obligation ("G.O.") Bond Issues, including interest thereon, and {2} expenditures made from other City [of Ontario] funds." According to LAWA, annual passenger traffic in 1967 was less than 400,000.

On June 19, 1985, pursuant to a 1985 JPA, (the "1985 JPA") Los Angeles acquired the Airport and the corresponding "rights, title, and interest" from Ontario, with the exception of four water wells. At the time, LAWA paid Ontario \$58,329.58 to settle various obligations remaining from the 1967 JPA.

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According to the Department, annual passenger traffic at the time of acquisition was just under 4 million.

Since these agreements were approved, under LAWA's management and with its funding assistance, many capital projects have been completed at the Airport, including construction of two passenger terminals and related improvements. As shown in **Exhibit I-1 – LAWA Funding for the Los Angeles/Ontario International Airport**, in total, LAWA has contributed \$560 million for capital projects.

Exhibit I-1 – LAWA Funding for Los Angeles/Ontario International Airport Capital Projects	
Funding Source	Amount (in millions)
Federal Grants	\$157.0
LA/ONT Passenger Facility Charges	133.0
LAX Passenger Facility Charges	128.0
LA/ONT Bond Proceeds	90.0
LA/ONT Airport Revenues	52.0
TOTAL REVENUE SOURCES	\$560.0

Air service increased and peaked in 2007. Since that time, the Airport has experienced a significant decline in air service and Enplaned Passengers ("PAX") have decreased. As a result, the Cost Per Enplaned passenger ("CPE") has increased to the extent that the Airport's CPE for the fiscal year ("FY") 2013 budget is \$13.07, the highest of any airport in the Medium Hub category in the Region as designated by the Federal Aviation Administration ("FAA").

C. Location and Description of Los Angeles / Ontario International Airport

A brief description of the Airport's location and its facilities is provided below.

1. Description of the Area Surrounding the Airport

The United States ("U.S.") Census Bureau has designated the five county area that makes up the Region as the Los Angeles-Long Beach-Riverside, CA combined statistical area, with a January 1st, 2009 population estimate of 17.8 million. According to the U.S. Census Bureau, the Region has a total area of 4,850 square miles, while the wider combined statistical area covers 33,954 square miles, making it the largest metropolitan region in the U.S. by land area. However, more than half of this area lies in the sparsely populated eastern areas of Riverside and San Bernardino Counties.

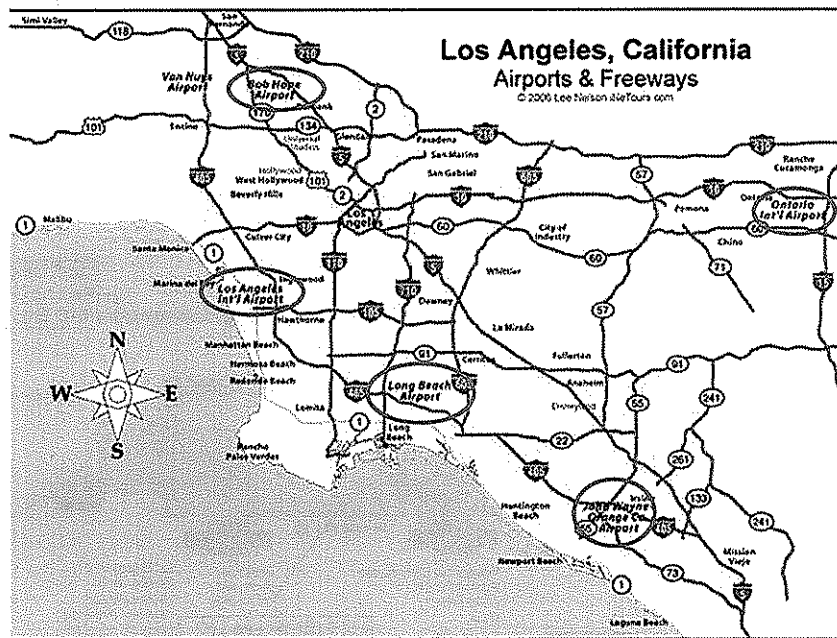
The Region contains an area called the LA Basin, which encompasses Los Angeles County and portions of Orange County. The LA Basin is created by the Santa Monica Mountains and the Puente Hills to the north and the Santa Ana and San Joaquin Mountains to the east and south.

The area surrounding the Airport in San Bernardino County and Riverside County is referred to as the Inland Empire and features a population of 4.2 million within its approximately 27,000 square miles.

2. Airport Location

As shown in Exhibit I-2 - Map of Los Angeles/Ontario International Airport and Surrounding Area, the Airport is located approximately 35 miles from downtown Los Angeles and 50 miles from LAX. The Airport, which is located in Ontario, primarily serves the Inland Empire. The Airport is located within an area that is characterized as primarily industrial, with office, commercial, mixed use and residential usages in the immediate vicinity.

**Exhibit I-2 - Map of Los Angeles/Ontario International Airport
and Surrounding Area**



3. Regional Transportation Network

Access to the Airport is connected to an extensive passenger and freight transportation network which provides passenger and freight connections. Several of the key features are highlighted below.

- a. *Highway Access.* Highway access to the Airport is provided by Interstate Highway I-10, the major east-west highway across the Southern U.S. (also known as the San Bernardino Freeway) and State Route ("SR") 60, the Pomona Freeway to the south. This highway access, combined with the local and arterial streets, provides access to an extensive highway network connecting Southern California and the rest of the U.S.
- b. *Public Transit and Other Passenger Access.* OmniTrans provides public bus service between the Airport, Pomona, downtown Ontario and Fontana. Taxi cabs and hotel shuttle buses / courtesy

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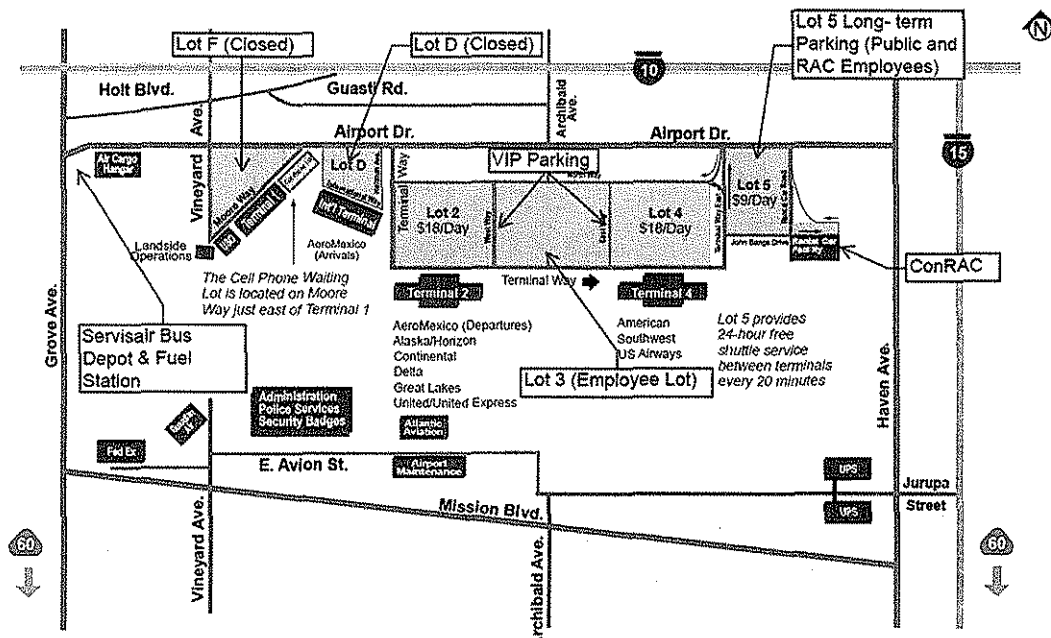
vans provide additional sources of access, in addition to the Airport's Rental Car Facility ("RAC").

- c. *Freight Rail Connections.* There is no direct rail access to the Airport, however the Union Pacific Railroad ("UP") track runs immediately to the north of the Airport, which provides the potential for additional intermodal facilities to accommodate the movement of freight by rail and surface transportation within Southern California and destinations to the Northern and Eastern portions of the U.S.

4. Airport Facilities

The Airport, which consists of 1,463 acres, contains extensive aviation and supporting facilities. A high level schematic map of the Airport's layout is contained below in **Exhibit I - 3 – Layout of Ontario International Airport's Facilities**. Please see **Appendix B – Airport Layout Plan** for the Airport Layout Plan, which provides additional detail on the location of facilities.

Exhibit I-3 - Layout of Ontario International Airport's Facilities



- i. *Passenger Terminals.* The Airport has three domestic passenger terminals located on the north side of the Airport. Terminal 1 is non-operational and is utilized by special request for such activities as filming movies and job fairs. Terminals 2 and 4, with a combined total of 35 gates and 570,500 square feet ("SF"), serve the primary passenger operations and manage 100.0 percent of the departures (Terminal 2 manages 35.0 percent of departures and Terminal 4 manages 65.0 percent of departures). Terminals 2 and 4 are independent and have separate ticketing, baggage, security checkpoints, concessions and passenger processing systems. Terminal 2 has 12 contact gates of which three are located in the east

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wing, which is currently decommissioned. Terminal 4 has 14 contact gates, of which four are located in the east wing, which is currently decommissioned.

Arriving international passengers (service provided by Aeromexico) disembark at the International Arrivals Terminal located to the west of Terminal 2, proceed through customs and immigration and exit the terminal for private transportation off airport or buses to connecting flights in Terminals 2 or 4. Once cleared, the arriving international aircraft are towed to Terminal 2 to board departing passengers.

Passenger air service is provided by six domestic airlines (Alaska/Horizon, American, Delta, Southwest, United/United Express and US Airways) and one international airline, Aeromexico, all of which are signatory to the Airport's Use and Lease Agreement (the "ULA") which was entered into in 1999. The ULA provides for four opportunities for the signatory airlines to cancel their participation in the ULA prior to its expiration in 2024. The next exit point occurs in 2014.

- ii. *Airfield.* The airfield consists of two parallel east-west runways. Runway 8L-26R, on the north side, is 12,200 feet and Runway 8R-26L, on the south side, is 10,200 feet. Each runway is 150 feet wide and the separation from the center line is 750 feet. The total cost of the Airport's capital improvement program for FY 2013 – 2017 is estimated at \$17.0 million. The Airport has several planned capital projects to improve the airfield including:

- 2013 – Improve Runway 8L Safety Area
- 2013 – Install Taxiway N1 centerline lighting
- 2014 – Rehabilitate Taxiway W
- 2016 – Rehabilitate Taxiway L
- 2017 – Install Runway 26R touchdown zone lighting

- iii. *Fixed Base Operators.* The Airport currently has two Fixed Base Operators ("FBO"), Atlantic Aviation and Guardian Jet Center which provide service to the Airport's customers. The FBO's provide numerous amenities including: pilot lounge, passenger lounge, large screen TV, crew cars, rental cars, wireless internet, flight planning, hotel/limo arrangements, coffee/ice/newspapers, lavatory service, quick turns, ramp rated for DC-10, NATA Safety 1st, trained LST, large charter handling, complimentary shuttle, multi-media equipment, conference room, heated hangars and third party maintenance.

- iv. *Rental Car Facility.* The RAC is on Airport property and located to the east of the terminals. The RAC provides "on Airport" facilities for eight rental car companies ("RCC") which are selected as the result of a competitive process for five year terms. The RCC agreements expire in 2015 and the ground lease expires in 2019. Passengers have access to the RAC by either parking in Parking Lot 5 or via shared bus shuttle from the terminals. Off Airport rental car agencies may not pick up customers at the Airport's terminals, but are required to pick up customers at the RAC. The car rental facility area is approximately 15,000 SF.

- v. *Passenger Car Parking.* Each terminal and the RAC have their own adjacent parking areas. The Terminal 1 parking area is closed to the public except for a small portion that is

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designated as a Cell Phone Waiting Lot. Terminals 2 and 4 parking areas have an \$18 per day fee and include approximately 1,601 and 1,790 public spaces, respectively. The International Terminal parking area, Lot D, does not charge a parking fee. The employee parking lot is located between Lots 2 and 4 and costs each employee \$30 per month. Lot 5, adjacent to the RAC, costs \$9 per day and includes 2,200 public spaces.

- vi. *Cargo Facilities.* LA/ONT's cargo traffic is dominated by service from United Parcel Service ("UPS") with additional cargo service provided by the FedEx Corporation ("FedEx"), both of which are signatory to the ULA.

UPS has a "through-the-fence" operation connecting its off-Airport sorting facility to the airfield via a leased taxiway. UPS leases approximately 17 acres of Airport property in the southeast corner of the airfield, and in 1990 constructed a taxiway connecting its facility to the Airport's southernmost taxiway. UPS's ground lease term is 40 years (through 2030). It originally paid \$120,000 per year rent, subject to increases every five years (next increase is in 2016). As of 2011, UPS pays \$436,000 per year for rent. LA/ONT is responsible for maintenance and upkeep of the leased property, as well as Aircraft Rescue and Fire Fighting ("ARFF") service for aviation-related incidents on the UPS-owned property, as part of the lease.

FedEx operates a cargo facility on-airport in the southwest corner of the Airport property and also is signatory to the ULA.

- vii. *Vacant Facilities and Land.* Several vacant facilities, including Terminal 1, are located on the Airport. General Electric and Lockheed Martin used to run manufacturing operations at LA/ONT but when the property leases expired in 2000 and 1998, respectively, both companies decided to not renew their contracts. Currently, LA/ONT has a number of vacant facilities in various locations across the property and has no plans for them at this time, although various options have been explored. In addition, the Airport owns 275 acres of land adjacent to the Airport, primarily to the east. It has also purchased homes within the FAA noise-impacted zones adjacent to the Airport. All vacant facilities and land represent potential opportunities for future development.

5. Airport Financial Profile

The Acacia Team has reviewed LAWA's Comprehensive Annual Financial Report ("CAFR") for the FY ended June 30, 2011, from a high level perspective and has noted the following key financial highlights:

Since 1998, LAWA has invested over \$560 million in various infrastructure improvements at LA/ONT. These improvements are included in **Exhibit I-4 - LAWA's Improvements to LA/ONT**:

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Exhibit I-4 - LAWA's Improvements to LA/ONT	
Project Description	Amount (in millions)
New Terminals Project	\$276.0
In Line Baggage System	70.0
Runway 26R Reconstruction	55.0
Consolidated RAC	30.0
Taxiway 'N' Extension	18.0
Perimeter Fence Project	17.0
Airport Drive Improvements--Grove Ave. to Haven Ave.	14.5
Land Acquisition--East of Haven Avenue	12.8
Parking Lot 5	7.0
CCTV Upgrade	3.7
Archibald Ave. Grade Separation	0.3
Misc.	53.7
TOTAL LAWA IMPROVEMENTS TO LA/ONT	\$560.0

a. Assets

- i. Cash and Investments.* As of June 30, 2012, the Airport had \$66.1 million and \$78.2 million of Unrestricted and Restricted Cash and Investments, respectively, held in the City Treasury.
- ii. Non-current Assets.* Total Noncurrent Assets of \$383.4 million consist mainly of the Airport's Capital Assets.

b. Liabilities

- i. Current Liabilities.* Current Liabilities total \$28.6 million, which are anticipated to be paid out of unrestricted and restricted assets.
- ii. Debt.* As of June 30, 2012, LA/ONT had two series of bonds outstanding, the Refunding Revenue Bonds, Series 2006A (Tax-Exempt) (AMT) and the Refunding Revenue Bonds, Series 2006B (Taxable). Currently the 2006A and 2006B have outstanding a total of \$70.6 million, a final maturity in 2026 and interest rates that range from 4.5 percent to 5.6 percent. Although LA/ONT and LAX's debt both appear on the Department's balance sheet, the two airports are distinct financial entities.

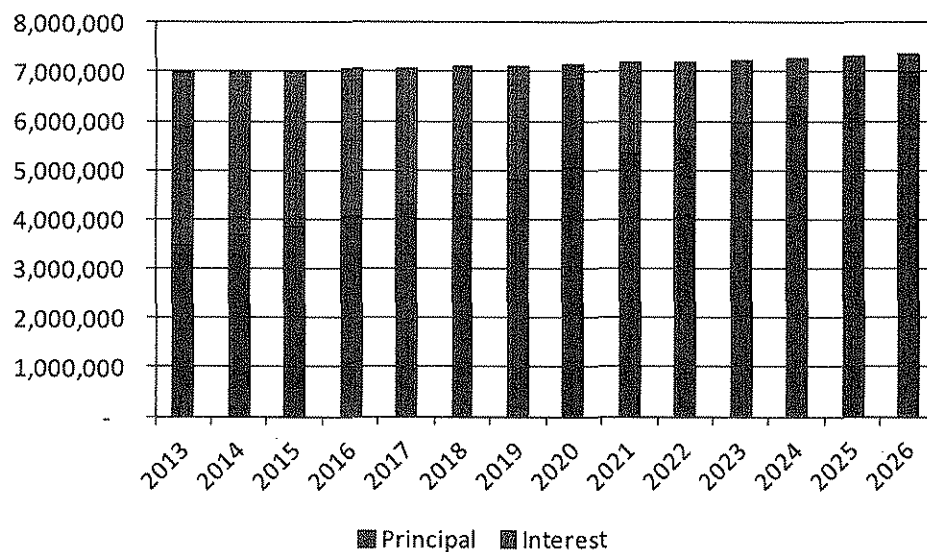
The outstanding LA/ONT bonds are a limited obligation of the Department, payable solely from and secured by a senior-lien pledge of revenues received from the Airport only. Pledged revenues include income from rates and charges, tolls, fees, rentals, charges and other payments, as well as amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the BOAC. Pledged revenues that are excluded unless designated under a supplemental indenture include

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swap termination payments, facilities construction credits, Passenger Facility Charges ("PFC") collected at the Airport, and all revenues of the Airport System not related to the Airport. The rate covenant requires net pledged revenues to be equal to at least 125.0 percent of aggregate annual debt service for that FY.

As can be seen in **Exhibit I-5 - LA/ONT's Annual Debt Service**, debt service is essentially level and approximates \$7.0 million per year.

Exhibit I-5 - LA/ONT Annual Debt Service (2013 – 2026)



- iii. *Pension/Other Post-Employment Benefits.* The City employees who are employed at Ontario participate in the Los Angeles City Employees' Retirement System ("LACERS"). The portion of the Unfunded Actuarially Accrued Liability that might be attributable to Airport employees for pension or Other Post-Employment Benefits ("OPEB"), if any, that may be attributable to the Airport cannot be determined through review of the LAWA CAFR. As of June 30, 2010, the Airport had 76.0 percent of its pension funded. The Airport's Net Pension Obligation is \$1.6 million, indicating the amount of the actuarially required contributions that has not been funded.

c. *Revenues and Expenses*

A brief overview of the Airport's financial results for FY 2011 is provided below. A detailed analysis of its financial operations and activity levels for FY 2011, and selected historical information is provided in II. **Analysis of the Airport's Historical Aviation Activity and Financial Performance.**

- i. *Revenues.* Revenues totaled \$67.2 million in FY 2011 and are broken into three main categories: Aviation (57.0 percent), Concession (40.6 percent), which is referred to herein as Non-Airline Revenues, and Other Operations (2.4 percent). Aviation revenues can be

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further broken down by landing fees, building rentals, land rentals and other aviation revenue.

- ii. *Expenses.* Operating expenses before depreciation totaled \$62.4 million in FY 2011. Operating expenses include salaries and benefits, contractual services, materials and supplies, utilities administrative charges and other operating expense. Depreciation equaled \$23.5 million and total operating expenses were \$85.9 million.

d. *Ontario International Airport Credit Ratings*

LA/ONT holds a credit rating on its outstanding bonds by the three major rating agencies Standard & Poor's, LLC., Moody's Investor Services, Inc. and Fitch, Inc. of A-/A3/A- respectively.

6. Overview of Proposal from City of Ontario to LAWA

In December 2011, the City of Ontario proposed to the City, through the Department, to transfer operations and fee title of the Airport to Ontario with the intent to:

- Return an economic asset to local control
- Further the concept of Southern California airport regionalization
- Increase passenger traffic
- Eliminate a potential conflict of interest
- Reduce freeway traffic congestion
- Allow the City and the Department to concentrate its efforts on LAX

The benefits/considerations for the City and LAWA from the Ontario proposal total approximately \$246 million include:

- Paying a \$50 million "Transaction Payment" from Ontario to the City
- Assumption of approximately \$71.0 million of outstanding LA/ONT bonded debt and any LA/ONT related financial obligations (cost to defease would approximate \$82.9 million)
- Potentially repaying \$125 million of prior PFC contributions to LAX with future LA/ONT PFCs
- Entering into an Employee Protection and Transition Service Agreement to protect existing employee compensation and benefits, including pension obligations
- Refraining from imposing any operating restrictions, caps, curfews, aircraft type bans on and any other barriers to future growth at LA/ONT
- Maintaining all current operating covenants for the Airport, as well as terminating or revising the original 1967 JPA

Upon discussion with Ontario's City Manager, the Acacia Team was provided with information concerning several potential funding sources that are anticipated to be legally available in a sufficient amount to make the \$50 million payment Ontario has offered to the City. Acacia reviewed the 2011 CAFR and determined that as of June 30, 2011 this assertion appears reasonable, given Ontario's overall financial position, however further investigation will be required to determine the exact funding sources that would be utilized.

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a. Overview of the City's Communications with the FAA

In April 2012, the CAO requested the FAA's view on, among other topics, the \$50 million proposed payment from Ontario to the City. Specifically, the CAO requested commentary on how the FAA would view the proposed payment if deposited in the City's General Fund, in the context of the "Written Assurances on the Use of Revenue" and "Restriction on the Use of Revenue" contained in 49 U.S.C. 47107(b) and 49 U.S.C. 47133, respectively (collectively the "Revenue Diversion" provisions).

In July 2012, the CAO and the Executive Director of LAWA met with representatives of the FAA to understand the process for seeking FAA opinions and to discuss the matters raised in the April 2012 letter. FAA representatives indicated that a written ruling could be obtained from the FAA based on the City providing the FAA with a legal opinion justifying why the proposed transfer would not be considered Revenue Diversion. In addition, FAA representatives indicated that the proposed payment from Ontario, if deposited in the City's General Fund, as outlined, would appear to represent a transfer made in conjunction with "the sale, disposition or transfer of airport real property," despite the assertion by Ontario that the payment would be made from non-airport revenues. The FAA would not provide a ruling without a legal opinion from the City.

II. Analysis of the Airport's Historical Aviation Activity and Financial Performance

A. The Regional Context for Ontario Airport

1. Introduction

An airport's traffic depends partly on the vitality of its community. In a large, multi-airport region, the market shares of the secondary¹ airports are particularly sensitive to intra-regional differences in demographics. Traffic volumes at certain airports become particularly volatile. Many of the problems facing LA/ONT result from the size and complexity of the Region's system of airports.

