

**United States House of Representatives
Committee on Transportation and Infrastructure
Subcommittee of Aviation**

Written Testimony of Los Angeles City Administrative Officer Miguel Santana

September 27, 2012

Good afternoon and thank you members of the Subcommittee for the opportunity to address your committee. The focus on revitalizing LA/Ontario International Airport (Airport) is an important issue in the region.

The CAO's role in this process is to analyze and provide recommendations to the City Council and the Mayor. The CAO does not manage nor does Los Angeles World Airports (LAWA) report to the CAO. LAWA reports to a separate Board of Commissioners that are appointed by the Mayor. Any proposed transaction would need approval by the Board of Airport Commissioners and affirmed by the Los Angeles City Council.

My office was instructed by the Los Angeles City Council to evaluate the City of Ontario's proposal and help identify and analyze the other potential options for future ownership, operation, and management of the Airport. To assist in the review, my office contracted with Acacia Financial Group, along with other consultants to help analyze the potential options. It is our goal to facilitate and continue the dialogue with Ontario and its partners in discussing a long term strategy for the Airport.

City of Ontario Proposal for Transitioning Airport to Local Control

Over the last few years, LAWA has taken numerous steps to create operational efficiencies at the Airport and reduce operating costs in an effort to increase passenger traffic and promote new air service. These steps include reducing staffing levels by 41 percent from 2007 to 2012, consolidating shuttle bus and parking operations, retaining a new marketing manager and reducing operating costs.

However, even though LAWA has made progress in improving operations and curtailing costs, an acquisition and transfer of the Airport back to the City of Ontario and/or the Ontario International Airport Authority has considerable merit.

To that end, the City of Ontario proposed in their December 14, 2011 letter to the LAWA, that the operations and fee title to the Airport 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 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

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, based on my conversation with the FAA, 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. As a consequence of the FAA's definition of airport revenue, and upon a review of the proposed Transaction Payment, our 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 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, 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

While we do not recommend accepting the offer made by Ontario, we did explore and analyze other alternatives for improved management and operation of the Airport. We considered four such alternatives.

Alternative 1: No Transfer or Acquisition by Another Entity

The status quo continues with LAWA retaining ownership and management of the Airport. While this option would continue LAWA's ownership, management, and operation of the Airport, improvements to the current operations could be made including: (a) continuing the cost cutting measures for maintenance and operations; (b) making optimal use of the terminals by shifting certain airlines' exclusive use premises to reduce space utilization; (c) automating the parking operations; (d) examining both parking lot shuttle bus operations and the in-line baggage handling and screening maintenance for efficiencies; (e) emphasizing direct marketing to both the airline industry and potential passengers; and (f) and other cost saving or revenue proposals.

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

This option is similar to the City of Ontario's December 2011 proposal to the City, except that the transfer would be to Ontario and the recently established Ontario International Airport Authority (OIAA). Here again, provisions would have to be made for defeasing LAWA's bond indebtedness, repaying LAWA for approximately \$128 million in LAX PFCs, protecting the current LAWA employees servicing the Airport and the City of Ontario and/or the OIAA obtaining an Airport Operating Certificate from the FAA.

Alternative 3: Alternative Management Model or Privatization

The sale or lease of the Airport, or part of its operations, to a private firm using the FAA's Privatization Pilot Program is possible. A Regional Airport Authority could also be used or developed that could partner with the private sector using a third-party management contract to manage Airport operations. Any airport privatization option would include: (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 Airport-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 FAA approval is obtained and the proceeds go to LAWA as airport revenue used to benefit the City's airport system.

This alternative would 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; (4) execute an employee protection agreement 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).

Over the years, LAWA has invested over \$560 million in Airport improvements paid from FAA grants, PFCs collected from passengers at LAX, issuance of Airport Revenue Bonds, PFCs collected from passengers at the Airport and other Airport revenue. Many of the above considerations were acknowledged and agreed to by the City of Ontario in its December 2011 conceptual proposal.

As part of any acquisition of the Airport, consideration must be given to the \$70.6 million bond defeasance, \$128 