This section summarizes how the demographics and transportation facilities of the communities in the Region affect the recent performance and the future prospects for LA/ONT.

a. The System of Airports in the Los Angeles Region

Five airports offer scheduled services to the Region which include:

- LAX – serves the entire Region on both intra-California, domestic and international services
- BUR - serves the San Fernando and San Gabriel valleys
- SNA - serves Orange County, southeastern Los Angeles
- LGB - serves Long Beach and southern Los Angeles
- LA/ONT – serves the Inland Empire and the eastern portion of Los Angeles County

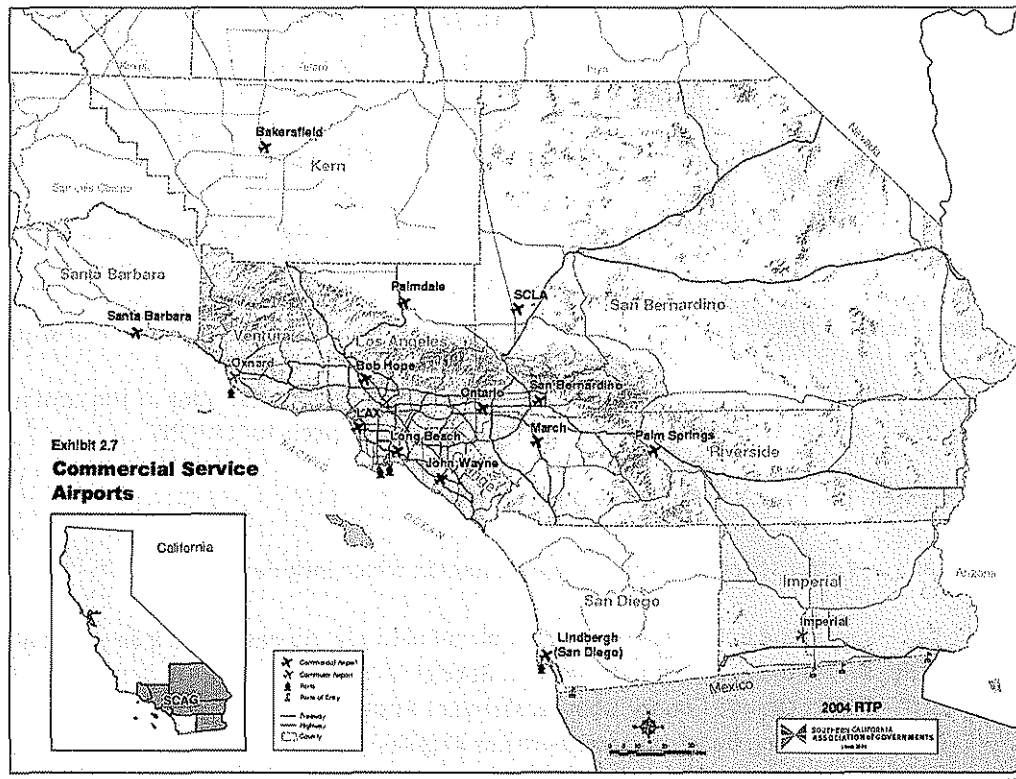
Exhibit II-1 - Map of Airports in the Los Angeles Region shows the location of each major airport in the Region. LAX remains the leading gateway to southern California and the western U. S. In 2011, it was the sixth busiest airport in the world and third busiest in the U.S. (after Chicago O'Hare and Atlanta Hartsfield)². LAX is particularly important as a gateway to the Far East. Additionally, it serves Europe, Australia, South America, Central America and the Middle East with non-stop flights. On domestic routes, LAX is served by most of the major domestic air carriers and is a focus city for United Airlines ("United"), Delta Air Lines ("Delta"), Alaska Airlines ("Alaska"), American Airlines ("American") and Southwest Airlines ("Southwest").

¹ This Report frequently refers to the LA/Ontario, Bob Hope, John Wayne and Long Beach airports as "secondary." They are considerably smaller than LAX, have fewer direct services, and serve relatively limited parts of the community. However, they handle very respectable volumes, and are considerably larger than the "primary" airports of most communities.

² Source: Airports Council International

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Exhibit II-1 - Map of Airports in the Los Angeles Region



Source: Southern California Association of Governments ("SCAG")

The four secondary airports in the Region receive a limited amount of scheduled departures and destinations compared to LAX. The four secondary airports receive primarily point-to-point flights for high volume destinations in the western and southwestern U.S. They also serve as spokes to the major hubs such as Denver, Dallas/Fort Worth, Chicago O'Hare and Chicago Midway. The four secondary airports also offer limited transcontinental flights.

JetBlue Airways ("JetBlue") chose LGB as its focus airport for its west coast operations after JetBlue launched service in 2000. LGB is therefore different in its traffic mix, fares and destinations than the other secondary airports in the Region because it developed its market presence as an airport that had very limited commercial air service. The other secondary airports in the region have a long history of commercial air service and multiple airlines serving them. JetBlue also serves LAX and BUR. JetBlue operated nonstop New York Kennedy-LA/ONT flights until 2008.

The Region currently faces important transportation policy and planning challenges. Airport capabilities, airport and airspace congestion, airspace conflicts, noise abatement limits, adequacy of surface transportation systems, formal limits on airport activity and other concerns are very important constraints within the Region which must be taken into consideration in framing the policy objectives of any transportation initiative. The roles of the

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Region's airports have amplified the importance of the demographics relating to LA/ONT. The Airport is not a hub and serves primarily as a gateway to the Inland Empire. If a weak regional economy suppresses outbound traffic or reduces the need for out-of-town residents to visit the Inland Empire, the Airport's traffic will suffer accordingly.

All air service provided at LA/ONT is available at LAX and usually with more frequencies and capacity. Passengers, even those living close to secondary airports, will often consider flights out of LAX and other secondary airports in the Region. Since LAX draws traffic from the entire Region and offers nonstop flights to the widest selection of destinations, it has by far the most diversified traffic base of any of the airports in the Region. Its traffic responds to regional and worldwide stimuli, but LA/ONT depends largely on the economic conditions of the Inland Empire.

The airlines must continually balance their product offerings and fares at each of the Region's airports to minimize self-diversion. They must also control costs to maintain an optimal traffic balance in the Region and the greatest profit margins. If an airline needs to reduce service to the Region for any reason, reducing or eliminating flights to LA/ONT and serving the Inland Empire through LAX is usually an option. An airline will be more inclined to discontinue services at LA/ONT than at an airport where no substitutes are available. Similarly, an airline may be less likely to inaugurate services at the Airport and invest high fixed costs to open a new station, even if the local economy and traffic improves. This has been seen in the LAWA system as recently as August 2012 when Allegiant Airlines stopped providing service on three routes and stated that it would not provide the services from LA/ONT due to its higher cost structure.

New entrant airlines did consider LA/ONT to be a secondary market. The economic and demographic profiles suggest that LA/ONT's traffic could be volatile and could be particularly susceptible to any economic cycles within the Inland Empire. If the Region's traffic decreases, carriers will be prone to reduce services at secondary airports such as LA/ONT. Should conditions improve, the airlines can accommodate incremental growth at the largest airports. Other airports in the region excluding LA/ONT have major constraints which include but are not limited to the following:

i. LAX (Los Angeles International Airport)

In 2005, the City agreed that no more than 163 gates could be constructed at LAX. According to the LAX Settlement Agreement, once LAX reaches 75 million annual passengers, a maximum of two gates will be closed each following year for a period of five years until a maximum of 153 gates by 2015. LAX entitlements provide a maximum of 153 gates, and this entitlement lasts until changed by amendment to the LAX Master and LAX Specific Plans. According to the FAA Terminal Area Forecasts ("TAF"), the level of 75 million passengers is expected to be reached in 2020. In exchange, several parties dropped civil lawsuits and allowed the City to proceed with airport improvements.

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ii. *SNA (John Wayne Airport, Orange County)*

Based on the 2003 amendment, Orange County established a maximum of 85 daily departures for passenger flights, and an annual passenger limit of 10.8 million through 2015, with a maximum of 20 loading bridges at SNA. Other sections of the 2003 amendment restrict the floor space of the terminal and departure lounges and the number of spaces in the parking garage.

iii. *LGB (Long Beach Airport)*

A noise control ordinance approved in the 1990s requires LGB to limit scheduled airline flights. Presently, it can accommodate 41 arrivals and associated departures of aircraft exceeding 75,000 pounds of certified maximum landed weight and 25 arrivals/departures of aircraft smaller than 75,000 pounds. While all large aircraft slots are used, 16 small aircraft slots remain dormant.

iv. *BUR (Ryan Carter Bob Hope Burbank Airport)*

The Burbank-Glendale-Pasadena Airport Authority that currently operates BUR has no expansion plans on file with the FAA. BUR is adjacent to affluent communities that would likely resist any attempts to increase capacity.

2. **Regional Demographics**

Key demographic variables within the Inland Empire and the Region exert influence over the traffic growth and volatility of the Airport.

a. *Population*

Appendix C – Population of Selected Areas of California, CY 1990 – CY 2010 provides detailed population statistics for the period between CY 1990 and CY 2010 inclusive. **Exhibit II-2 - Population Trends for the Region CY 1990 – CY 2010**, summarizes State of California ("State") and Regional population statistics for specified years.

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Exhibit II-2 - Population Trends for the Region - CY 1990 – CY 2010

CY	California	Los Angeles County	Orange County	Riverside County	San Bernardino County	Inland Empire
1990	29,959,515	8,878,157	2,418,986	1,193,156	1,437,315	2,630,471
2000	33,987,977	9,538,191	2,854,513	1,558,985	1,718,037	3,277,022
2005	35,827,943	9,786,373	2,940,055	1,931,785	1,943,924	3,875,709
2006	36,021,202	9,737,955	2,932,261	2,012,370	1,974,140	3,986,510
2007	36,250,311	9,700,359	2,931,629	2,075,183	1,992,161	4,067,344
2008	36,604,337	9,735,147	2,957,593	2,109,712	2,003,735	4,113,447
2009	36,961,229	9,787,400	2,987,177	2,146,725	2,013,960	4,160,685
2010	37,338,198	9,826,773	3,017,598	2,202,978	2,042,027	4,245,005

Source: U.S. Department of Commerce, Bureau of Economic Analysis

In CY 2011, the population of the two Inland Empire counties (San Bernardino and Riverside) accounted for 43.2 of the population of Los Angeles County.

Exhibit II-3 - Population Trends: Compound Annual Growth Rates CY 1990 – CY 2010 summarizes recent growth patterns for the State and the Region. Between CY 1990 and CY 2007, the annual population growth rates for the Inland Empire substantially exceeded those of Orange County, Los Angeles County and the State. The high growth rate for the period between CY 2000 and CY 2007 poses a mixed benefit for LA/ONT. The increasing population was conducive to traffic growth, however, to the extent that the population growth was the product of immigration, new home construction and sub-prime mortgages, said growth increased the Airport's vulnerability to the economic downturn that began in the Inland Empire in 2007.

Exhibit II-3 - Population Trends: Compounded Annual Growth Rates CY 1990 – CY 2010

State/County	1990-2000	2000-2007	2007-2010	2000-2010
California	1.27%	0.92%	0.99%	0.94%
Los Angeles County	0.72%	0.24%	0.43%	0.30%
Orange County	1.67%	0.38%	0.97%	0.56%
Riverside County	2.71%	4.17%	2.01%	3.52%
San Bernardino County	1.80%	2.14%	0.83%	1.74%
Inland Empire	2.22%	3.13%	1.44%	2.62%

Source: U. S. Department of Commerce, Bureau of Economic Analysis and AXIS Consulting, Inc.

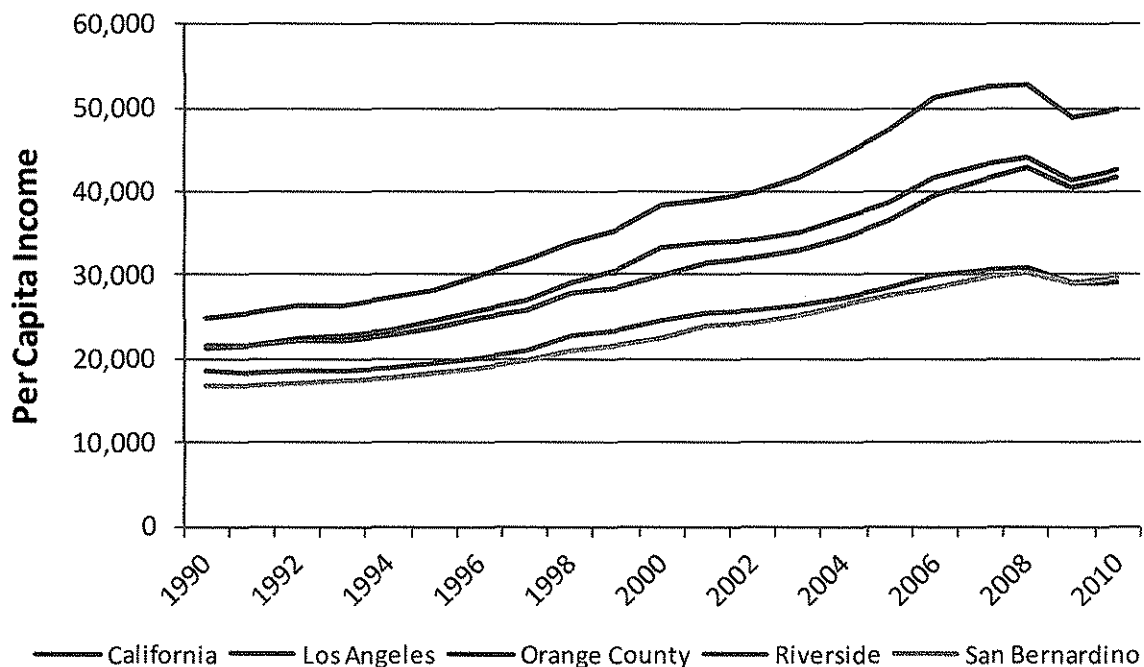
b. Nominal Per Capita Incomes

Personal incomes for residents of the Inland Empire have consistently lagged behind those of other cities of the Region. **Appendix D – Nominal Personal Incomes of Selected Areas of California, CY 1990 – CY 2010** provides data for Region and the State for the period of CY 1990

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until CY 2010. **Exhibit II-4 - Nominal Per Capita Incomes for the Region CY 1990 – CY 2010** compares nominal (unadjusted for inflation) personal incomes for the counties of southern California and the State as a whole. Orange County is by far the most prosperous in the area. Average personal income for Los Angeles County was slightly lower than the State average. Incomes for Riverside and San Bernardino Counties were the lowest of the Region. In CY 2009, they were 25.0 percent lower than the income for Los Angeles County.

**Exhibit II-4 - Nominal Per Capita Incomes for the Region
CY 1990 – CY 2010**



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exhibit II-5 - Per Capita Personal Income Trends: Compounded Annual Growth CY 1990 – CY 2010 summarizes regional trends for the growth of nominal income. It shows that the income gap for the Inland Empire has widened since 1990. Riverside County had the slowest growth in per capita nominal income in all periods. San Bernardino County had the second-lowest growth for the period between CY 1990 and CY 2000. In the period between CY 2000 and CY 2007, it grew faster than the per capita income for the State, but still underperformed both Los Angeles County and Orange County.

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**Exhibit II-5 - Per Capita Personal Income Trends: Compounded Annual Growth
CY 1990 – CY 2010**

State/County	1990-2000	2000-2007	2007-2010	2000-2010
California	4.56%	3.75%	-0.54%	2.44%
Los Angeles County	3.32%	4.72%	0.42%	3.41%
Orange County	4.39%	4.54%	-1.60%	2.66%
Riverside County	2.86%	3.27%	-1.65%	1.77%
San Bernardino County	2.92%	4.00%	-0.18%	2.73%
Inland Empire	2.91%	3.66%	-0.94%	2.26%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The Inland Empire collectively experienced lower income growth than the other parts of the Region. During the CY 2007 to CY 2010 period, Riverside County suffered a stronger contraction than other parts of the Region or the State as a whole. San Bernardino County experienced a relatively mild reduction in nominal per capita income.

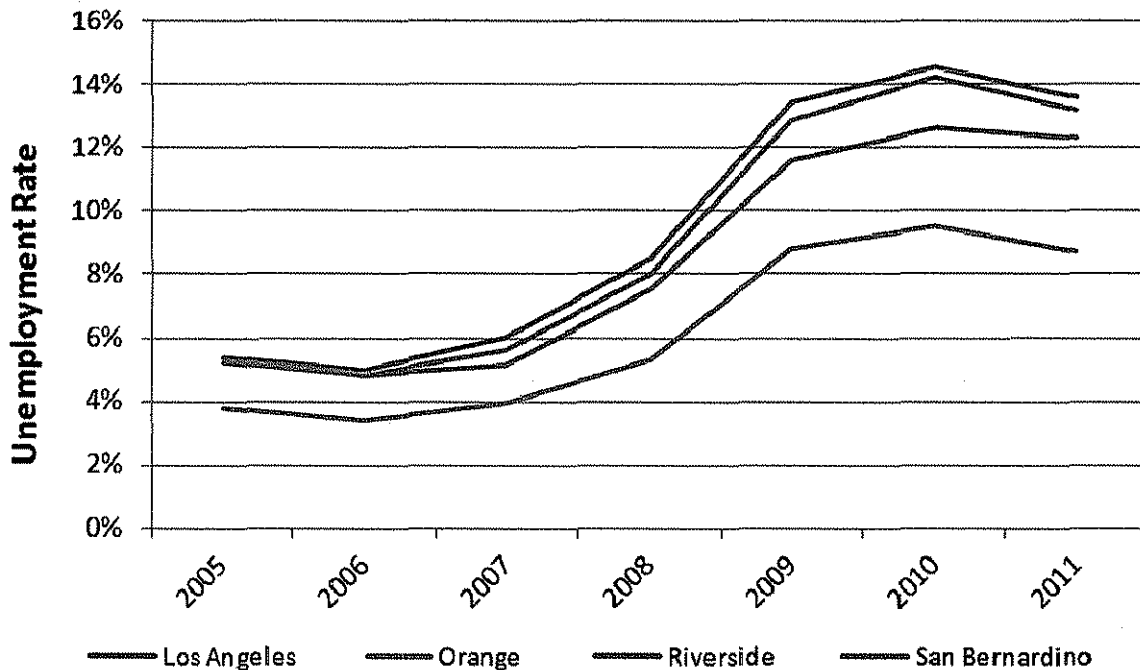
The Inland Empire as a whole saw a greater income drop than the State, but a smaller reduction than that of Orange County. Over the full CY 2000 to CY 2010 period, San Bernardino County had stronger growth than the State or Orange County, but slower growth than Los Angeles County. The annual growth for Riverside County was more than half a percentage point less than the other areas shown. The average personal income for the Inland Empire collectively grew at 0.4 percent per year less than that of Orange County and over one full percentage point less than that for Los Angeles County. It lagged the growth of the State as a whole by 0.18 percent per year.

c. Unemployment

Exhibit II-6 – Unemployment Rates for the Counties of Los Angeles Region CY 2005 – CY 2011 summarizes recent patterns of unemployment for the four counties comprising the Region. The graph shows that Riverside and San Bernardino Counties had consistently the highest unemployment rates for the period between CY 2005 and CY 2011. The two Inland Empire counties track each other closely throughout the period.

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Exhibit II-6 - Unemployment Rates for the Counties of the Los Angeles Region, CY 2005 – CY 2011



Source: Bureau of Labor Statistics

Unemployment rates increased after the 2007/2008 financial crisis. In CY 2010, rates for the Inland Empire counties exceeded 14.0 percent, almost 2.0 percentage points higher than those for Los Angeles County and nearly 5.0 percent higher than those for Orange County.

d. Summary of Demographics of the Inland Empire

- Since 1990, population growth has widely exceeded that of other counties in the Region
- Per capita incomes are significantly lower than those for other parts of the Region
- Unemployment rates, whether in an expanding or declining economy, are uniformly higher than those of Orange County and Los Angeles County
- Compared to other counties of the Region, it has very high rates of delinquent mortgages and foreclosures

The Inland Empire high foreclosure and unemployment rates make it especially vulnerable to the 2007/2008 mortgage/financial crisis and the ensuing economic downturn. Since LA/ONT primarily serves the Inland Empire, it is particularly sensitive to any local demographic issues. Other airports, particularly LAX, serve a much wider region and consequently have a more diversified and less risk-averse traffic base. These weaknesses make secondary airports in the Region such as LA/ONT especially vulnerable in any downturn and contribute to the high

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volatility of its traffic. The unfavorable local demographics, together with the difficult circumstances of the airline industry nationwide, pose large but manageable challenges for the Airport.

The demographic concerns, however, must be placed in perspective. The traffic at the Airport already reflects the Inland Empire's weak socioeconomics. The high population growth was a result of recent immigration. The high unemployment rates are the product of the slow economy that followed the foreclosure/financial crisis. The high rates of distressed mortgages testify to an ambitious population seeking upward mobility and the willingness of lenders to assume risk. The housing markets will continue to improve as the foreclosure issues are resolved. The demographic variables, which contributed to the CY 2007 to CY 2011 traffic decline, could, as the Region's economy revives, help stimulate new growth at LA/ONT.

B. The Airline Industry and Air Traffic at the Ontario Airport

1. Introduction

Most airports in the U.S. have had to adjust to the inherent uncertainties and structural problems of the airline industry. Many cities have lost hub carriers as the result of mergers, network rationalization or airline failures. Others must cope with heavy traffic "leakage" to nearby airports. Traffic volumes show wide variations, especially since CY 2001.

The uncertainties in the airline industry have greatly complicated airports' long term planning processes. Since airports generally operate on a cost recovery basis, as does LA/ONT under its ULA, they often lack the resources to cope with any unforeseen drop in traffic. They then must raise their rates, spreading their costs over a smaller base of operations. The higher rates and charges often prompt further retrenchment by the remaining carriers.

This section examines the economics of the airline industry. Many factors, such as liberalization, growth of low cost carriers, strategic alliances, changes in ticket distribution practices, new technologies and increased outsourcing are rapidly transforming the industry. This section considers only those factors of greatest relevance to LA/ONT. These include the industry's low profitability, the declining use of the smallest regional aircraft, industry consolidation and new entrants. The other trends, while important to all airports, have no specific and unique relevance to the Airport.

a. Poor Profitability

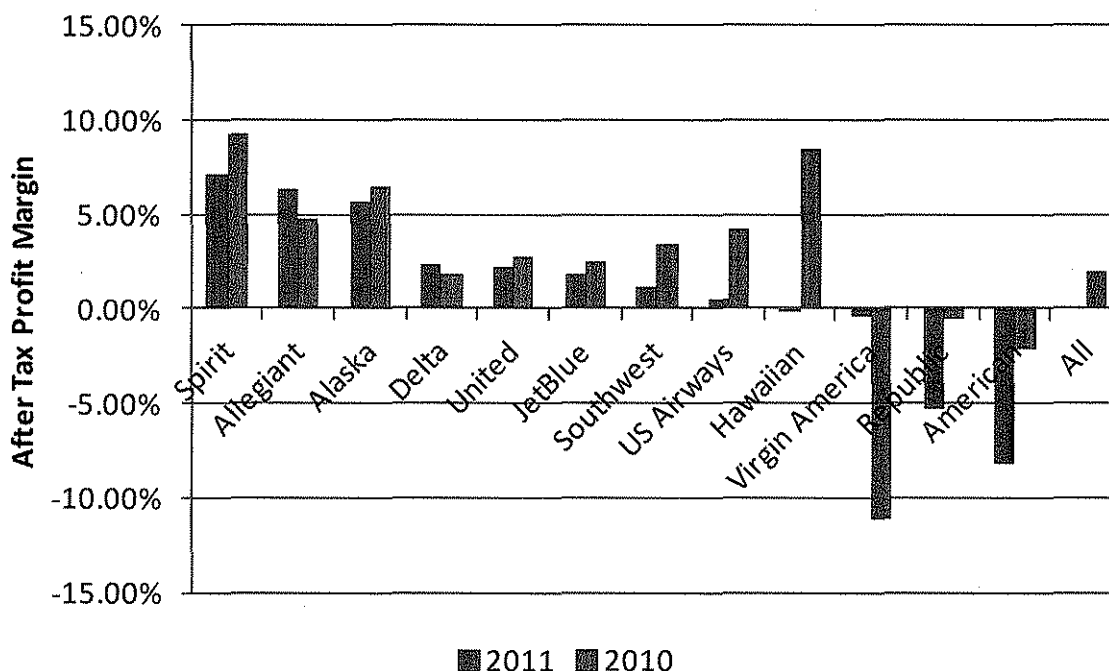
The performance of an airport depends partly on the strength of the airline industry. While both airlines and airports must make investments and incur costs for a particular service, the airline's financial stake is usually much larger. A strong and profitable airline industry can test new services, fund marketing campaigns, wait for new underperforming routes to become profitable and withstand temporary economic downturns.

The U.S. airline industry has been highly unprofitable, particularly since CY 2000. In the period between CY 2000 and CY 2011, CY 2006 was recorded as the strongest financially for the

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airlines, with an 11.0 percent net margin after taxes³. In 2005, the net margin was a negative 18.0 percent and in CY 2008 it was negative 12.8 percent. In the past 12 years, seven of them have been unprofitable for the airlines. **Exhibit II-7 - Airline After-Tax Profits as a Percentage of Total Revenues, CY 2010 and CY 2011** compares the margins of the major airlines for 2010 and 2011.

Exhibit II-7 - Airline After-Tax Profits as a Percentage of Total Revenues, CY 2010 and CY 2011



Source: Corporate 10-K submissions

Several factors contributed to the poor performance of the airline industry:

i. Competition

A passenger flying from North America to Europe can choose from numerous scheduled and charter airlines. Airline mergers and alliances have reduced consumer choices, but passengers still have a range of options. Deregulation and other market liberalization measures have strengthened competition. Price remains by far the most important criterion in a passenger's choice of air carrier.

ii. Internet Sales

Prospective passengers can now evaluate multiple airline choices and flight routings, comparing each according to fare, convenience and other factors. Few goods or services can

³ Source: Air Transport Association from data assembled by the United States Department of Transportation, Form 41

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be compared as easily and as quickly. The current distribution systems have strengthened price competition and have provided air travel most of the attributes of an undifferentiated commodity.

iii. Homogeneous Airline Products

Although most airlines have differentiated their high yield products with premium seating, frequent flyer plans and other measures, price alone remains the single most important determinant of carrier choice. Airlines have a limited ability to design their products to command any premium.

iv. Sensitivity to External Shocks

Airline traffic is very sensitive to external events such as 9/11 and the economic shocks of 2007/2008. Since airlines are a cash-intensive business, any interruption in revenues can have rapid consequences.

v. No Inventory

Unlike goods producers, airlines cannot store their products in inventory. Inventories help producers cushion against unexpected changes in demand. They indicate any changes in market conditions and help producers adjust their production accordingly. Inventories, and the information that they convey, help eliminate the need to adjust to changes through lowering the price.

vi. Fluctuation of Oil Prices

Airlines purchase large quantities of petroleum products. These have very volatile prices. Airlines can partly insulate themselves through hedging, but forward contracts carry risks of their own.

vii. Difficulty Adjusting to Market Conditions

Any long-term change in traffic may be concealed by weekly or seasonal fluctuations or reactions to events unrelated to aviation. Once the airline has recognized the new conditions, it can only react slowly. To implement network-wide changes, it must go through the complexity of readjusting its schedule. With so many of its fixed costs tied to contractual agreements and by technology, it cannot cut its expenses as rapidly as other businesses. With so many seats to sell in a declining market and the inability to put excess capacity in inventory, the carrier will often reduce its price. With most of its short-term costs fixed, an airline has an incentive to reduce its fares. However, the competition will match the fare decrease causing the carrier's unit revenues to fall and consequently exacerbating any decline in traffic. Even passengers who would have flown despite the decline will receive windfall benefits of lower fares. This discounting will continue until capacity is brought into line with the lower volume of traffic.

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viii. New Entrant Carriers

A new entrant airline faces many obstacles, particularly in the predatory response to pricing and network realignments of the incumbent carriers. Most new entrants fail, however, the airline industry has many examples of successful new entrants in the past 20 years including AirTran Airways, JetBlue, Spirit Airlines, Allegiant Air, Ryanair, Virgin Atlantic Airways, Virgin America and Gol Lineas Aereas. The new entrant carriers have much lower costs than the legacy airlines and have consequently driven fares to levels that are not profitable for the incumbents.

Most of these problems ultimately prevent airlines from controlling their unit revenues. They are unable to maintain fares at profitable levels. Low fares have helped them boost traffic volumes, but the problems of a profitless growth remain.

Poor airline profitability affects every U.S. airport. Serving an airport can involve large fixed costs for staff and contractual expenditures with the airport. Carriers, especially those suffering poor earnings, are usually reluctant to open new stations, particularly when they already serve other regional airports. The need to serve the Inland Empire has overcome these obstacles for the airlines that have established stations at the Airport despite their services to other airports in the Region. However, the desire not to open new stations may have affected the decisions of JetBlue and Air Canada to discontinue scheduled flights at LA/ONT.

The low industry profitability will make airlines reluctant to serve new destinations from LA/ONT, particularly if they already offer parallel services from other airports in the Region. They will be particularly concerned about diverting traffic from existing flights or diluting their yields. They will require that any new services attain instant profitability.

b. Declining Use of Regional Jets

Regional jets and turboprop aircraft have allowed many airports of all sizes to obtain new direct air services. Their direct operating costs per flight are much lower than the traditional 120-180 seat narrow body aircraft. Many routes with insufficient traffic for large aircraft can generate enough revenues for a 50-seat regional jet to be profitable. The regional jets have supported a wide range of hub-based and point-to-point services.

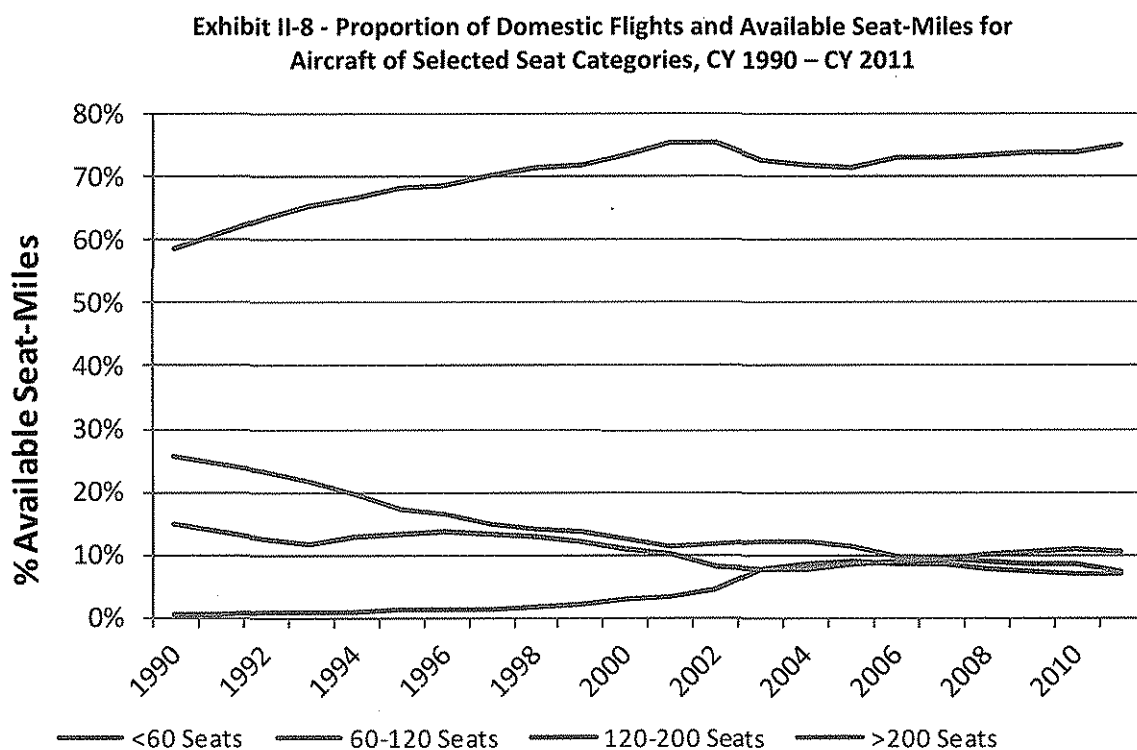
In CY 2010, 19-60 seat regional aircraft accounted for 15.1 percent of LA/ONT scheduled departures and carried 4.4 percent of its passengers. They operate Delta's route to Salt Lake City, United's to San Francisco among other services. They allow the Airport to receive sufficient frequencies to remain competitive with LAX despite the lower total capacity.

The 19-60 seat aircraft are becoming increasingly uneconomical. They are approximately 40.0 to 60.0 percent less fuel efficient than narrow body jets. The continuing increases in the price of jet fuel have been detrimental to the economics of small aircraft. Most airlines purchase commuter aircraft capacity from independent operators such as Mesa Airlines and Skywest Airlines and negotiate numerous terms and conditions. These arrangements have reduced but

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not eliminated the pressures of escalating crew costs. Additionally, regional jets lack many of the engineering efficiencies of narrow body aircraft making them expensive to maintain. In CY 2012, Delta announced plans to reduce the number of 50-seat regional jets in its network from 350 aircraft to fewer than 125. In July 2012, it announced that it would close its wholly-owned regional carrier subsidiary Comair, once its largest regional carrier.

Exhibit II-8 - Proportion of Domestic Flights and Available Seat-Miles for Aircraft of Selected Seat Categories, CY 1990 – CY 2011 summarizes two decades of fleet evolution on domestic routes. It shows the percentage of passenger aircraft departures and available seat-miles provided by different categories of aircraft.



Source: U.S. DOT Database 28DS

Exhibit II-8 - explains several recent trends:

- Aircraft of less than 60 seats saw an increase in usage after CY 2001. They allowed the airlines to maintain high frequencies during traffic slump that followed 9/11 and the invasion of Iraq.
- After CY 2007, the popularity of aircraft less than 60-seats declined. The recession made passengers more price sensitive, forcing airlines to manage their operating costs more aggressively. Regional jets are particularly vulnerable to high fuel costs.

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- Domestic carriers have steadily reduced flying wide body aircraft such as the Boeing 777 and the Boeing 767 on domestic routes, shifting the aircraft to international service or disposing of them. These aircraft once dominated most transcontinental routes.
- From CY 1990 to CY 2004, airlines progressively retired 60-120 seat aircraft such as the earliest versions of the McDonnell Douglas DC-9s and Boeing 737s, Fokker F-100s and British Aerospace BAe-146s. The trend reversed in CY 2004, and these aircraft have become increasingly popular. Both Bombardier and Embraer have been supplying large quantities of 70 and 90 seat aircraft and unlike the earlier equipment, these new aircraft types have been redesigned to be lighter, fuel efficient and fly routes of over 2,500 miles.
- The 120-200 seat aircraft such as the Airbus A319/320 and the newest Next Generation Boeing 737s remain the most utilized aircraft on domestic routes. Between CY 2000 and CY 2003, their share of total departures fell steeply, as regional jets of less than 60 seats took over flying on many short routes. Their share of total available seat-miles grew because they were increasingly deployed on transcontinental routes. They had originally been used on short intercity services. The 60-120 seat aircraft also saw growing available seat-miles and slowly growing total departures. The two sizes of aircraft were competing on many relatively long domestic routes.

Despite the low data points shown on the above graph, most airlines consider 50-seat regional jets and 19-50 seat turboprop aircraft increasingly marginal. Indeed, some carriers even view 70-seat regional jets as the minimum size aircraft for domestic routes, and even they are difficult to fly profitably.

The declining use of 19-60 seat regional jets is a challenge for many airports. Those that cannot support a larger aircraft could suffer a reduction in schedule air services. The declining use of 19-60 seat regional jets has greatly reduced the scope for low volume services throughout the nation. The small regional aircraft remain most active on high fare routes, where a local monopoly allows the airline to price its services at a premium. The Region is a highly competitive market and generates large quantities of passenger traffic. The airlines make extensive use of narrow body aircraft and set their fares so that these aircraft can operate profitably. The fares tend to be insufficient to support 19-60 seat regional aircraft. The airlines serving LA/ONT must keep their prices in line with those at LAX or risk losing passengers. This means that fares at the Airport are generally too low for the smallest regional jets.

The poor economics of regional jets is increasingly reflected in the airlines' schedules at LA/ONT. United's flights from LA/ONT to its hubs at San Francisco International Airport and Denver International Airport now use a mix of 50-seat and 70-seat regional jets. Delta follows a similar approach for its flights to Salt Lake City. As traffic grows, the airlines will likely phase out their smallest regional jets. They will maintain current frequencies, but rely primarily on 70-seat regional jets and larger aircraft. The prospects for new, low volume point-to-point services of the type offered by ExpressJet from the period of CY 2007 to CY 2008 will remain unlikely to be replicated. Nonstop flights to currently un-served hubs such as Minneapolis-St. Paul,

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Chicago O'Hare, Detroit and Charlotte will require traffic volumes sufficient for 120-150 seat narrow body aircraft rather than 70-90 seat regional jets.

c. Airline Mergers

The sustained losses of the airlines have encouraged new merger activity. A major goal of many mergers has been to eliminate redundant hubs and flights. By reducing capacity, the surviving airlines hope to boost fares and restore profitability. **Exhibit II-9 - Recent Airline Merger Activity**, lists recent mergers excluding those involving purely regional airlines which operate on a pay-per-flight basis for the majors.

The Chapter 11 bankruptcy of American in November 2011 could likely result in a further consolidation of the U.S. airline industry. US Airways has taken many actions to initiate a merger. It is uncertain at the present time if the U.S. Department of Justice ("DOJ") would approve this merger, should it move forward.

Exhibit II-9 - Recent Airline Merger Activity

Predecessors	Current Airlines	Date of Merger Approval
America West, US Airways	US Airways	2005
Delta, Northwest	Delta Air Lines	2008
Republic, Midwest, Frontier	Republic	2009
United, Continental	United	2010
Southwest, AirTran	Southwest	2011

Source: AXIS Consulting, Inc.

If the merger is approved, US Airways and American will accomplish their objectives of reducing capacity and raising fares, as the mergers will suppress growth of air traffic. As the industry becomes more oligopolistic, the airlines will become increasingly interdependent. Each airline will closely monitor the actions of its rivals and duplicate any actions that they may take. Airlines will be less inclined to offer new incentive fares or inaugurate new services. The intensity of competition could see a decline as the newly merged carriers eliminate redundant flights and/or hubs. For example, if US Airways acquires American, it might optimize the overlapping hubs at Phoenix Sky Harbor International Airport and Dallas/Fort Worth International Airport.

Recent mergers have reduced the level of competition at LA/ONT. As the airlines optimize their networks, several potential routes such as Delta providing service from Memphis or Cincinnati to LA/ONT become financially unfeasible. Additionally, the mergers could reduce the prospects of restoring nonstop services to the east coast as the airlines become more conservative about adding capacity.

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d. *New Entrant Carriers*

Despite the high barriers to entry, Virgin America, JetBlue, Allegiant Air, Frontier Airlines and Spirit Airlines have all successfully started and grown their services since 1990. New entrants with high levels of funding such as DirectAir, MarkAir, AccessAir, Skybus, Great Plains Airlines, ATA, Trans Meridian Airlines, Midway Airlines, Legend Airlines, ProAir, Vanguard Airlines, Air National, ExpressJet and Independence Air have failed.

A new entrant can greatly stimulate traffic, particularly at its primary operating base. As airline mergers continue and the industry becomes more concentrated, opportunities may emerge for new entrants. However, incidents of new carriers starting services will remain relatively rare. The new entrants will require large quantities of capital and must overcome strenuous competition from the incumbents. Most will fail. Any analysis of the future of the LA/ONT airport should therefore discount any effects from new entrants.

e. *ExpressJet*

Originally, the major airlines managed their commuter operations as internal divisions or wholly-owned subsidiaries. However, these relationships gave the regional carriers the high costs of the senior airline. Most airlines have divested of their regional airlines in preference of purchase capacity agreements. The regional airline provides the aircraft, crew and many ground servicing functions. The major airline specifies its schedules, sells their inventory and provides marketing under their name brand in return for paying a fixed rate per flight. Depending on the negotiations, the regional jets are usually painted in a similar scheme as their partner carrier. One mainline carrier can purchase services competitively from several regional airlines, and regional carrier can serve several mainline operators.

In CY 2002, Continental Airlines ("Continental") divested of its wholly-owned regional carrier, ExpressJet, which operated under the brand name Continental Express. Continental and ExpressJet then negotiated a pay-per-flight regional feeder agreement. This relationship provided most of Continental's regional flights, and was critical to ExpressJet.

In December 2005, Continental announced that it was reducing its purchased flying from ExpressJet by 69 aircraft. This large reduction prompted ExpressJet to re-evaluate its business plan. While it could (and did) sell its services to other airlines, the process of obtaining new contracts from other carriers was slow and ExpressJet was not financially able to sustain dozens of parked aircraft. In 2006, ExpressJet decided to operate the aircraft independently and established a charter division. On February 5 2007, it announced the establishment of a regional airline, using 42 aircraft. On April 2, 2007, it inaugurated point-to-point services to cities in the southwest, west and midwest. While it had no hub, LA/ONT was its largest center of operation.

ExpressJet discontinued its independent scheduled services in September 2008. Its regional jets had high operating costs and the inauguration of its services coincided closely with the onset of the financial crisis and a nationwide contraction of air traffic. **Exhibit II-10 - Impact of ExpressJet Failure on Ontario Airport Passenger Traffic Growth Rates**, shows how ExpressJet's

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services affected traffic growth at the Airport. ExpressJet accounted for 29.1 percent of the traffic decline for the period between CY 2008 and CY 2009.

**Exhibit II-10 - Impact of ExpressJet Failure on Ontario
Airport Passenger Traffic Growth Rates**

CY	With ExpressJet	Without ExpressJet
2006	-2.3%	-2.3%
2007	2.2%	-3.7%
2008	-13.5%	-14.0%
2009	-21.6%	-16.3%
2010	-1.6%	-1.6%
2011	-5.3%	-5.3%

Source: U.S. Department of Transportation Report 28DM

ExpressJet, like many new entrants, did not make it as a standalone airline. Many new entrants have overambitious business plans and inadequate capital. New entrants often overestimate the profitability of the industry and underestimate the barriers to entry. ExpressJet was not a typical new entrant. The airline was aware of the challenges in airline economics but had limited experience in product development, planning and marketing. Continental's reduction in contract flying forced ExpressJet to either launch a scheduled air carrier or park 69 highly leveraged working aircraft.

The ExpressJet episode accounts for a significant part of the recent traffic decline at LA/ONT. It illustrates how new entrants, the inadequate profitability of the airline industry and the worsening economics of regional jets have contributed to the volatility of air traffic at the Airport. These problems, when superimposed to the Inland Empire's weak demographics, increase the variability of traffic and prompt many members of the community to question the basic mission of the Airport. However, ExpressJet faced an urgent need to develop new sources of revenue. That it chose the Airport as its primary base shows that the industry does view it as offering air service opportunities for growth. That portion of the traffic decline attributable to ExpressJet does not reflect on the Airport and is in no way related to the fundamental issues facing the Airport today.

C. Passenger and Cargo Traffic at LA/Ontario International Airport

1. Introduction

This section summarizes recent trends in passenger and cargo traffic at the Airport. Recent traffic declines have focused community attention on the ownership, management and future role of the Airport. This section examines recent market trends and quantifies the areas of greatest concern. Several of these elements of particular importance to LA/ONT include:

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a. *Weak Demographics*

A weak economy in a region already suffering from low personal incomes, high unemployment and high distressed mortgage rates could force households facing hardships to curb their travel drastically. More wealthy households could afford to continue traveling.

b. *The Regional Airport System*

LA/ONT is one of five large scheduled service airports serving the LA Basin. If traffic is weak, the airlines may cut all services to the secondary airports, and serve the displaced passengers through LAX.

c. *The Lack of Airfield Restrictions*

LA/ONT does not have runway operations restrictions. Carriers owning slots at restricted airports such as SNA or LGB may be reluctant to eliminate flights even if traffic has fallen. The slots have a "use it or lose it" provision and a carrier forfeiting a slot may be unable to reacquire it when traffic strengthens.

d. *New Entrant and Low Cost Carrier Activity*

The State has many dense inter-city markets. A new entrant can launch point-to-point services and does not need the large hubs, diversified fleets, commuter feeder networks and frequent flyer plans of a legacy carrier. New entrants and low cost carriers have tended to be particularly active in California. Examples include Pacific Southwest Airlines ("PSA"), Air Cal, Reno Air, ExpressJet and Southwest (which started large scale intra-State services soon after domestic deregulation). New entrants can stimulate traffic, but any retrenchment can cause a similarly large drop.

e. *Many short-Haul Markets*

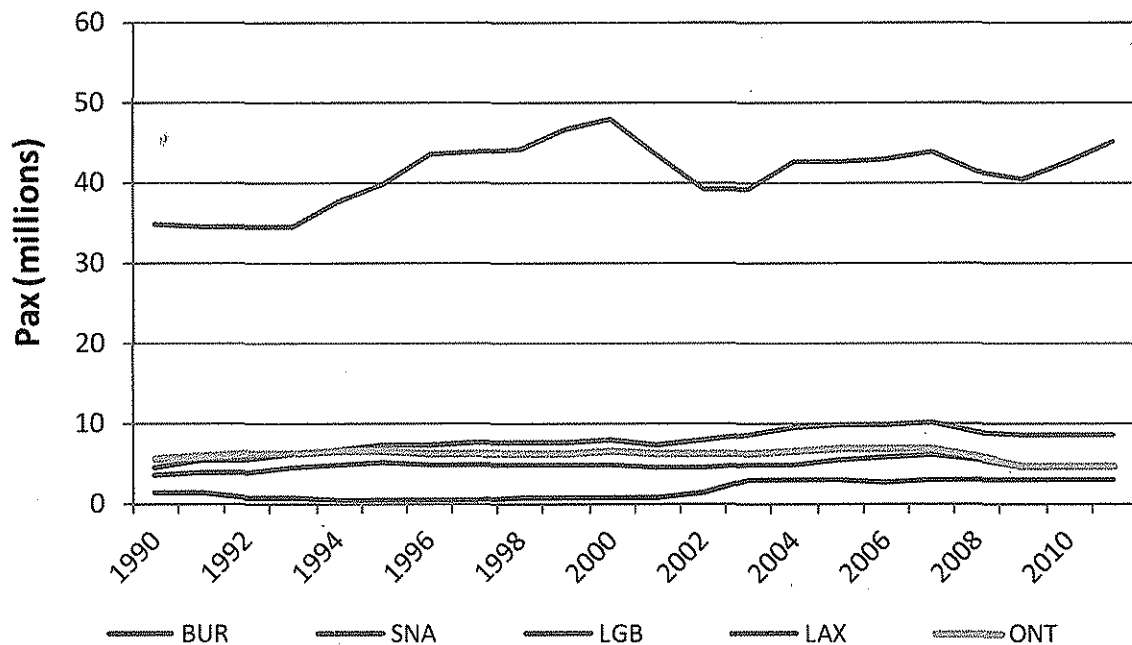
The airports of the Region including LA/ONT, have many short distance high volume city-pair markets involving San Francisco, San Jose, Oakland, Sacramento, Las Vegas and Phoenix. Since 2001, many short distance markets throughout the nation have seen static or declining traffic.

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f. Total Traffic for Greater Los Angeles

Exhibit II-11 - Historical Domestic Passenger Traffic for Los Angeles Region Airports (CY 1990 - CY 2011) summarizes recent domestic traffic volumes for the Region.

Exhibit II-11 - Historical Domestic Passenger Traffic for Los Angeles Region Airports (CY 1990 - CY 2011)



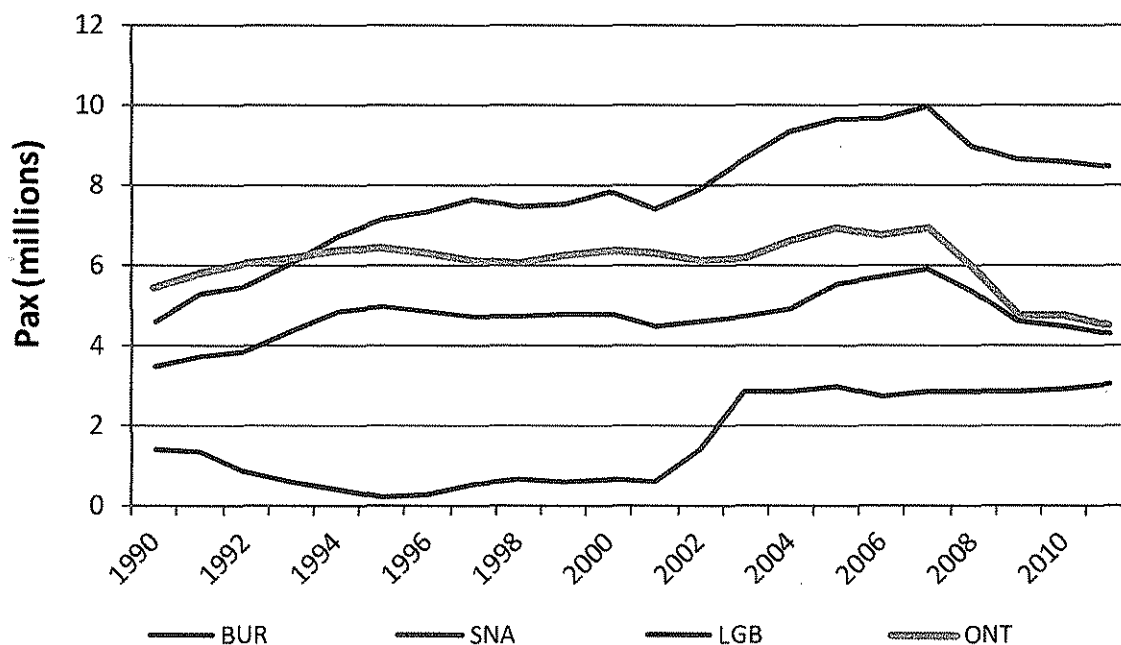
Source: United States Department of Transportation Database 28DM

Overall domestic traffic for the Region throughout the period of CY 1990 until CY 2011 grew 1.2 percent. Large declines followed the terrorist attacks of 9/11 and the financial crisis of 2007/2008. LAX continued to grow after CY 2008, though it has yet to attain its high traffic level achieved in CY 2000.

During this period, international traffic saw strong growth. The LAX total includes domestic passengers connecting to international flights. The other airports did not have this strong backup support. **Exhibit II-12 - Total Domestic Passenger Traffic, All Airports except Los Angeles International Airport, CY 1990 - CY 2011** examines the four "secondary" airports in the Region.

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Exhibit II-12 - Total Domestic Passenger Traffic, All Airports except Los Angeles International Airport, CY 1990 – CY 2011



Source: T100 Domestic Passenger Traffic from U.S. DOT Database 28DM

LGB benefited from the growth of JetBlue after 2001. The airline adopted LGB as a west coast "focus city." Traffic at LGB has, however, remained largely stagnant since CY 2003. To limit aircraft noise, the airport has strict limits on activity. JetBlue has tended to develop at the other airports in the Region. The three other airports in the Region have all experienced declines since CY 2008. LA/ONT saw the greatest decline of 35.5 percent between the period of CY 2007 and CY 2011.

Both LGB and SNA have slot controls. During a downturn, an airline may be unwilling to reduce capacity at a slot-controlled airport. Most such airports follow a "use it or lose it" rule and would quickly reassign the slots if an incumbent reduced operations. The previous holder of the slots would have great difficulty reacquiring any vacated slots in the future. Access to SNA in particular has always been coveted by the airlines. The airport serves a very affluent community, and the shortage of slots constrains the supply of capacity, thereby increasing ticket prices.

Exhibit II-13 - Los Angeles Region Domestic Passenger Activity by Airport, CY 1990 to CY 2011 summarizes domestic passenger activity. In CY 2011, LAX was still below the level of CY 1999 passengers. BUR has, by year-to-date CY2012, not re-attained its CY 1993 level of passengers. LA/ONT was below its CY 1990 level. The five airports collectively processed fewer domestic passengers than in CY 1999. LA/ONT's traffic grew throughout much of this period, reaching a peak in CY 2007 and declining steeply thereafter.

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Exhibit II-13 - Los Angeles Region Domestic Passenger Activity by Airport, CY 1990 to CY 2011

CY	Domestic Passengers (Millions)						Growth Year on Year	
	BUR	SNA	LGB	LAX	ONT	Total	ONT	ALL
1990	3.45	4.59	1.38	34.81	5.38	49.62	-	-
1991	3.67	5.25	1.3	34.56	5.78	50.56	7.40%	1.90%
1992	3.81	5.43	0.8	34.4	6.02	50.46	4.10%	-0.20%
1993	4.32	5.99	0.59	34.56	6.15	51.62	2.30%	2.30%
1994	4.81	6.68	0.41	37.54	6.36	55.8	3.40%	8.10%
1995	4.95	7.1	0.22	39.84	6.44	58.56	1.20%	5.00%
1996	4.82	7.29	0.24	43.47	6.3	62.13	-2.20%	6.10%
1997	4.7	7.66	0.52	43.76	6.1	62.74	-3.30%	1.00%
1998	4.73	7.43	0.61	44.11	6.03	62.91	-1.10%	0.30%
1999	4.74	7.51	0.61	46.46	6.23	65.54	3.30%	4.20%
2000	4.75	7.82	0.64	47.83	6.36	67.4	2.20%	2.80%
2001	4.47	7.36	0.57	43.51	6.27	62.19	-1.40%	-7.70%
2002	4.59	7.9	1.41	39.09	6.12	59.11	-2.50%	-5.00%
2003	4.69	8.6	2.8	39.2	6.19	61.48	1.20%	4.00%
2004	4.9	9.31	2.84	42.64	6.58	66.27	6.30%	7.80%
2005	5.51	9.65	2.95	42.6	6.9	67.6	4.90%	2.00%
2006	5.67	9.61	2.67	42.85	6.73	67.52	-2.50%	-0.10%
2007	5.9	9.96	2.82	43.74	6.91	69.33	2.70%	2.70%
2008	5.29	8.93	2.82	41.18	5.89	64.12	-14.80%	-7.50%
2009	4.59	8.65	2.8	40.33	4.75	61.12	-19.40%	-4.70%
2010	4.47	8.57	2.9	42.38	4.73	63.06	-0.40%	3.20%
2011	4.29	8.45	3.02	44.92	4.46	65.14	-5.80%	3.30%

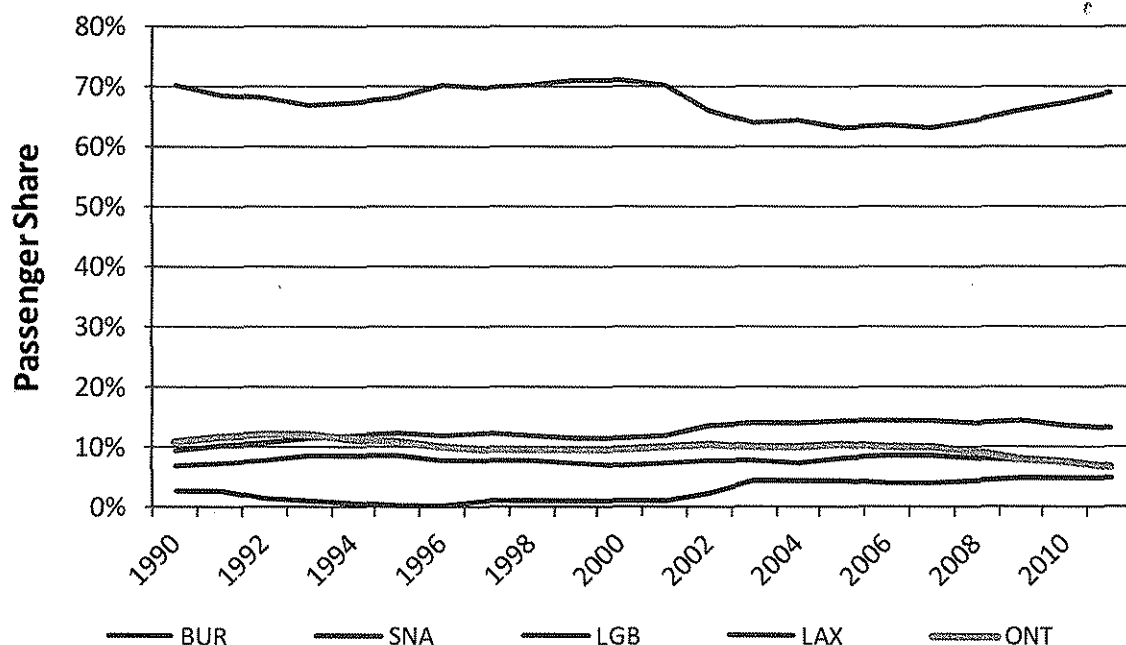
Source: U.S. DOT Database 28DM

Appendix E – Top 30 Origin and Destination (O&D) Passenger Destinations for Ontario Airport shows major LA/ONT markets by city-pair. Short haul intercity traffic is especially important. The Airport has suffered from the post-9-11 decline of intercity traffic.

Exhibit II-14 - Shares of Domestic Traffic at the Region's Airports, CY 1990 – CY 2011, examines the airports' evolving share of domestic traffic. LAX' share fell from its historical shares after CY 2000, but began to recover after CY 2008. LA/ONT experienced the largest decline in share from 10.1 percent in CY 2000 to 68.0 percent in CY 2011.

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Exhibit II-14 - Shares of Domestic Traffic, at the Region's Airports, CY 1990 - CY 2011



Source: U.S. DOT Database 28DM

With the recent trend of declining traffic and with LGB and SNA protected by slot controls, it becomes a contest between BUR and LA/ONT to preserve their traffic. Traffic shares can be very volatile in any multi-airport metropolitan region. While the airlines are continually seeking to develop market share by serving secondary airports, they are under intense pressures to reduce costs. Many have experienced rapid but temporary gains in traffic. Carriers often launch short-lived experimental services. Examples include Stewart (New York), Ellington (Houston), Palmdale (Los Angeles) and Everett (Seattle). They can also experience very volatile traffic trends. Oakland's full year 2011 traffic was 36.6 percent less than the corresponding value for 2007.

By most metrics such as changes in share and raw volumes, LA/ONT registered the worst performance. However, it does not stand out. The market was static. If any airport gains traffic, others must lose it. The traffic statistics show nothing particularly remarkable.

The five airports together face a static or declining domestic traffic base. Each airport has a unique location, a configuration of services, surface transportation access, facilities, rates and charges and local demographics. Some are better equipped to defend their traffic than others.

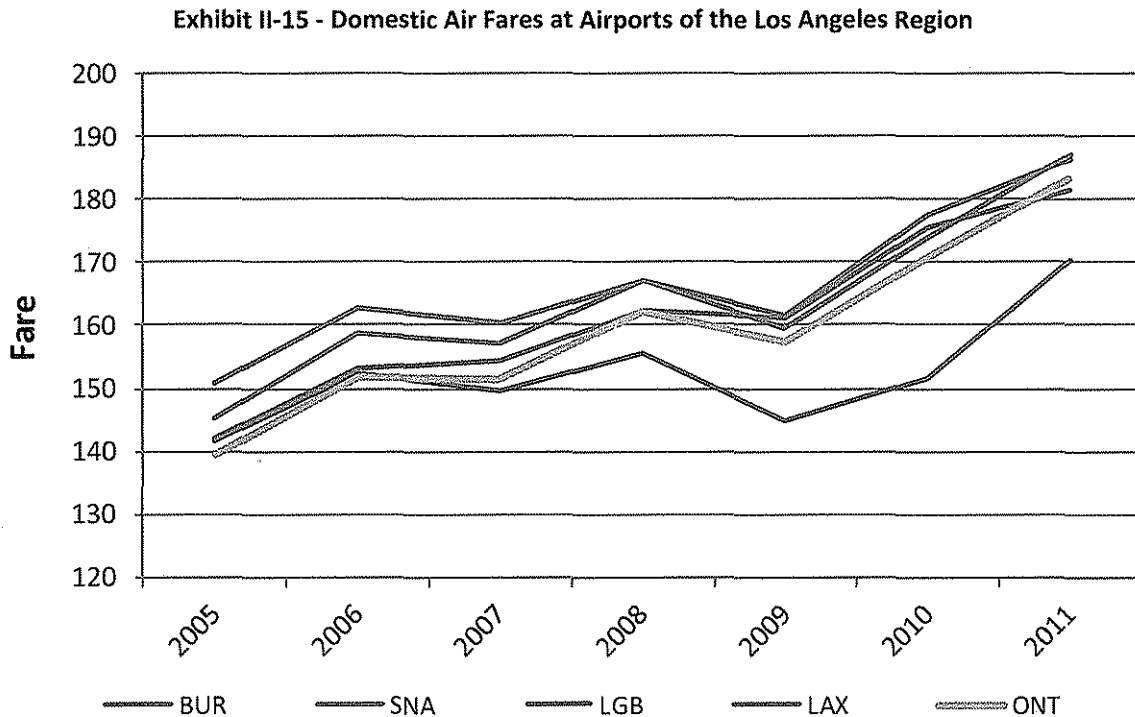
g. Domestic Fares and Yields

Traffic volumes are important measures of the health of an airport. However, airlines have learned that they can easily fill an aircraft if they charge very low fares. It has been their

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excessive discounting, and their over-emphasis on raw volumes that have contributed enormously to the industry's operating losses. The airlines therefore place increasing emphasis on unit revenues. Three metrics are important. The average fare measures the revenue per passenger. The yield measures the revenues that result from carrying one passenger one mile. The revenue per available seat-mile ("RASM") considers both the yield and the load factor. The three terms together measure the quality of an airport's traffic. Airlines will usually reduce capacity or discontinue all services on any routes whose fares, RASM or yields are inadequate.

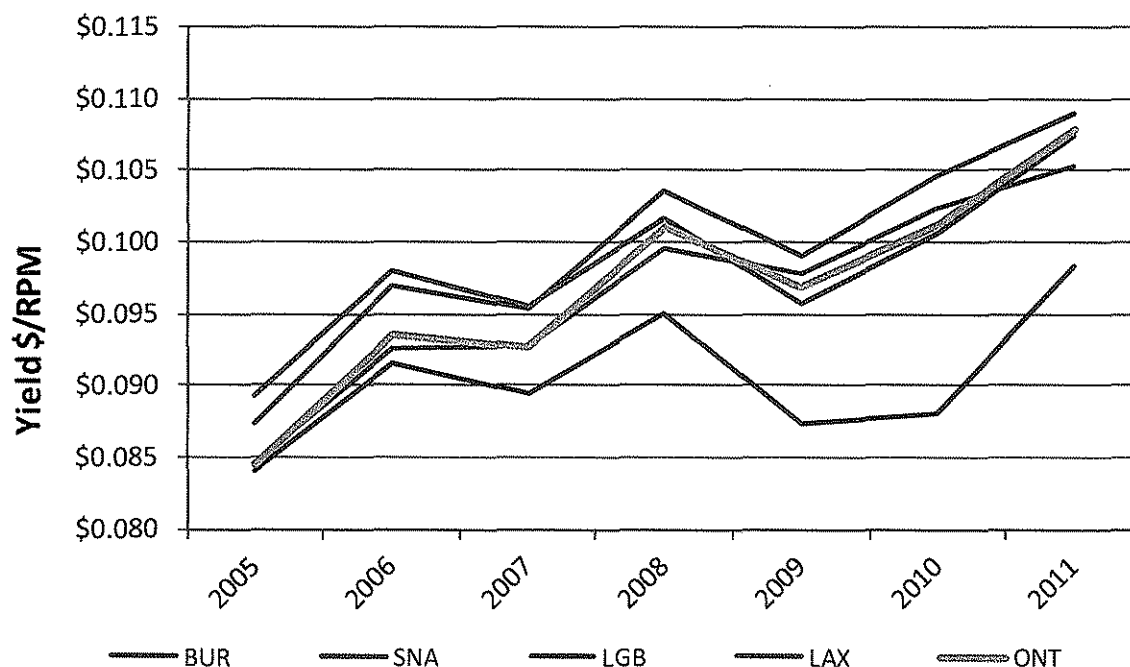
Exhibit II-15 - Domestic Air Fares at Airports of the Los Angeles Region shows recent domestic air fare history for LAX and the four secondary airports. **Exhibit II-16 - Domestic Yields at Airports of the Los Angeles Region** portrays data on average domestic yields. All graphs use current dollars and there is no adjustment for inflation.



Source: U.S. DOT Database DB1B, City-Pair Origin and Destination

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Exhibit II-16 - Domestic Yields at Airports of the Los Angeles Region



Source: U.S. DOT Database DB1B, City-Pair Origin and Destination

The very low fares and yields at LGB result from the dominance of low cost carrier JetBlue. At the other airports, the airlines are clearly pricing their services on a regional basis. They will not permit large fare disparities to occur. If one airport has unacceptably low yields/fares, the airlines withdraw capacity and fine-tune their yield management systems to eliminate any disparities. Should there be large fare disparities, passengers would migrate to the lowest fare airport. It would divert traffic and revenues from the services at other airports.

The charts show fairly limited high yield tendencies at BUR and SNA to match the favorable demographics. Fares/yields at LA/ONT are generally in line with the other airports. It is possible that since airlines have a very low margin (profit as percent of revenues), the slightly lower yields at LA/ONT could render some flights unprofitable. By CY 2011, the airlines had withdrawn so much capacity from LA/ONT that yields and fares were higher than at LAX.

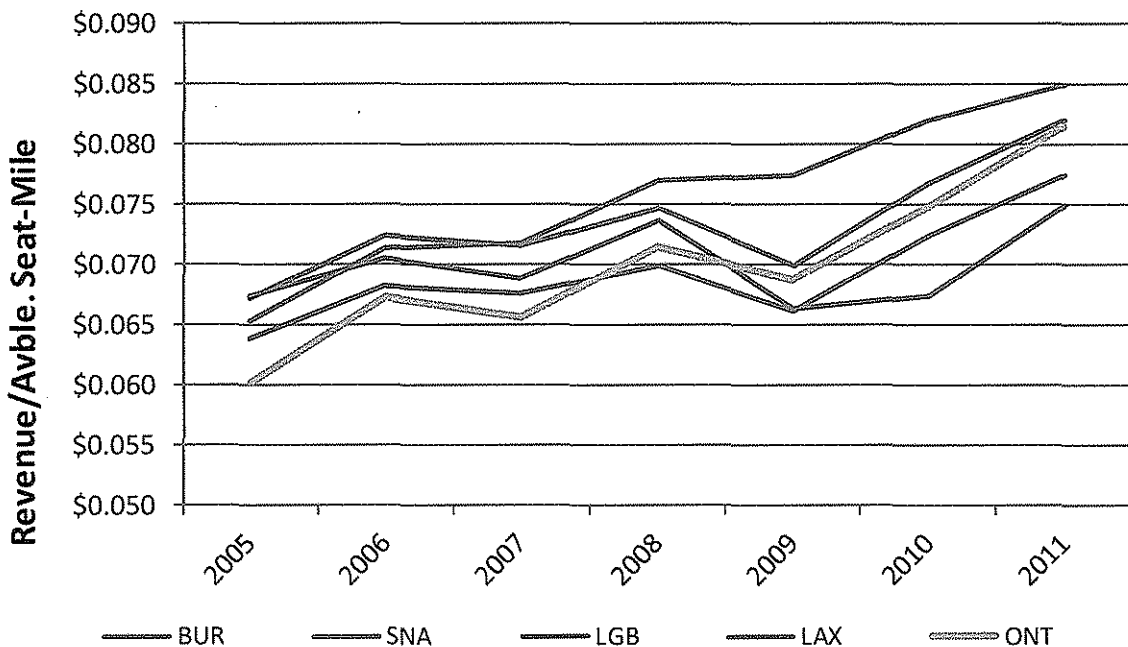
The yields/fares data do not show any structural or systematic weaknesses in the traffic at LA/ONT. It had low fares/yields between CY 2007 and CY 2009. The airlines adjusted their capacity and their volumes accordingly at LA/ONT to bring fares to levels of other regional airports. By 2011, fares and yields marginally exceeded those at LAX. The charts show that LA/ONT's fares and yields are in line with those of the rest of the Region. There is no evidence that the Airport experiences chronically low fares or that it will be at a systematic disadvantage in competing for new capacity against other regional airports. There is no evidence of a systemic problem that could result in a major loss of carriers, air services or capacity. However,

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LA/ONT, like all airports, will be affected by low airline profitability, escalating fuel prices, airline mergers and changes in aircraft mix.

Exhibit II-17 - Domestic Revenues per Available Seat-Mile at Airports of the Los Angeles Region shows the RASM for the five airports in the Region. From CY 2005 to CY 2007, LA/ONT was the worst performing airport. By CY 2009, carriers had withdrawn sufficient capacity that the LA/ONT RASM exceeded those of LGB and BUR. By CY 2011, it was still lower than the RASM of LAX and marginally lower than that of SNA.

Exhibit II-17 - Domestic Revenues per Available Seat-Mile at Airports of the Los Angeles Region



Source: U.S. DOT Database DB1B, City-Pair Origin and Destination, U.S. Department of Transportation Database 28DS and AXIS Consulting, Inc.

In most of the U.S., scheduled air services are a mature product. They are consumed widely and on a routine basis. Margins tend to be low and demand is sensitive to economic conditions. Most consumers choose their airline and routing according to relative prices. These conditions mean that airline capacity and traffic can be very volatile. The lowered incomes and high foreclosure rates of the Inland Empire and the competition from other airports have made the Airport's traffic particularly volatile.

This section has documented a decline of 35.4 percent in LA/ONT's traffic between the period of CY 2007 and CY 2011. The decline has continued in the first two quarters of CY 2012⁴. Despite the magnitude of the decrease, this is no evidence to suggest that further declines are

⁴ According to LAWA, January-June traffic was 6.4 percent below the corresponding period for 2011.

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in order. The market has reacted quickly and with volatility to economic conditions. The current availability of air services and fares is appropriate to the reduced volume of traffic, the difficult socioeconomic conditions of the Inland Empire and the problems affecting the nation's airlines. None of the metrics examined has suggested the need for any future reduction of air services and traffic on a large scale.

h. Air Cargo

The domestic air freight statistics are potentially misleading. Many forwarders and integrators have been shifting traffic, especially low priority deferred items from aircraft to trucks. Airport statistics will often show declining volumes, although carriers are merely switching to surface modes. The "domestic" statistics often include large quantities of international traffic that are transshipped at Ted Stevens Anchorage International Airport.

The domestic and international cargo sectors are very different. While traditional airlines have been slowly withdrawing from domestic air freight, they remain critical on international routes, particularly in the Pacific region. The air freight forwarders tend to control international markets. They make extensive use of road feeder services to carry cargo from inland points to flights at international airports.

International cargo travels on both wide body passenger aircraft flights and all-cargo aircraft. The latter are particularly prevalent on trans-Pacific routes. Flight timings on international routes depend on airport curfews, time zones and shipper needs/costs. Domestic premium courier/express traffic heavily depends on nighttime operations. To the extent that cargo flights require night time operations, LA/ONT is favored.

Conventional passenger airlines offer domestic cargo services, filling otherwise empty belly capacity. However, the airlines' commitment to cargo has been declining for decades. The narrow body aircraft that operate a growing portion of flights have limited capacities for air freight. They cannot accommodate the standard air freight containers utilized by most shippers.

Integrated cargo carriers such as FedEx and UPS offer a seamless, door-to-door service and utilize specially scheduled all-cargo aircraft to meet their shippers' demands for overnight deliveries. They also use a mix of aircraft and trucks to offer a daylight service for low priority items.

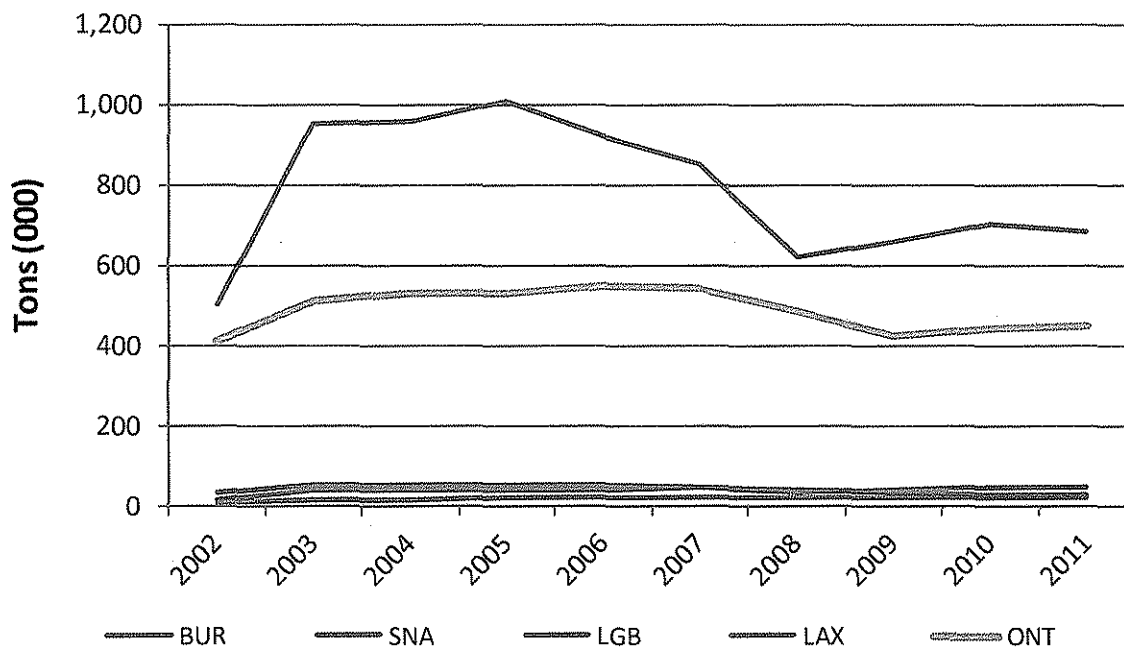
UPS operates a regional hub at LA/ONT. It processes large volumes of premium domestic traffic. UPS also operates trans-Pacific flights at the Airport. The hub could not operate if nightly curfews restricted operations at LA/ONT. The UPS hub serves most of the western U.S. and as a result is not particularly sensitive to the economic weaknesses of the Inland Empire. FedEx operates a smaller sorting facility, with feeder flights to Santa Barbara, Inyokern and other cities in the southwest. It also requires a curfew-free airport.

Exhibit II-18 - Domestic Air Freight CY 2002 to CY 2011 illustrates recent domestic air cargo history at the airports of the Region. LA/ONT is firmly established as the Region's second

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largest domestic air cargo airport. Although it experienced a post-2007 traffic decline, the contraction was far less severe than at LAX. Other airports in the Region have only a modest air cargo presence. Operations curfews could be particularly harmful to domestic cargo. Most high yield domestic shipments require overnight delivery by dedicated all-cargo aircraft. This necessitates many aircraft operations during the night.

Exhibit II-18 - Domestic Air Freight CY 2002 to CY 2011

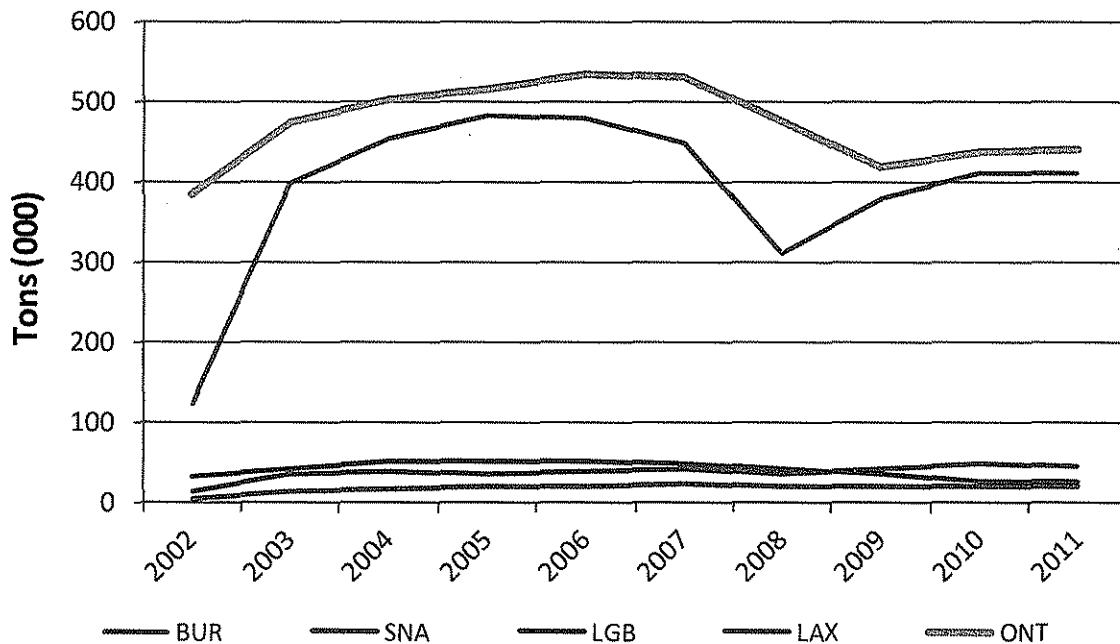


Source: U.S. DOT Database 28DM

Exhibit II-19 - Domestic Air Freight – Integrated Carriers CY 2002 to CY 2011 shows the volumes of the integrated carriers. It testifies to the relative dominance of LAX and LA/ONT. LA/ONT is the leading airport of the Region, with volumes even exceeding those of LAX which experienced a particularly steep loss after CY 2007.

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Exhibit II-19 - Domestic Air Freight – Integrated Carriers CY 2002 to CY 2011



Source: United States Department of Transportation Database 28DM

The statistics testify to the strength and resilience of air cargo at LA/ONT. It is firmly established as the second most important air cargo gateway in the Region. LA/ONT has a much larger share of the Region's air cargo traffic than the other airports in the Region have of the total passenger traffic. Air cargo at LA/ONT experienced a smaller contraction than LAX after the financial crisis in 2007/2008. Volumes have not returned to their pre-crisis levels, but this is characteristic of many regions and industries.

i. Air Freight at the Airport and at LAX

The Airport's large air freight business results primarily from the UPS hub. FedEx also handles significant traffic at LA/ONT. Both operations depend on the Airport's ability to accommodate nighttime flights.

The integrators operate largely standalone networks. They use dedicated trucks extensively for local pickup and delivery and for long distance carriage of low priority freight. At some stations, the integrators also make limited use of capacity on passenger airlines. However, the interaction between the integrators and passenger airlines is very limited. An airport with a comparative advantage for integrated carriers will not necessarily have an advantage for serving the general cargo of traditional airlines.

Many regional stakeholders have proposed shifting cargo services from LAX to LA/ONT. The proposal ostensibly would free up runway capacity at LAX and help generate growth at the

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Airport. That the Inland Empire already has a large forwarding and trans-loading community is a further alleged benefit.

The viability of such a plan would depend on the degree to which different carriers at LAX interact with the passenger business. **Exhibit II-20 - Composition of Air Cargo at Los Angeles International Airport** explores the relationships. It includes both domestic and international air freight and air mail.

Exhibit II-20 - Composition of Air Cargo at Los Angeles International Airport

Type of Cargo Carrier	Air Carrier Examples	2011 Tonnage
Integrators	FedEx, UPS	438,939
All cargo flights by all-cargo airlines	China Cargo, Nippon Cargo	397,119
Cargo on passenger airlines that operate no all-cargo aircraft	British Airways, United, American	433,142
Cargo on all-cargo aircraft of passenger airlines that operate both passenger aircraft and all-cargo flights	Korean Air, Singapore Airlines, China Airlines	423,482
Cargo on passenger aircraft of passenger airlines that operate both passenger aircraft and all-cargo flights	Korean Air, Singapore Airlines, China Airlines	174,127
Total		1,866,809
Total as reported by LAWA		1,853,658

Sources: U.S. DOT Database 28DS, 28IS and AXIS Consulting, Inc.

The table examines air freight flows. Air mail logistics are governed by the country of origin. Each category has different implications for the two airports including:

j. Integrators

The cargo on these flights is largely independent of other airlines or passenger services. The integrated carriers **may** agree to the transfer. Their willingness to migrate to LA/ONT would depend on their investments at LAX and their ability to support their services from LA/ONT (operating costs, road congestion, shipment cutoff and retrieval times, etc.). Each carrier should be assessed on its individual merits.

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k. All cargo flights by all-cargo airlines

The all-cargo airlines could have the ability to shift their flights and warehouses to LA/ONT from LAX. However, these flights likely make extensive use of air freight forwarders, customs brokers and other agents, most of which have offices near LAX. The forwarders may be reluctant to establish second warehouses at LA/ONT. The table may overstate the size of this category. This category may include many flights by ACMI (aircraft, crew, maintenance and insurance) operators. These aircraft are often chartered by conventional airlines and should sometimes be considered as "cargo on all-cargo aircraft of passenger airlines that operate both passenger aircraft and all-cargo flights. The DOT statistics state the owner of the aircraft, not the entity that charters them.

l. Cargo on passenger airlines that operate no all-cargo aircraft

The belly cargo is a by-product of passenger services. This traffic could not be transferred to LA/ONT unless the airline agreed to relocate its passenger business. The volumes are sufficient to require a significant ground infrastructure at LAX.

m. Cargo on all-cargo aircraft of passenger airlines that operate both passenger aircraft and all-cargo flights

This traffic is closely integrated with the airlines' passenger services. The same airline and freight forwarder cargo facilities at LAX that support the belly cargo also support the all-cargo flights. Transferring the all-cargo services to LA/ONT would require the airlines, forwarders, customs brokers and other agents to open duplicate facilities at both LA/ONT and LAX.

n. Cargo on passenger aircraft of passenger airlines that operate both passenger aircraft and all-cargo flights

The cargo on these flights could be transferred to LA/ONT if the airline also agreed to transfer passenger services.

The last three categories could not be shifted without major adjustments by the passenger airlines at LAX. They collectively account for at least 70.3 percent of the air freight traffic at LAX. While there may be scope for a partial relocation of traffic, the total volumes are limited. The proposal would not significantly reduce the need for cargo facilities at LAX and would not greatly reduce runway and airspace congestion.

III. Benchmarking of Current Airport Operations

A. Background

The Airport is an important source of economic growth and offers considerable surplus capacity for the Region, which is currently impacted by widespread airport congestion. The Airport is critical to the regional hub of UPS and its premium services throughout the western U.S. The UPS hub, in turn, has helped attract a large shipping and logistics industry including warehouses, freight forwarders and trans-loaders. In addition, FedEx also has cargo/integrator operations at the Airport.

LA/ONT is uncongested in comparison to other airports in the Region and has fewer noise abatement rules than other airports such as SNA, located in Orange County and LGB. The Airport's long runways make it an important alternate for international flights and offer the potential for intercontinental flights by wide-body aircraft.

Although the community fully recognizes the importance of the Airport, the last five years have witnessed growing challenges. Between CY 2007 and CY 2011, the total number of passengers using the Airport fell by 36.8 percent (**see Exhibit III-1 - Passenger and Freight/Mail Traffic at the LA/ONT, CY 2005 – CY 2011**) while freight and mail traffic declined by 21.7 percent during the same time period, somewhat offset by an increase in Freight and Mail in 2011.

**Exhibit III-1 - Passenger and Freight/Mail Traffic
at the LA/ONT, CY 2005 – CY 2011**

CY	Passengers	Freight and Mail (Tons)
2005	7,213,528	575,369
2006	7,049,904	544,600
2007	7,207,150	532,865
2008	6,232,761	481,284
2009	4,886,695	390,932
2010	4,808,241	392,427
2011	4,551,875	417,476

Source: LAWA Website

During the 1990s, strong passenger growth was projected over the long-term. However, the recession hit hard in the Inland Empire and passenger volume dropped significantly. With this drop, LA/ONT became "overbuilt" in that the design of the new terminals does not allow for easy consolidation of terminal operations due to lower passenger volume.

While LAWA has reduced the number of employees at LA/ONT and is exploring other operational efficiencies, insufficient cost reductions or increased revenues have been achieved thus far to bring its costs more in line with its peers, as of the most recently available data.

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The declining passenger and freight volumes have adversely affected the Airport's financial performance. They have also reignited concerns about the Airport's ownership and management. The recent traffic decline has led to criticism of the LAWA ownership and management of LA/ONT despite significant efforts on the part of LAWA to address all aspects of the issue. The City and other stakeholders have responded by committing to examine new options for ownership and management of LA/ONT. This section examines LA/ONT's competitive position vs. its peer airports, including those serving the Region.

B. Benchmarking

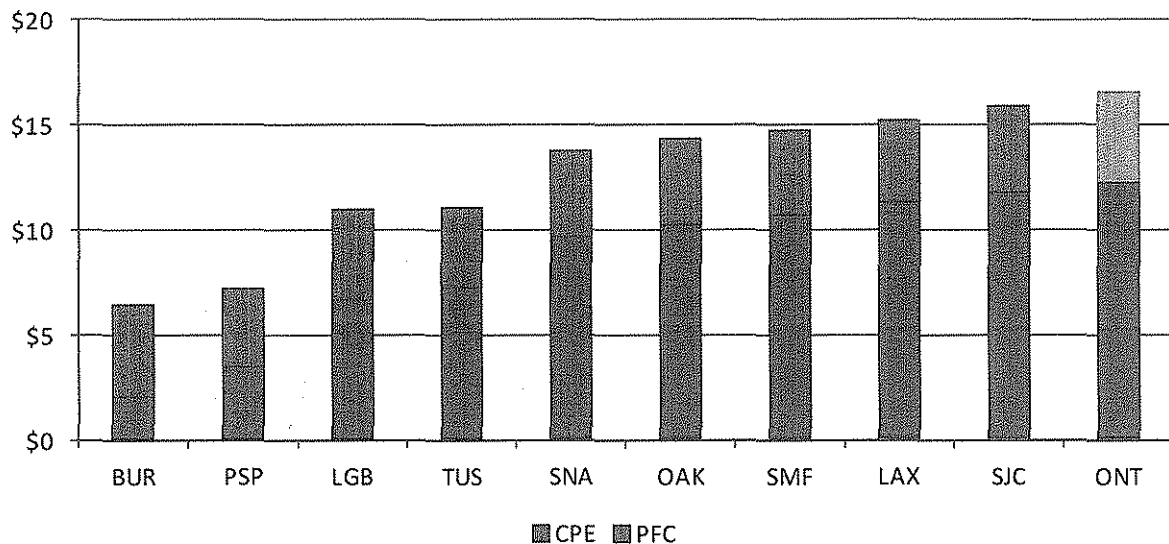
Benchmarking can provide very useful insights into an airport's cost structure. It can reveal how an airport ranks among its peers. Often the airports in the peer group have a similar size, traffic mix and facilities, and a relevant location. Benchmarking exercises can offer useful although sometimes misleading results and users need to be aware of instances where a certain ratio or measure is used in circumstances that are not directly comparable, such as when one airport privatizes a certain function like janitorial services but another airport provides those services on staff. In this instance the headcount comparisons may be misleading. Where possible the analysis below flags instances where this may be an issue.

For the purpose of this analysis, we have selected LAX, BUR, LBG and SNA from the Region along with other mid-size California airports like Palm Springs ("PSP"), Oakland ("OAK"), Sacramento ("SMF") and San Jose ("SJC"), in addition to Tucson ("TUS"). Key benchmarking metrics include CPE, Non-Airline Revenues, employee costs and total operating expenses.

All benchmarking data comes from the FAA CATS database for FY 2011. It should further be noted that LAWA has been aggressively analyzing and managing Airport Management and Operations Expense ("M&O") and other facets of the Airport's operations at LA/ONT. Many initiatives have been implemented in FY 2012 and are currently ongoing, which will help bring reduce CPE and bring it more in line with the Regional peer group, although in many cases the results may not be reflected in the benchmarking data from FY 2011. Furthermore, the timing for when the debt service from large projects, such as those recently completed at SJC and SMF, comes on line may have a significant impact on the CPE and may be another factor that will tend to reduce the disparity between LA/ONT and its medium hub peers.

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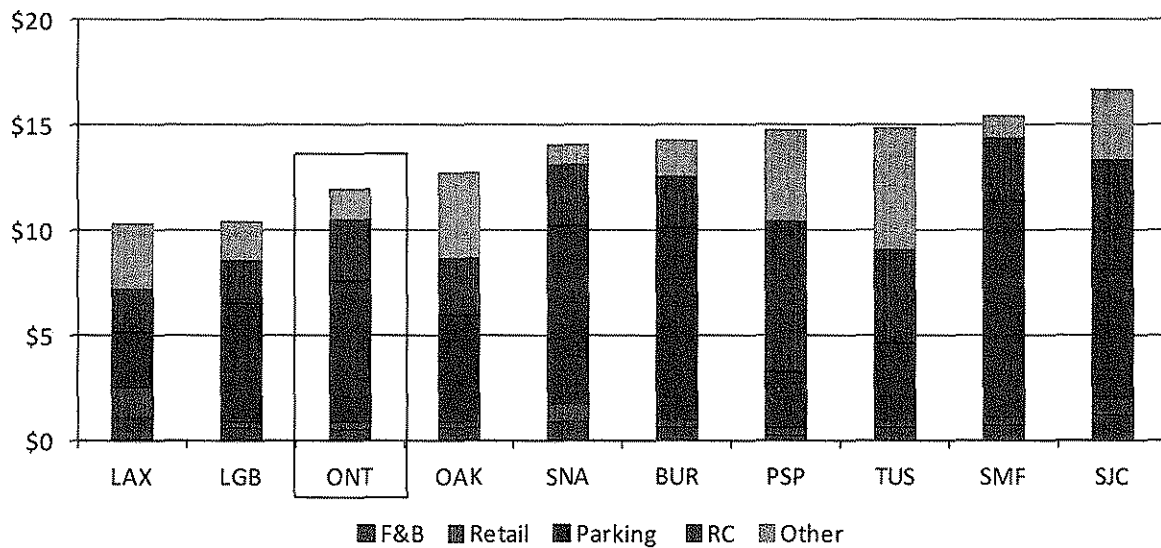
Exhibit III-2 - CPE (\$/PAX)



CPE is a key metric for airlines as they consider the profitability of routes and whether to maintain, add or decrease service. Many low cost carriers will include PFCs in their analysis, utilizing a "total cost to customer" approach. Since the entire peer group collects essentially the maximum PFC, there is little variation in the outcome as a result of PFCs. The chart above demonstrates that LA/ONT's CPE is considerably higher than its peers, and particularly those in the Region. Possible causes for this result likely include some combination of the following: the recent drop-off in passengers, over-staffing, over-built infrastructure and underperforming Non-Airline Revenues. Further benchmarking of the components of CPE should shed light on the causes.

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Exhibit III-3 - Non-Airline Revenue Breakout (\$/PAX)

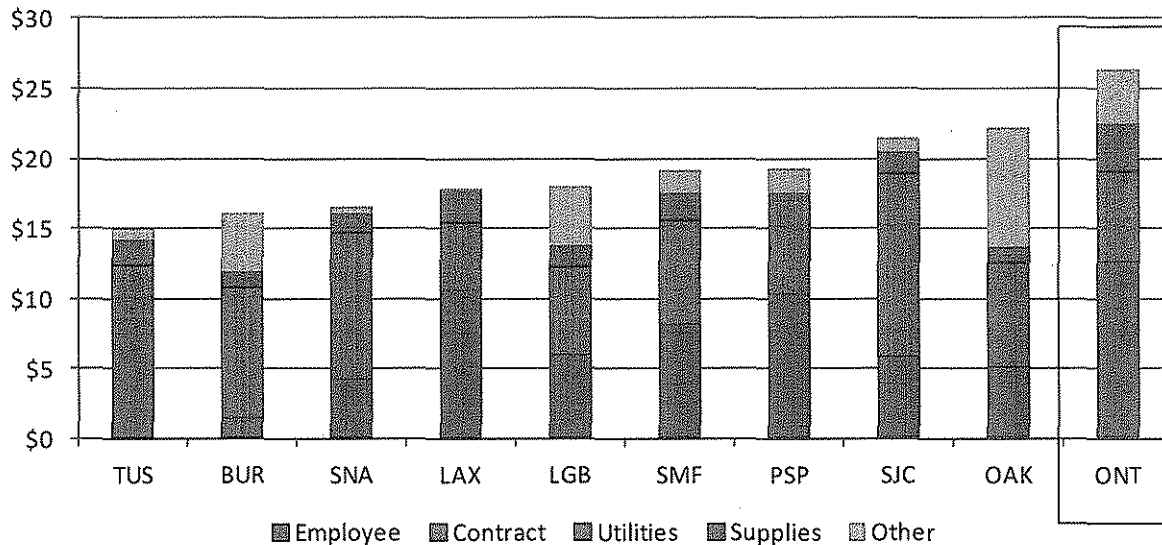


Non-Airline Revenues are a significant component of airport profitability and potential value. The chart above shows that LA/ONT's Non-Airline Revenues are in the lower half of its peer group. This outcome indicates potential upside for both public and private operations.

Looking at the key Non-Airline Revenue sources, auto parking and rental cars are the two largest drivers (except for Tucson, which has substantial land lease revenue), with parking the largest in most cases (except Palm Springs and Tucson, indicating more destination traffic vs. originating). LA/ONT's parking is in the upper half of the peer group and trails only SNA, BUR and SMF. Its rental car revenue is also in the top half, trailing PSP, SJC, TUS and SNA. LA/ONT is also top half in retail behind SJC, SNA and LAX (large duty-free component likely). LA/ONT lags the group in food & beverage (topping only PSP), and other revenues (better than SNA and SMF).

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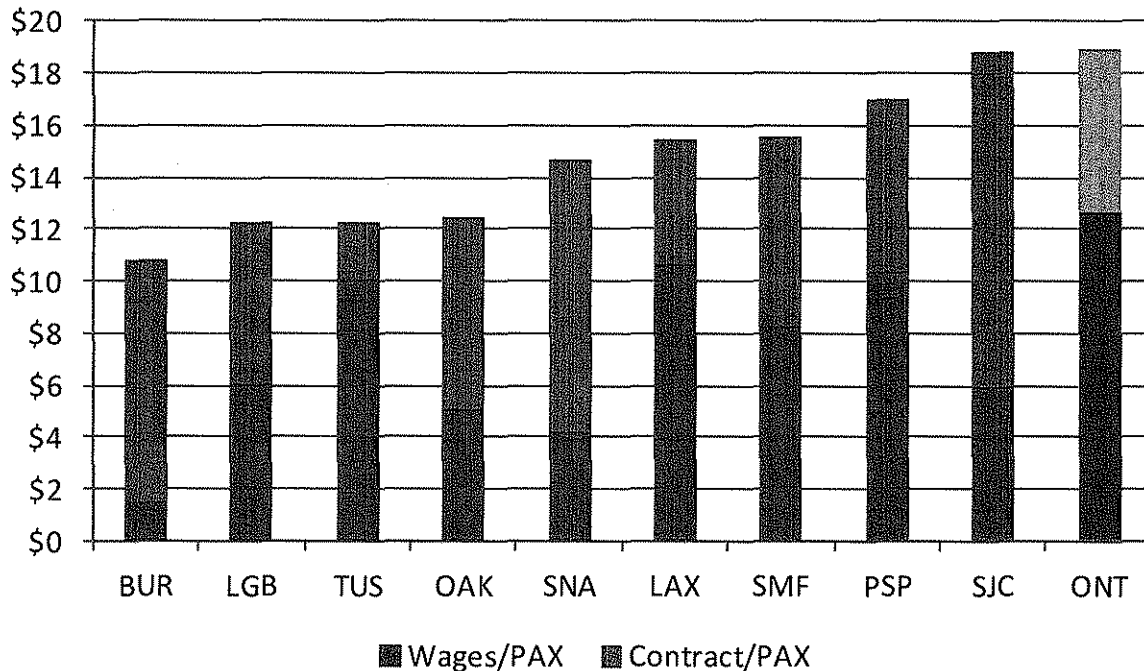
Exhibit III-4 - Total Operating Expenses (\$/PAX)



LA/ONT's total operating expenses are significantly higher than its peer set, particularly the Regional subset. Its combined employee and contract cost per passenger are higher than many peers' total costs. We explore employee and contract costs in more detail on the following pages. Utilities and supplies are also significant cost drivers and LA/ONT's costs in both categories are much higher than their peers on a per passenger basis. Efforts to wall off terminal space to reduce fixed costs should help these metrics going forward, but overall impact is unknown at this time. LA/ONT's other expenses are higher than all peers except LGB, BUR and OAK; further diligence on the specific costs included in "other" is needed in order to better understand the significance of this situation.

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Exhibit III-5 - Employee & Contract Costs (\$/PAX)



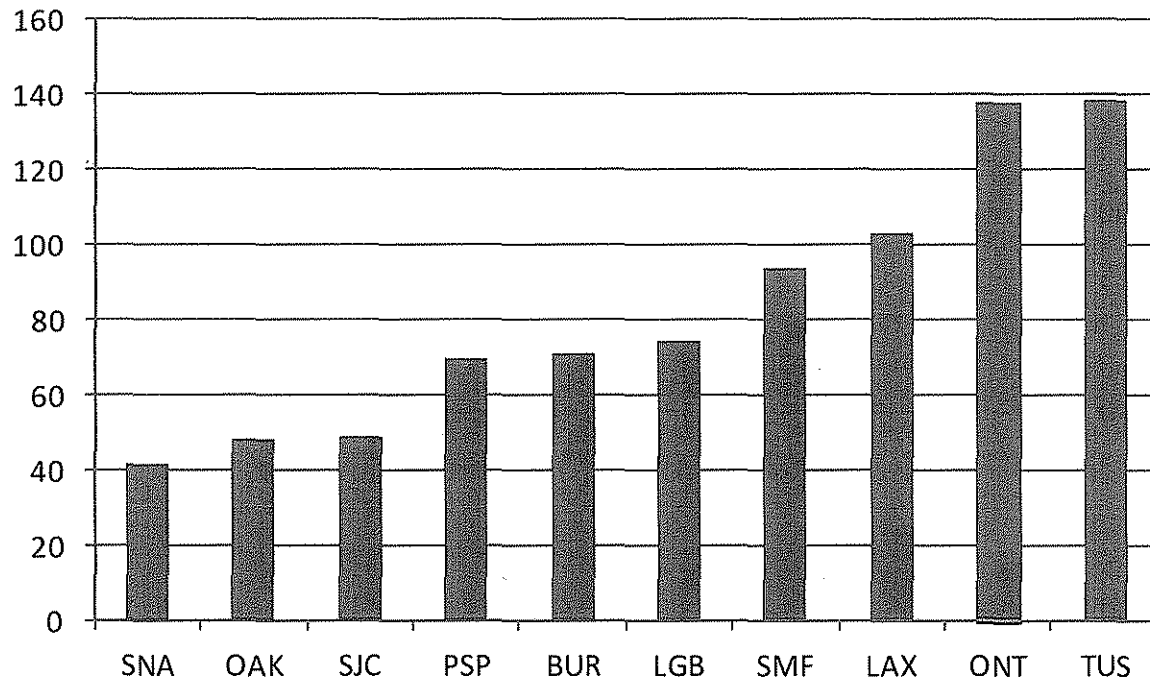
Employee and contractor cost are a significant part of the overall cost profile of an airport. We have benchmarked them together to eliminate any situations where one airport is offsetting employee costs with outsourcing. The end result shows LA/ONT has the highest wages/contract cost structure of any of its peers. This is true of wages only as well, although one can see that the mix of peer airports shifts on a wages-only basis.

While LAWA has reduced the employee headcount at LA/ONT, it is constrained in quickly adjusting to a more appropriate staffing level given the existing employee contracts. The existing employee contracts also limit Ontario's ability to contract out various services that can be obtained in a more cost efficient manner.

Potential drivers for this result include staffing levels and higher wages per employee, or a combination of the two. As shown in the following graph, **Exhibit III-6 - Employees per Million PAX**, staffing levels per million passengers are generally higher than the Airport's peers.

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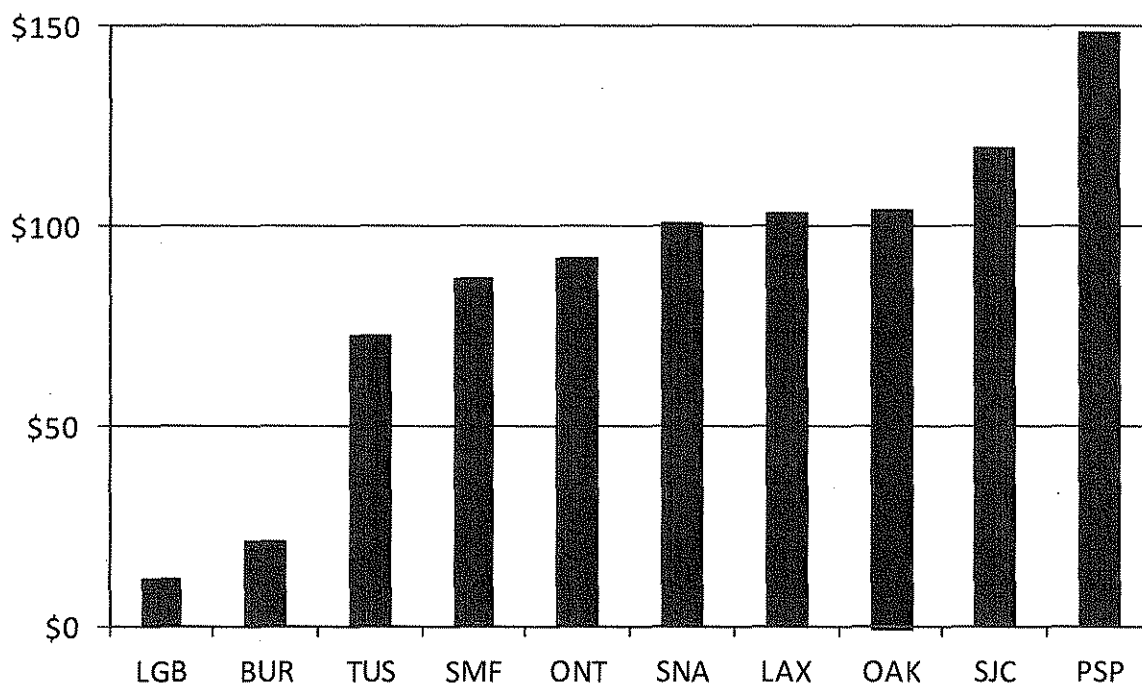
Exhibit III-6 - Employees per Million PAX



LA/ONT's employee headcount is higher than any peer airport except TUS. Of course, BUR and SNA have higher contract costs than LA/ONT, but LGB does not. This result makes it fairly clear that LA/ONT is over-staffed and not just at current traffic levels. Recent efforts by LAWA to reduce headcount will help bring these costs more in line with LA/ONT's peers.

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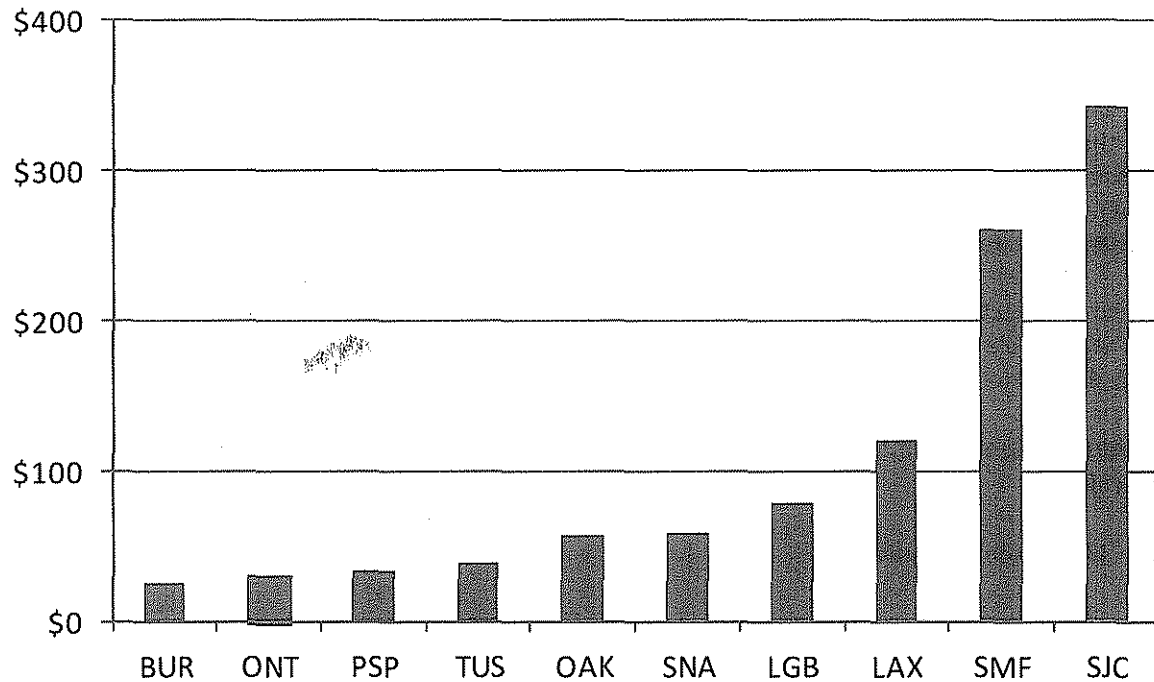
Exhibit III-7 - Compensation Per Employee (\$000)



LA/ONT is in the middle of its peer group in terms of compensation per employee and it is more or less in line with LAX and SNA. The results for LGB and BUR are so low that further investigation would be necessary to understand why that is the case.

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Exhibit III-8 - Total Debt per Enplaned Passenger (\$/PAX)



LA/ONT is at the low end of the range in terms of leverage, with only BUR showing a lower amount. This implies that LA/ONT will experience greater future financial flexibility due to lower leverage and will be a key positive credit rating factor if the Airport is transferred to another entity and needs to refund or defease its outstanding bonds. SMF and SJC, having recently completed large capital programs, are clear outliers in this analysis, which could be a long-term impediment to their competitiveness.

Regarding the Airport, as described more fully in **IV. A. 6 - Debt Service Restructuring**, with annual debt service approximating \$7.0 million annually there may be modest opportunities to restructure debt to help the Airport manage its CPE, however despite the current low interest rate environment this strategy would likely be costly to implement given that the outstanding bonds will need to be refunded on a taxable basis.

IV. Options for Revitalization of the Airport Through New Management Initiatives

Although the Airport's activity levels are not performing at the level that Regional stakeholders would like, and there is some risk of further deterioration, particularly in relation to the 2014 optional termination point, the Acacia Team believes that there are several opportunities for revitalization. Many of the opportunities can be undertaken regardless of the legal structure selected for governance, or determination of the Airport's owner ("Sponsor" as defined by the FAA), as outlined in **V. Alternatives for Governance and for Management and Operations of the Airport.**

The following section discusses specific opportunities for revitalization starting with opportunities that would be available to the City and LAWA as the Airport's Sponsor, or to an Authority or Ontario if and when the City decides to transfer governance.

A. Potential Sponsor Initiated Opportunities for Management of M&O Expenses and Debt Service

1. LAWA Administrative Fee

LAWA charges an Administrative Fee of 15.0 percent of M&O represents approximately \$4/Enplaned Passenger. The fee is charged to both LA/ONT and VNY to pay for airport-specific human resources, risk management, engineering, information technology, marketing, planning, finance, accounting, procurement and environmental services and is based on historical practices rather than a formal cost allocation plan, which can be costly and time consuming to implement.

If the Administrative Fee were not charged for example for FY 2013, the Airport's CPE would decrease as a result from about \$13 to \$9/enplaned PAX. LA/ONT's CPE would be more competitive with other airports in the Region. As noted, this strategy taken as a stand-alone initiative would not be expected to increase activity levels at LA/ONT. In addition, this strategy if funded by LAWA, would create an operating expense burden for LAX given that the administrative services provided by LAWA are required for operation of the Airport.

2. Configuration of Terminals 2 and 4

In an effort to reduce costs and lower the CPE, LAWA has already decommissioned seven of the 26 gates in Terminals 2 and 4, and is actively investigating opportunities to shift certain airlines' exclusive use premises so that further reductions of space can be achieved. This strategy would help the Airport reduce energy, janitorial, security and overall staffing costs and concentrate passenger activity within a smaller area.

Initially the Acacia team had analyzed options for consolidating the Terminal 2 and 4 activity into Terminal 4, which is the larger terminal with 14 gates. Unfortunately, the Airport's daily flight banks especially in the morning and to a lesser degree in the afternoon concentrate passenger security throughput needs during a narrow time frame. The terminals were not designed to handle

the additional capacity that would be required to keep screening wait times at an acceptable level, given current passenger and activity levels.

3. Parking Operations

LAWA has internally discussed several alternatives to reduce costs for LA/ONT such as automated parking facilities or contracting out certain functions. Some of these initiatives are presented below.

Parking operations currently are managed by parking lot attendants. The Acacia Team recommends that the Airport's sponsor consider the potential benefit of implementing automated systems for the majority of all parking system management. Automated kiosks for cash and credit payments can be combined with credit card payments at the exit points. Another option for parking lots that have a lower utilization level would be to use a pay and display system.

Automated parking operations would be expected to reduce the expense of parking operations and potentially could increase parking receipts.

4. In-Line Baggage Handling and Baggage Screening

The Airport currently has a contract in place for the maintenance of the in-line baggage handling and baggage screening ("IL/BH") systems (one each in Terminals 2 and 4). LAWA management has been evaluating options for reducing cost, including one option that involves the establishment of an airline consortium to manage and maintain, via contract, the IL/BH system, possibly in conjunction with maintenance of the passenger boarding bridges ("PBB"). The consortium would procure the maintenance contract, abiding by the City's living wage ordinance, and certain other requirements. As a result, the M&O Expenses costs associated with IL/BH and PBB will be shifted to the airlines. This strategy is expected to produce savings, through the contracting mechanism, in addition to allowing the removal of the related costs from the M&O Expenses base that is used to calculate the Administrative Fee. The associated expenses of \$3.2 million for the IL/BH and the PBB, would result in a reduction of about \$380,000 annually related to the Administrative Fee alone.

5. Shuttle Bus Operations

Within the Airport's Consolidated Facility Charge ("CFC") cost center, shuttle bus operations for the RAC facility cost \$2.6 million annually as of FY 2012. As a result, the CFC-produced revenues of \$3.6 million in FY 2011 were to a large degree consumed by the shuttle operations. The Acacia Team recommends that these operations be analyzed for additional cost saving opportunities and to determine if there are options to use excess CFC's for other Airport purposes. Similarly, the parking lot shuttle bus operations should be examined for the purpose of identifying efficiencies that may benefit the Airport's rates & charges.

6. Debt Service Restructuring

The Airport may be able to identify a means of restructuring its long term debt, consisting of Series 2006 A and B in order to reduce the impact of this expense on the rates & charges model. For FY 2013, debt service approximates \$7.0 million, with nearly \$3.5 million of it attributable to principal. If the Airport were able to restructure the debt on its own credit or with a backup pledge of credit support from LAWA as the current Sponsor or another Sponsor in the future, it could restructure the principal. Internal loans from the current or future Sponsor could be used to pay debt service as well, with the intention that the Airport would pay back such amounts when its financial profile might be in a better position to fund the full amount.

The 2006 Series A are Alternative Minimum Taxable Bonds ("AMT") and the 2006 Series B are Taxable Bonds, neither of which could be advance refunded on a tax-exempt basis in the current timeframe. The Series 2006 A bonds could be restructured on a tax-exempt basis if the transaction was executed within 90 days of the call date, in 2016 as long as the useful-life of the bonds has not been exceeded.

As has been noted in **Exhibit III-8 - Total Debt per Enplaned Passenger**, the Airport's debt per enplaned passenger is among the lowest of the airports benchmarked and the limited benefit would likely be outweighed by the associated costs, however strategies to manage debt service timing and amount can provide financial flexibility when needed.

B. Sponsor Initiated Opportunities for Stimulation of Airline Revenue

1. Passenger Air Service

Upon discussions with Ontario and LAWA staff it does not appear that there has been a robust and well-funded campaign to attract new routes and / or additional frequencies on existing routes, generally referred to as air service development. Air service development is often considered more beneficial for medium hubs and smaller airports as the airlines often are not as familiar with specific characteristics of the catchment area. The Acacia Team recommends that the Airport's Sponsor undertake these measures in concert with an aggressive initiative to reduce CPE. The steps that the Acacia Team would recommend for air service development include the following:

a. Detailed Catchment Analysis

Detailed catchment analysis, typically performed by a specialist in air service development, should be prepared to analyze the population within the Airport's physical catchment area for detailed demographic information, travel preferences and ticket purchases for air service out of the Region's competing airports. The focus of this type of analysis is to develop a case to target specific airlines for development of air services for potential city-pairs.

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b. Direct Marketing to Airlines

Direct marketing to Airlines can be undertaken using several methods. "Jump Start" and other similar "speed dating" industry forums can be a cost effective means of reaching out to specific airlines. It is important to have completed the detailed analysis and to have a clear understanding of which air services would be most likely to get developed.

c. Direct Marketing to Customers

Ontario has mounted an aggressive and far reaching campaign to "free" the Airport from LAWA's control. Channeling this type of marketing effort into advertising the convenience and easy, no hassle access for potential customers might have a positive impact on demand for air service, particularly if undertaken in conjunction with measures to reduce CPE and stimulate air service.

2. Air Cargo

Cargo has been one bright spot for the Airport, with FY 2011 bringing increased activity, as discussed in **II.C.1.h – Air Cargo**. Cargo is a natural fit with the Airport, given the Airport's extensive aeronautical and surface transportation infrastructure and the Inland Empire's supporting businesses in transportation and logistics. Attraction of increased air cargo activity will likely require the type of approach used to attract Aero Ontario RFP, LLC ("Aeroterm"), perhaps the Lockheed site or another existing facility on the Airport. The chances of success for this type of strategy will be enhanced to the extent that the economy improves in the Inland Empire and Southern California overall.

C. Sponsor Initiated Opportunities for Stimulation of Non-Airline Revenues

The Airport's concessions are all currently reported to be paying the Minimum Annual Guarantee ("MAG"), which would tend to indicate that activity levels are not sufficient to generate revenues in excess of the minimum levels. As a result, the best option for stimulation of Non-Airline Revenues would be to increase activity at the Airport. Given current activity levels however it makes sense to review opportunities to improve Non-Airline Revenues performance by category and consider options for improvements.

1. Food and Beverage and Other Concessions

The current food and beverage concessions ("F&B") are almost entirely managed by Delaware North with the exception of one location that is managed by Guardian. The news and sundries are managed by Host. Overall the facilities appeared to be well stocked and the displays did not appear to require maintenance. Given activity levels in the Airport, it may not make sense to focus immediate efforts in this area, however rebidding of contracts and tailoring concession programs to meet travelers' needs can often be a way of stimulating growth in Non-Airline Revenues.

2. Parking Revenues

Parking rates as currently established appear to be set within a reasonable range, given that LAWA management reports that the lots are seldom filled, except at the holiday season. While there may be a way to optimize parking revenues, perhaps with premium and add on services, it may not make sense to focus immediate efforts in this area.

3. Development of Vacant Facilities On-Airport / Cargo Opportunities

The Airport's experience with Aeroterm, which was interested in developing a proposed Ontario Airport Pacific Gateway Cargo Center at the Lockheed site, has demonstrated that the Lockheed site has the potential for future utility. Cargo incentives, whether in concert with LAWA or separately funded, may be necessary and care must be given to structuring the terms of this or any agreement given the low point in the economy. It is important to note that the Lockheed site and its proposed redevelopment did ultimately pass the State's stringent environmental review process pursuant to the California Environmental Quality Act ("CEQA"), which requires completion of an Environmental Impact Review ("EIR") process. Depending on the timing involved, it may be possible to use the EIR in support of another similar opportunity.

Other significant vacant facilities are available, including Terminal 1 and the former General Electric site, along with a number of smaller facilities including the abandoned National Guard hangar that was used by ExpressJet. LAWA has not received any indications of interest that seem actionable at this time.

As the economy in the Inland Empire generally continues to improve, and to the extent that cargo activity levels at the Airport continue to perform well, as shown in **Exhibit II-18 - Domestic Air Freight CY 2002 to CY 2011**, the Acacia Team recommends an aggressive marketing plan for the on Airport facilities, with a concentration on aeronautical usages. Given the importance of jobs and economic development in the Inland Empire, this type of strategy would help support local efforts to stimulate the economy in addition to potentially increasing Airport activity levels.

4. Development of Airport-Owned Land Off-Airport

The Airport has acquired approximately 175 acres of land immediately east of the Airport. Ontario has also purchased homes within the FAA noise-impacted zones adjacent to the Airport. All off-Airport land represents a potential opportunity for future development, although the likely timeline for realizing concrete benefits may be on a more distant time horizon. Lease income from Airport owned land would help increase Non-Airline Revenues and any related employment stimulated by such a project would help achieve economic development initiatives.

The current private development of a 137 acre parcel of the Hofer ranch, located immediately to the South of the Airport and the overall vitality of the commercial and industrial zones in the immediate vicinity of the Airport, as reported by Ontario, bode well for future development of the Airport's vacant land.

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As the economy in the Inland Empire and more generally continues to improve, the Acacia Team recommends an aggressive marketing plan for the vacant land, with a concentration on aeronautical usages.

D. Potential Alternative Management Options for the Airport

A potential alternative management model of LA/ONT could involve a number of structures, depending on the desired level of private investor/operator involvement, risk sharing among parties, need for upfront payment versus potential future payments and other factors. For the sake of simplicity, this section will focus on three approaches to alternative management models, which span the range of potential structures including Management Contracts, partial alternative management options and alternative management models under the FAA Pilot Program. **Exhibit IV-1 - Overview of Alternative Management Options for LA/Ontario International Airport** provides a high level overview of the key features of these three alternative management options for the Airport.

All alternative management models will take time to evaluate structure and eventually execute. Evaluation and structuring are essentially risk-free. The Request for Expressions of Interest ("REI") process run by LAWA in 2011 provides some insight into the partial alternative management options and alternative management models under the FAA Pilot Program, and renewed discussions with the interested parties from that process would be logical first step. Evaluation of the Management Contract approach could be done simultaneously. Once a preferred path is chosen, it's best to focus on executing that process alone, rather than continuing any parallel processes. Given the intensive discussion among stakeholders and the challenges of closing alternative management transactions, the Acacia Team believes that it will be of critical importance for the Airport's Sponsors to design a process that has embedded pre-approval, given the need to attract and maintain bidder interest.

Designing an alternative management procurement requires careful analysis of business terms, such as operating standards and condition requirements. Vendor performance must be monitored throughout the life of the contract. Formulas and payment arrangements must be carefully analyzed and stress tested in connection with the procurement.

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Exhibit IV-1 - Overview of Alternative Management Options for LA/Ontario International Airport

Key Features	Management Contract	Partial Alternative Management Options	FAA Pilot Program
Agreement	Operating contract	Long-term lease	Long-term lease
Part 139 responsibility	LAWA or other Airport Sponsor	LAWA or other Airport Sponsor	Private operator
FAA Pilot Program	No	No	Yes
Upfront proceeds	No	Possible	Yes
Ongoing payments	Management fee paid by LAWA or other Airport Sponsor	Possible ongoing payment to LAWA	Possible ongoing payment to LAWA
Need to defease debt	No	No, subject to meeting IRS requirement for private activity	Yes
Need to modify ULA	No	Yes	Yes
Timing to structure and execute	3-6 months	6-12 months	12-24 months
Execution risk	Low	Medium	High

1. Management Contracts

Within the broad spectrum of available alternative management structures in today's market, Management Contracts may make sense for the Airport's Sponsor to evaluate. Management contracts can be as simple as contracting out for janitorial, security or parking operations, or as complex as management of the entire terminal and landside operations. Compensation would be determined by a formula which will compensate the operator for its management of the facilities, based on its ability to meet or exceed pre-established condition requirements, typically along with a component of incentive compensation.

Management Contracts can be structured to meet IRS requirements for tax exempt bonds, which generally address term and incentive provisions. Several options are outlined below, just to provide an example, however many options exist.

a. M&O of the Airport's Terminals and Land-side Operations

A Management Contract for management of the Terminals and land-side operations could be designed so that a private operator would potentially take over operations of the Terminals, parking, the RAC and other support functions. Further analysis would be required to determine to what extent the Terminal would benefit from focused, world-class operations. In this scenario it is anticipated that LAWA would continue to operate the airfield while sharing in any upside from Terminal operations.

b. Management Contract M&O for Parking and Shuttle Operations

In this scenario a Management Contract could be developed for management of the Airport's car parking RAC shuttle operations. From discussions with LAWA management and Ontario, and as outlined above, it appears that there may be opportunities for expense savings in this area, which could be realized by LAWA management or by a Management Contract.

2. Partial Alternative Management Options of Airport Facilities

This alternative would involve a long-term lease of operations, maintenance and management of the land side of LA/ONT (may include terminals and parking, or some subset thereof). LAWA would maintain control of the airfield but would cede control of leased areas.

This model has not been widely used in the U.S. and may not make sense to investigate further unless one or more of the primary stake holders expresses a specific interest in it.

3. Alternative Management Models under the FAA Pilot Program

This scenario, which is discussed more fully in **V. Alternatives for Governance and for Management and Operations of the Airport**, involves a long-term lease of the Airport to a private operator, which would be responsible for all operations, maintenance, safety, airline relations and marketing and other airport issues.

V. Alternatives for Governance and for Management and Operations of the Airport

In the last year there has been substantial analysis and public discussion between the City, LAWA, Ontario and the Airport's many stakeholders on what is the best solution to revitalize LA/ONT. All parties are concerned about the decline in activity and the rising CPE that LA/ONT has experienced. Nevertheless parties often cite conflicting reasons as to the underlying causes and solutions for LA/ONT's challenges. Ontario, along with certain Inland Empire stakeholders, has mounted a major public relations campaign in an attempt to persuade the City to transfer the Airport. LAWA has advocated for the Airport not to be transferred.

As discussed more fully in **II. Analysis of the Airport's Historical Aviation Activity and Financial Performance**, the downward spiral of lower activity and higher CPE has continued since reaching a peak in 2007. Despite the public scrutiny and the desire among all parties to improve the Airport's management and operations, the measures that have been taken, chiefly in the area of budget management, have not been enough to reduce the CPE to the levels that would help stimulate increased air service. Enplaned passengers, and the related Non-Airline Revenues from concessions, parking and rental cars, have continued to decline. Cargo has been a bright spot, with increases in activity recorded in recent months following several years of decline. Indeed, the Airport's operations and financial challenges are so severe that the Acacia Team is of the belief that more significant and "game changing" solutions must be implemented on an expedited basis to turn around the downward spiral.

The City, LAWA and Ontario have all made good suggestions regarding the issue of alternative management and operations options, and Ontario's proposal to transfer the Airport to Ontario. Although it would appear that the positions among the City, LAWA and Ontario are far apart, stakeholders seem ready to engage in meaningful positive dialog. The Acacia Team has noted several important initiatives where it may be possible to find areas of common interest.

A. Identification of Management and Operations Alternatives

A range of alternatives exists for the management and the operation of the Airport, including the following basic categories. These options could be modified to permit the City and other stakeholders to meet various policy initiatives.

1. Status quo or "No Transfer"
2. Regional airport authority structures
3. Alternative management options
4. Outright transfer to Ontario

As shown in **Exhibit V-1 - Overview of Potential Options for Ownership and Management of Ontario International Airport**, despite the divergent positions of the stakeholders for LA/ONT, there are options for commonality of interests that can be explored in the interest of advancing the regional dialog.

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Exhibit V-1 - Overview of Potential Options for Ownership and Management of Ontario International Airport

Transaction Options	CAO	LAWA Management	City of Ontario
No Transfer	Acceptable	Preferred	Not Acceptable
Transfer of LA/ONT to a new Regional Airport Authority	Possible	Possible	Preferred
Privatization Options	Possible	Possible	Possible
Outright Transfer of LA/ONT to Ontario	Possible	Not Acceptable	Possible

Each of these alternatives is discussed in further detail below and each could be paired with one or more of the specific revitalization options that are analyzed in **IV. Options for Revitalization of the Airport Through New Management Initiatives**, including implementation of a wide range of operational improvements and a full array of privatization alternatives.

1. "No Transfer" Alternative

Under the No Transfer alternative, is assumed that the City retains ownership of the Airport. Rather than a "do nothing" alternative, however numerous options exist to improve the Airport's management and operations, its financial results and potentially increase its air service.

a. Continue Current Business Plan

Despite management's significant and focused efforts to cut costs, which has resulted in a decline in head count and M&O Expenses as shown in **III. Benchmarking of Current Airport Operations**, the cost cutting has not come quickly enough and the Airport's CPE of \$13.07 budgeted for FY 2013 is the highest of its Medium Hub peers in the Region. Given the competition among the airports in the Region and the available capacity, this condition can cause airlines to shift seats to less costly airports.

Other initiatives that LAWA has in process, including continuing to optimize the use of the terminal facilities by shifting airline preferential use space and shutting down sections of concourses that are not needed with the lower activity levels should be considered.

While the importance of these efforts cannot be downplayed, cost cutting to manage CPE alone is not expected to reverse the passenger activity trends.

b. Other Initiatives Under any Governance Alternative

While cost cutting alone is not expected to bring about the "game changing" type of scenario that all parties seek, initiatives in conjunction with other one or more of the other options

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could be considered as outlined in **IV. Options for Revitalization of the Airport Through New Management Initiatives**.

These initiatives can be performed by any operator of the Airport, whether it is LAWA, Ontario, an authority or a private manager, and they can apply to any of the alternatives considered.

2. Transfer to a Regional Authority via a JPA

Ontario announced on August 17, 2012 that it is planning to form, through a JPA with San Bernardino County, the Ontario International Airport Authority ("Authority") over the course of the next few weeks. Although the City is not currently planning to transfer the Airport to the Authority, this action by Ontario provides a governmental unit that could receive the Airport should the City decide to agree to the proposed transfer.

Numerous alternatives are available for creation of the Authority in terms of the composition of the BOAC, which could be expanded to include representatives of the City and LAWA. These options can be considered to the extent that they help facilitate the discussion surrounding the issue of revitalizing the Airport. In addition the JPA and the Authority could provide a governance option that would facilitate oversight and assistance by LAWA during a transition period.

3. Alternative Management Options and Overview of the FAA Pilot Program

Another alternative for consideration for is alternative management models, which can exist in many forms in the U.S. These options can be used and combined with any of the governance options under considerations and should be actively considered by the CAO and regional stakeholders as a way to help achieve regional goals for all parties.

Public airports contain significant private sector activity, given that they provide for the operations of commercial airlines, rental car agencies and many other businesses. In **IV. Options for Revitalization of the Airport Through New Management Initiatives** there is a detailed description of several privatization options for consideration. Such options can include management contracts, and alternative management model transactions which include long term concessions and availability payment or revenue sharing structures.

Alternative management structures can be utilized by airports subject to state and local laws, airline agreements, bond indentures, tax exempt bond provisions and other constraints and often without FAA approval, if any proceeds or profit remain within the airport and do not trigger the Revenue Diversion provisions. For instances where a planned transaction would trigger the Revenue Diversion provisions, and when the entire airport will be included in a long term transaction, the FAA has provided its Privatization Pilot Program (the "Pilot Program").

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c. *Using the FAA Pilot Program*⁵

- i. *Background.* Congress established the "Pilot Program" to explore privatization as a means of generating access to various sources of private capital for airport improvement and development. Private companies may own, manage, lease and develop public airports. The 2012 Reauthorization Act (the "Act") increased the number of airports than can participate from five to 10. The Act authorized the FAA to permit up to 10 public airport sponsors ("Sponsor") to sell or lease an airport with certain restrictions and to exempt the Sponsor from certain federal requirements that could otherwise make the transaction impractical. If a transaction occurs, the airport owner or lease holder may be exempt from certain federal regulations, including repayment of federal grants, return of property acquired with federal assistance, and the use of proceeds from the airport's sale or lease to be used exclusively for airport purposes. The Program began in September 1996.

As of June 2012, there were three active applications in the Program: Chicago Midway International Airport ("MDW"), Luis Muñoz Marín International Airport ("SJU") and Hendry County Airglades Airport (no designated International Air Transport Association call-sign). **Exhibit V-2 – Prior Applicants for the Program** lists all of the current and past applications and their status.

Exhibit V-2 - Prior Applicants for the FAA Pilot Program

Airport Name	Airport Location	Application Status
Brown Field Municipal Airport	San Diego, CA	Application withdrawn 2001
Chicago Midway International Airport	Chicago, IL	Revised timetable will be submitted by December 31, 2012 or it is possible that Midway will lose its slot.
Gwinnett County Briscoe Field	Lawrenceville, GA	Application withdrawn June 11, 2012
Hendry County Airglades Airport	Clewiston, FL	Preliminary application approved October 18, 2010. Airport Sponsor is negotiating an agreement with a private operator.
Louis Armstrong New Orleans International Airport	New Orleans, LA	Application withdrawn October 21, 2010
Luis Muñoz Marín International Airport	San Juan, Puerto Rico	Preliminary application approved December 22, 2009. Airport Sponsor published a Request for Qualifications in July 2011. Sponsor selected Aerostar Airport Holdings on July 19, 2012, to become the private operator.
New Orleans Lakefront Airport	New Orleans, LA	Application terminated 2008

⁵ Source: http://www.faa.gov/airports/airport_compliance/privatization/

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Exhibit V-2 - Prior Applicants for the FAA Pilot Program		
Airport Name	Airport Location	Application Status
Niagara Falls International Airport	Niagara Falls, NY	Application withdrawn 2001
Rafael Hernández Airport	Aguidilla, PR	Application withdrawn 2001
Stewart International Airport	Newburgh, NY	The first commercial service airport to participate in the FAA's privatization program from March 2000 to October 2007. The Port Authority of New York and New Jersey now operates the airport.

ii. *Legislative Summary and Application Procedures.* Section 149 of the FAA Authorization Act of 1996 established the Pilot Program, and authorized the U.S. Department of Transportation ("USDOT") to grant exemptions from certain federal statutory and regulatory requirements for up to five airports. A request for participation in the Pilot Program can be initiated by filing either a preliminary or final application for exemption with the FAA. This statement identifies the issues the DOT will consider in granting exemptions and approving the transaction under the Pilot Program; it also describes the application procedures to be used by interested public airport Sponsors and private parties to apply for an exemption under the Pilot Program.

iii. *Provisions for Issuance of an Exemption in Connection with a Transfer of Airport Operation.* Provides that the FAA Administrator ("Administrator") may issue exemptions to a public Sponsor and a private Sponsor only if they find that the sale or lease agreement contains provisions satisfactory to the FAA ensuring that:

- Airport will continue to be available for public use on reasonable terms and conditions without unjust discrimination.
- Operation of the airport will not be interrupted if the private operator experiences bankruptcy or other financial difficulty.
- The private operator will "maintain, improve, and modernize" airport facilities through capital investments, and submit a plan for these actions.
- Airport fees imposed on air carriers will not increase faster than inflation unless a higher amount is approved by at least 65 percent of the air carriers using the airport and the air carriers having at least 65 percent of the landed weight of aircraft at the airport.
- The percentage of increase in fees imposed on general aviation operators will not exceed the percentage increase in fees imposed on air carriers.
- Safety and security will be maintained "at the highest possible levels."
- Adverse effects of noise from operations at the airport will be mitigated to the same extent as at a public airport.
- Adverse effects on the environment from airport operations will be mitigated to the same extent as at a public airport.

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- Any collective bargaining agreement that covers airport employees and is in effect on the date of the sale or lease of the airport will not be abrogated by the sale or lease.
 - In addition, the Administrator must find that the transfer will not result in unfair and deceptive trade practices or unfair methods of competition, and that the interests of general aviation users are not adversely affected.
- iv. *Recent Developments.* The recent announcement that Puerto Rico has accepted an offer for a long-term concession of SJU provides an immediate precedent for an airport alternative management transaction under the Pilot Program. A consortium consisting of ASUR (publicly traded Mexican airport operator) and Highstar Capital reportedly offered a \$2.6 billion investment including \$615.0 million upfront payment, \$550.0 million ongoing payments and \$1.4 billion capital expenditures over the life of the lease, in exchange for a 40-year concession to operate and maintain the airport. SJU is the gateway airport to Puerto Rico and a connecting point for other Caribbean destinations. The offer reflects a valuation for the airport in the range of 14-16x Earnings Before Income Taxes, Depreciation and Amortization ("EBITDA") and is expected to be financed with leverage of approximately 7x EBITDA. While these multiples are much lower than those offered for Chicago's MDW, they reflect the reality of current market conditions.

This groundbreaking precedent transaction confirms that airport deals can get done under the Pilot Program in today's markets, and provides several lessons for LA/ONT. The process required negotiations with 15 airlines, including two cargo carriers; management of six short-listed bidding consortia; and coordination among several governmental agencies in Puerto Rico. Like LA/ONT, SJU is a commercial airport but not a major hub. And like LA/ONT, it has experienced a downturn in traffic over the last several years, as American Airlines pulled down its hub there in favor of Miami. There was considerable overlap among the investor/operator participants at SJU and REI respondents to the LAWA process relating to LA/ONT – Fraport, Goldman Sachs, GMR and Incheon were involved in both.

d. *Alternative Management Transactions Outside FAA Pilot Program*

A range of alternative management structures is available to airport sponsors outside of the Pilot Program, however the grant assurances including the provisions limiting usage of related revenues would still apply. The implication for the City is that any transactions related to the Airport could be completed, however any related transfers of proceeds could only be transferred to the City under the Pilot Program. As discussed in the meeting with the FAA in July 2012, the Pilot Program has been time consuming to implement thus far in its history, but if a simplified process were used, it might be possible to accelerate execution of an alternative management transaction, which could be structured to include the City, LAWA and the Authority.

4. **Proposed Transfer of the Airport to Ontario**

Ontario has offered the City a \$50 million payment in addition to assumption of various liabilities for an assumed total package of \$246.0 million as discussed in I.C.6. **Overview of Proposal from City of Ontario to LAWA.** While considerable support for the transfer appears to exist within

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various interest groups in the Inland Empire and in other areas, it is difficult to predict whether or to what degree a transfer to Ontario will improve LA/ONT's operating activity and financial results. Given the severity of the decline in LA/ONT's activity levels, one important factor will be assessing the timing of any actions.

An evaluation of the cash flows generated by the ongoing operations at LA/ONT demonstrates that there is limited financial value for the owners of the Airport under the current ULA. By its nature, a residual rate setting agreement, such as is in place at LA/ONT matches revenues to costs, resulting in no excess financial value. Any improvement in operating efficiency or Non-Airline Revenues results in a corresponding decrease in airline rates and charges. As a result, when reviewing the activity in the FAA's Pilot Program, as discussed more fully in **V. C. 1. FAA Pilot Program Background**, the successful transactions have been based upon new use and lease agreements that are negotiated with the signatory airlines separating airline rates and charges from Non-Airline Revenues and operating expenses and allowing for value creation with the intention of sharing the benefits of the transaction with the applicable governmental owner, the airlines and the investor.

This analysis sets aside any intangible value to LAWA or the City that might be consistent with operating more airports vs. fewer, or the impact of the 15 percent Administrative Fee to LAWA's financial profile. It also does not consider what value might be attained from the hard assets at the Airport, as the Acacia Team believes that the challenges surrounding any alternative non-aeronautical usages of the Airport would be challenging, if not impossible, to implement.

Based on this framework, it is possible that there may be more value inherent in the proposal made by the City of Ontario for a total amount of \$246.0 million consisting of a \$50.0 million upfront payment, repayment or assumption of \$71.0 million in debt and possible repayment of approximately \$125.0 million in LAX PFCs as compared to the other options discussed. Further analysis of the options would be needed to establish a likely range of value under the other alternatives.

B. Evaluation of Alternatives

In order to evaluate the alternatives it is important to establish the City's policy objectives. In addition, there are many stakeholders and differing points of view that can be considered in the evaluation of alternatives. Current stakeholders include:

- Los Angeles
- LAWA
- Ontario
- Current and potential future passengers
- Airlines serving LA/ONT
- Inland Empire commercial and business interests
- Residents of the Los Angeles Basin Air Quality Non-Attainment Zone
- FAA

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The Acacia Team recommends consideration of the public policy objectives that may exist with regards to the four options, which are portrayed below in **Exhibit V-3 - Public Policy Considerations Impacting Potential Transfer of the Airport to Ontario**. Economic development, transportation policy and social policy considerations will be important for the City to consider as it moves forward with an analysis of the alternatives.

Exhibit V-3 - Public Policy Considerations Impacting Potential Transfer of the Airport to Ontario
Impact on Economic Development – Job Growth in Los Angeles Region
Financial Impact on City's General Fund
Financial Impact on LAWA of Reduction in 15% Administrative Fee
Potential for Competition by LA/ONT versus LAX
Maintenance of Appropriate Airfield Conditions for FAA Certification
Traveling Public Access – Service and Fares
Impact on City Employees, City Contracting Requirements and other City Policies
Air Quality Considerations for Potential Growth in LA/ONT Service versus LAX
Impact on City Streets and Highways of Reduction in Travel to LAX
Airline Profitability and Willingness to Provide Air Service

In addition to the broader public policy considerations outlined above, it is also important for the CAO to consider the potential risks and rewards of each option for governance of the Airport. **Exhibit V-4 - Potential Financial Risks and Rewards to the City of Los Angeles Associated with Alternative Management and Operations Options** below lists many of the potential risks and rewards that the City and LAWA may want to consider.

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Exhibit V-4 - Potential Financial Risks and Rewards to the City of Los Angeles Associated with Alternative Management and Operations Options

Risk / Reward	No Transfer	Transfer to Regional Authority	Alternative Management/ Pilot Program Options	Transfer to Ontario
Financial Risk / Benefit to City	Residual rate model provides for payment of all M&O costs and debt service, providing for LA/ONT to be carried at essentially no cost to they City	• Risk that proposed \$50 million payment from Ontario would be considered Revenue Diversion by the FAA • Risk that \$246 million proposal is an underpayment • Potential to receive ongoing benefit to City's General Fund if FAA Pilot program is used	• Net proceeds from a FAA Pilot Program now or in future can be shared with the City's General Fund and LAWA • Management contract and alternative management options under a residual use agreement would trap benefit at LA/ONT or LAWA for benefit of airlines through lower rates	• Risk that proposed \$50 million upfront payment from Ontario would be considered Revenue Diversion by the FAA • Risk that \$246 million proposal is an underpayment • Potential to receive ongoing benefit to City's General Fund if FAA Pilot program is used
Financial Risk / Benefit to LAWA	• Same as City • Opportunity for 15% Admin Fee to remain in effect	• Risk of reduction or elimination of 15% Admin Fee • \$50 million payment to LAWA if the City decides to waive receipt of General Fund if the FAA rejects City's Revenue Diversion argument • Risk that \$50 million payment to City General Fund might be considered Revenue Diversion • Risk that \$246 million proposal is an underpayment • Indirect benefit to LAWA from defeasance of debt • Possible repayment of PFCs • Risk of possible future	• Net proceeds from a FAA Pilot Program now or in future can be shared with the City's General Fund and LAWA • Frees up LAWA management assigned to LA/ONT • Risk of reduction or elimination of 15% Admin Fee • May provide current or future payment from an alternative management transaction • Debt defeasance will eliminate need for LAWA disclosure and monitoring and related risks • Management contract options under a residual use	• Risk of reduction or elimination of 15% Admin Fee • \$50 million payment to LAWA if FAA rejects City's Revenue Diversion argument • Risk that \$50 million payment to City General Fund might be considered Revenue Diversion • Risk that \$246 million proposal is an underpayment • Indirect benefit to LAWA from defeasance of debt • Possible repayment of PFCs • Risk of possible future competition

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Exhibit V-4 - Potential Financial Risks and Rewards to the City of Los Angeles Associated with Alternative Management and Operations Options

Risk / Reward	No Transfer	Transfer to Regional Authority	Alternative Management/ Pilot Program Options	Transfer to Ontario
		competition	agreement would trap benefit at LA/ONT, unless arrangements are made for LAWA to participate • Possible repayment of PFC's • Risk of possible future competition	
Primary Risk to City	Ongoing pressure from Inland Empire stakeholders	Risk of perceived underpayment or zero payment to the City for asset	Financial / operating benefit to LAWA and Ontario may not be equal to effort needed to complete	Risk of perceived underpayment or zero payment to the City for asset
Timing and Feasibility Risks	NA	In addition to authorization from each of the Authority's members' governing bodies, FAA approval needed	• Procurement for an alternative management model will require staff resources • FAA process can take time, though expedited process can be explored • Airline approval will require experienced team to craft a workable agreement • Authority approval	In addition to authorization from each of the Authority's members' governing bodies, FAA approval needed
Taxation	NA	Tax-exempt and taxable bonds will likely need to be defeased or as refunded taxable, but tax exemption of future debt, if any, is not expected to be an issue	• Tax-exempt bonds probably will need to be defeased • Potential for additional taxes and fees to be received by City of Ontario due to assumed	Tax-exempt and taxable bonds will likely need to be defeased or as refunded taxable, but tax exemption of future debt, if any, is not expected to be an issue

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Exhibit V-4 - Potential Financial Risks and Rewards to the City of Los Angeles Associated with Alternative Management and Operations Options				
Risk / Reward	No Transfer	Transfer to Regional Authority	Alternative Management/ Pilot Program Options	Transfer to Ontario
Potential Options to Mitigate Risks	TBD	City and LAWA risks can be addressed to some degree through participation in the Authority and negotiation of term sheet conditions	increased commercial activity • Identify and agree on policy objectives and parameters up front • Perform sensitivity analysis around wide range of conditions • Coordination with legal team to design procurement may help mitigate risk of loss of tax exemption	• Risks may be more challenging to manage unless Authority structure is utilized and includes City and LAWA representation • Term sheet provisions could be negotiated to eliminate chance for future realization of windfall benefit in the event of a future alternative management model

C. Private Sector Airport Value Drivers

This portion of our engagement involves identifying and categorizing drivers that will impact the real-world valuation of LA/ONT. The underlying premise of our analysis is that the fair value of the airport is represented by the amount that a reasonable bidder would pay for a long-term concession under an FAA Pilot Program auction. With this premise in mind, we believe it's appropriate to include capital structure assumptions that reflect actual market conditions, and evaluate income tax effect and projected capital expenditures. We also believe that any potential bidder would sensitize and therefore not fully value operating assumptions made by CAO (or LAWA or LA/ONT), particularly any M&O Expense reduction, airline charges structure, Non-Airline Revenue growth assumptions and passenger growth profile. We provide details regarding these drivers and sensitivities below.

Key diligence items in reaching a conclusion on a potential valuation range include:

- Opportunities for M&O Expense reduction – what cuts could be made now vs. under a private operator?
- Airlines' appetite for an FAA Pilot Program transaction – what will they require in terms of rate reduction and other changes to agree to a new ULA
- Non-Airline Revenue opportunities – an outside consultant could be hired to better define the upside in retail, food & beverage, parking and other Non-Airline Revenue sources
- Passenger growth – what is a realistic projection for passenger growth at LA/ONT?

1. FAA Pilot Program Background

A long-term airport lease executed under the FAA Pilot Program process requires a number of critical steps to be performed successfully. These steps include securing airline agreement for the alternative management model structure, presenting an attractive enough investment proposition to attract the right private operators, and executing an open, transparent and efficient auction process, all within the bounds of the FAA guidelines.

a. Airline Negotiations

The airlines have a say in whether a project can proceed under the FAA pilot program, and have used that power to negotiate significant savings in rates and charges in both Midway and San Juan transactions. We would expect them to demand similar justification for breaking the residual ULA at LA/ONT. Any improvements made in Airport operations prior to the transactions would drive down costs for the airlines and lower the benchmark rate from which a new use agreement would be negotiated, so timing of operational changes must be considered in light of any potential FAA Pilot Program transaction.

b. Investment Proposition

Airport infrastructure investors will look for a reasonable growth profile in revenue and EBITDA, which they can finance or lever up with debt and use to drive a sufficient long-term return. Key growth drivers include the ability to reduce M&O, Non-Airline Revenue opportunities and

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increasing passenger traffic. Investors will develop their own views on growth, but being able to guide them with management/consultant forecasts will be helpful. Further, investors will need to see that there's enough value in the Airport to make participation in the process worth their time. Many investment funds have minimum dollar amounts that they can invest, and if the airport's value proposition is not high enough, they may pass on the project at the RFQ stage. LA/ONT's ability to attract ten respondents to its REI in 2011 indicates strong interest; however, that response involved a fraction of the cost and risk to potential investors that would be required to participate in a FAA Pilot Program process.

c. Process quality

Investors will want assurance that the process will be run in a fair and open manner, and most importantly that it will be able to close. Establishing political approvals upfront, perhaps by pre-approving a transaction that meets certain minimum thresholds and/or having a clear approval process with strong political backing is a key first step to any process.

2. Capital Structure, Taxes and CAPEX

Key value drivers for LA/ONT include assumptions as to capital structures, taxes and future capital projects and funding ("CAPEX").

d. Capital Structure

A simple Weighted Average Cost of Capital ("WACC") calculation is not sufficient to properly analyze the Airport's potential value in an FAA Pilot Program framework. An appropriate capital structure should include debt that can be supported by the current EBITDA, pro forma for any modifications in the use agreement structure anticipated with the transaction, and market based equity capital returns. A reasonable range of debt service coverage ratio ("DSCR") in today's markets would be 2-3x, yielding leverage of approximately 6-8x EBITDA. Commercial investors would seek equity returns in the range of 12.0-15.0 percent. While it's possible that public sector pension funds such as California Public Employees' Retirement System ("CalPERS") or California State Teachers' Retirement System ("CalSTRS") would be motivated to accept lower returns (particularly for California-focused projects), and those lower returns would generate significantly higher value, there is no precedent for their direct investment in airport infrastructure assets. Further, their financial investment would likely be paired with an airport operator, whose investment return target would be more in line with the typical infrastructure investor.

e. Taxes

Precedent FAA Pilot Program transactions at Midway and San Juan confirm that private operators will be subject to income taxes, so income tax effects should be included in any valuation analysis. Property taxes are a local issue (and did not apply to MDW or SJU), but should be applied if appropriate. We would recommend applying a 35.0 percent tax rate to EBITDA plus PFCs and CFCs (net of operating expenses), less depreciation and interest expense;

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and accounting for net operating losses (NOLs), which shield taxes in the early years of the lease.

f. CAPEX

In order to fully model the tax effect, a rigorous CAPEX forecast is required to estimate depreciation and to balance PFC revenues. In the absence of a full engineer's assessment of future CAPEX and life cycle costs, we recommend assuming regular maintenance CAPEX growing with inflation, with major projects ranging from \$50.0-150.0 million every 10 years (reflecting significant improvements or renovations). We would also assume PFCs are used to fund all projects to the extent available, with cash flows funding the remainder, subject to LAWA repayment mechanisms.

3. Sensitivities in the Operating Model

a. M&O Reductions

Private operators will bring world-class operating capabilities to LA/ONT and will certainly derive operating efficiency, driving M&O cost reduction. These efficiencies drive operating or profit margin, which can have a significant impact on LA/ONT valuation. Considerable diligence is required to fully define these efficiencies, but reaching a cost structure similar to the peer set over the course of a startup period maybe a good starting point if savings can be assumed. To the extent that there is uncertainty as to the outcome, a wide range of sensitivity is appropriate.

b. Airline Charges

The precedent FAA Pilot Program airline deals at MDW and SJU included significant upfront percentage reductions in Airline rates & charges, and locked them in for five or six years before growing at CPI. Any sensitivity to base Airline charges should be held constant for some period prior to growing with inflation.

c. Non-Airline Revenues

Non-Airline Revenues encompass land and non-terminal facility leases, food and beverage, terminal services, car rental fees, parking, ground transportation and other miscellaneous revenues. Much like with management of M&O, the private operator is expected to bring considerable expertise and efficiency to the Non-Airline Revenue sources. Growing Non-Airline Revenues into the range of best-in-class of peers is appropriate over the initial years of the concession, followed by CPI and enplanement growth thereafter. It's appropriate to sensitize to the downside from these projections to reflect execution risk.

d. Passenger Growth

Passenger growth is a key metric, off which rates & charges, Non-Airline Revenues, PFCs and other financial factors are driven. An acceptable passenger growth rate should be in the range

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of forecasts published by the FAA in the TAF, absent an airline commitment to a significant change in business model at LA/ONT. To the extent that the TAF is not considered to be an accurate forecast more extensive feasibility forecasts will be required by potential participants. Sensitizing by 0.5-1.0 percent in each direction should provide a reasonably broad range of outcomes.

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Appendix A - Glossary of Acronyms and Terms

Acacia	Acacia Financial Group, Inc.
Act	FAA Reauthorization Act of 2012
Administrator	FAA Administrator
Aeroterm	Aero Ontario RFP, LLC
Airport	Ontario International Airport
Alaska	Alaska Airlines
American	American Airlines
AMT	Alternative Minimum Taxable Bonds
ARFF	Aircraft Rescue and Fire Fighting
Authority	Ontario International Airport Authority
AXIS	Axis Consulting, Inc.
BOAC	Board of Airport Commissioners of the City of Los Angeles
BUR	Burbank Bob Hope Airport
CAFR	Comprehensive Annual Financial Report
CalPERS	California Public Employees' Retirement System
CalSTRS	California State Teachers' Retirement System
CAPEX	Expected future capital funding requirement
CAO	City Administrative Officer
CEQA	California Environmental Quality Act
City	City of Los Angeles
CFC	Consolidated Facility Charge
City Council	City Council of Los Angeles
Continental	Continental Airlines
CPE	Cost Per Enplaned
CPI	Consumer Price Index, a measure of inflation
CY	Calendar Year
Delta	Delta Air Lines
Department	City of Los Angeles Department of Airports
DOJ	U.S. Department of Justice
DOT	U.S. Department of Transportation
DSCR	EBITBA / total debt service
EBITBA	Earnings before interest, taxes, depreciation and amortization
EIR	Environmental Impact Report
FAA	Federal Aviation Administration
FA Team	Acacia, WB and AXIS
FBO	Fixed Base Operations
FedEx	FedEx Corporation
Financial Advisors	Acacia, WB and AXIS
FY	Fiscal Year
F&B	Food and Beverage Concessions
GJC	Guardian Jet Center

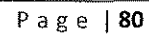
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GO	General Obligation
IL/BH	In-Line Baggage Handling and Baggage Screening
JetBlue	JetBlue Airways
JPA	Joint Powers Agreement between the City and Ontario
LACERS	Los Angeles City Employees' Retirement System
LAWA	Los Angeles World Airports
LAX	Los Angeles International Airport
LA/ONT	Ontario International Airport
LGB	Long Beach Airport
Los Angeles	City of Los Angeles
MAG	Minimum Annual Guarantee
MDW	Chicago Midway International Airport
MOU	Memorandum of Understanding
M&O	Maintenance and Operations
Non-Airline	Non-Aeronautical
OAK	Oakland Airport
Ontario	City of Ontario
OPEB	Other Post-Employment Benefits
PAX	Enplaned Passengers
PBB	Passenger Boarding Bridges
PFC	Passenger Facility Charge
Pilot Program	The FAA has provided for privatization structures under its Privatization Pilot Program
PMD	Palmdale Regional Airport
PSA	Pacific Southwest Airlines
PSP	Palm Springs Airport
RAC	Rental Car Facility
RASM	Revenue per available seat-mile
RCC	Rental Car Companies
Region	Greater Los Angeles Region
REI	Request for Expressions of Interest
Report	Report to the City of Los Angeles Regarding Ontario International Airport
RFP	Request for Proposals
SCAG	Southern California Association of Governments
SF	Square Feet
SJC	San Jose Airport
SJU	Luís Muñoz Marín International Airport
SMF	Sacramento Airport
SNA	John Wayne Airport in Orange County
Southwest	Southwest Airlines
Sponsor	Airport Owner as recognized by the FAA
SR	State Route
State	State of California

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TAF	FAA's Terminal Area Forecast
Tasks	The five tasks assigned to the FA Team per the RFP by the City
TUS	Tucson Airport
ULA	Airport's Use and Lease Agreement
United	United Airlines
UP	Union Pacific Railroad
UPS	United Parcel Service
U.S.	United State of America
VNY	Van Nuys Airport
WACC	Weighted Average Cost of Capital – Capital cost factoring in debt interest rates and tax effect and required equity return, adjusted for percentage debt and equity in the capital structure.
WB	William Blair & Company

Appendix B – Airport Layout Plan



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Appendix C - Population of Selected Areas of California, CY 1990 – CY 2010

CY	California	Los Angeles County	Orange County	Riverside County	San Bernardino County	Inland Empire
1990	29,959,515	8,878,157	2,418,986	1,193,156	1,437,315	2,630,471
1991	30,470,736	8,948,125	2,452,691	1,246,326	1,492,824	2,739,150
1992	30,974,659	9,055,424	2,497,014	1,286,364	1,534,977	2,821,341
1993	31,274,928	9,100,159	2,532,639	1,315,090	1,549,427	2,864,517
1994	31,484,435	9,096,608	2,566,599	1,346,651	1,558,854	2,905,505
1995	31,696,582	9,089,015	2,603,678	1,373,034	1,576,773	2,949,807
1996	32,018,834	9,127,042	2,643,996	1,393,732	1,596,584	2,990,316
1997	32,486,010	9,206,538	2,709,277	1,423,934	1,618,438	3,042,372
1998	32,987,675	9,313,589	2,773,187	1,461,916	1,646,304	3,108,220
1999	33,499,204	9,437,290	2,815,933	1,507,912	1,681,601	3,189,513
2000	33,987,977	9,538,191	2,854,513	1,558,985	1,718,037	3,277,022
2001	34,479,458	9,626,034	2,885,457	1,616,634	1,760,731	3,377,365
2002	34,871,843	9,705,913	2,908,245	1,687,147	1,799,791	3,486,938
2003	35,253,159	9,767,145	2,929,376	1,771,656	1,846,115	3,617,771
2004	35,574,576	9,793,263	2,941,711	1,856,542	1,899,065	3,755,607
2005	35,827,943	9,786,373	2,940,055	1,931,785	1,943,924	3,875,709
2006	36,021,202	9,737,955	2,932,261	2,012,370	1,974,140	3,986,510
2007	36,250,311	9,700,359	2,931,629	2,075,183	1,992,161	4,067,344
2008	36,604,337	9,735,147	2,957,593	2,109,712	2,003,735	4,113,447
2009	36,961,229	9,787,400	2,987,177	2,146,725	2,013,960	4,160,685
2010	37,338,198	9,826,773	3,017,598	2,202,978	2,042,027	4,245,005

Source: United States Department of Commerce, Bureau of Economic Analysis

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Appendix D - Nominal Personal Incomes of Selected Areas of California, CY 1990 – CY 2010

CY	California	Los Angeles County	Orange County	Riverside County	San Bernardino County	Inland Empire
1990	\$21,380	\$21,550	\$24,958	\$18,501	\$16,972	\$17,666
1991	\$21,734	\$21,614	\$25,445	\$18,312	\$16,973	\$17,582
1992	\$22,439	\$22,151	\$26,384	\$18,549	\$17,242	\$17,838
1993	\$22,744	\$22,143	\$26,520	\$18,753	\$17,441	\$18,043
1994	\$23,448	\$22,797	\$27,205	\$18,979	\$17,869	\$18,383
1995	\$24,498	\$23,698	\$28,299	\$19,392	\$18,288	\$18,802
1996	\$25,788	\$24,782	\$29,927	\$20,197	\$18,822	\$19,463
1997	\$27,063	\$25,721	\$31,675	\$21,067	\$19,678	\$20,328
1998	\$29,195	\$27,844	\$33,795	\$22,680	\$20,953	\$21,765
1999	\$30,679	\$28,607	\$35,416	\$23,368	\$21,630	\$22,452
2000	\$33,404	\$29,878	\$38,357	\$24,528	\$22,624	\$23,530
2001	\$33,896	\$31,523	\$38,901	\$25,586	\$23,953	\$24,735
2002	\$34,049	\$32,080	\$39,888	\$25,854	\$24,414	\$25,111
2003	\$34,975	\$32,995	\$41,793	\$26,528	\$25,298	\$25,900
2004	\$36,887	\$34,534	\$44,301	\$27,416	\$26,443	\$26,924
2005	\$38,731	\$36,498	\$47,417	\$28,563	\$27,481	\$28,020
2006	\$41,518	\$39,610	\$51,359	\$30,039	\$28,607	\$29,330
2007	\$43,211	\$41,273	\$52,342	\$30,720	\$29,765	\$30,252
2008	\$44,003	\$42,881	\$52,720	\$30,842	\$30,220	\$30,539
2009	\$41,301	\$40,356	\$48,893	\$29,000	\$29,072	\$29,035
2010	\$42,514	\$41,791	\$49,863	\$29,222	\$29,609	\$29,408

Source: United States Department of Commerce, Bureau of Economic Analysis



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Appendix E - Top 30 Origin and Destination (O&D) Passenger Destinations for Ontario Airport

Origin-Destination (O&D) Passengers CY								
Destination	Destination Code	2005	2006	2007	2008	2009	2010	2011
Sacramento	SMF	673,700	688,750	717,020	640,920	547,750	491,230	432,350
Oakland	OAK	675,910	646,870	668,800	592,940	494,800	463,440	424,560
Phoenix	PHX	457,690	439,470	418,450	356,700	292,350	268,810	265,820
Seattle	SEA	310,640	324,400	302,540	285,460	251,140	260,190	264,780
San Jose	SJC	366,140	375,210	401,960	349,380	290,930	280,540	252,840
Las Vegas	LAS	429,950	402,610	404,950	298,640	227,110	199,280	190,120
Denver	DEN	205,400	221,810	197,860	150,840	123,590	169,470	159,140
Portland	PDX	213,850	216,680	203,210	196,280	150,720	153,970	158,270
Dallas/Fort Worth	DFW	188,840	169,010	180,920	164,740	123,460	131,880	141,800
Salt Lake City	SLC	130,140	154,420	142,590	99,660	84,960	84,740	82,640
Chicago Midway	MDW	44,180	40,780	83,700	49,540	42,580	64,190	70,290
Atlanta	ATL	127,900	104,100	99,860	79,050	58,050	75,520	67,330
Minneapolis	MSP	53,310	29,350	27,430	31,330	45,340	61,130	61,980
Orlando	MCO	78,080	83,370	82,990	68,810	58,210	67,220	60,430
Detroit	DTW	56,240	54,820	53,060	41,150	41,620	52,690	53,320
Chicago O'Hare	ORD	70,690	62,700	65,830	51,520	49,120	60,270	51,180
Baltimore-Wash.	BWI	81,920	77,720	62,860	53,090	54,150	50,750	50,680
Houston	IAH	96,640	104,750	87,760	83,100	73,880	64,120	50,210
St. Louis	STL	75,680	67,240	51,270	53,170	48,400	48,490	49,780
San Francisco	SFO	38,370	89,500	46,960	39,310	39,070	35,670	48,830
Reno	RNO	92,630	100,200	85,400	77,970	66,640	62,350	48,460
San Antonio	SAT	57,950	67,450	45,100	41,680	51,270	49,510	47,640
Philadelphia	PHL	55,430	59,140	56,940	57,670	53,740	50,260	47,370

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Appendix E - Top 30 Origin and Destination (O&D) Passenger Destinations for Ontario Airport

Origin-Destination (O&D) Passengers CY								
Destination	Destination Code	2005	2006	2007	2008	2009	2010	2011
Kansas City	MCI	57,970	57,510	53,140	48,270	55,590	55,060	42,730
Charlotte	CLT	38,970	33,570	38,700	41,900	29,850	36,270	40,700
Washington R.	DCA	29,240	27,440	43,090	35,720	34,620	40,620	38,750
Nashville	BNA	69,490	75,720	74,070	68,620	70,360	53,680	38,670
New York LG	LGA	34,160	30,540	33,650	27,720	29,160	32,700	38,480
Spokane	GEG	50,570	53,490	44,510	40,780	51,340	42,760	38,410
Other		1,737,930	1,707,790	1,619,370	1,346,010	1,233,700	1,198,390	1,128,290
Total		6,599,610	6,566,410	6,393,990	5,471,970	4,773,500	4,705,200	4,445,850

Source: United States Department of Transportation Database DB1B, City-Pair Origin and Destination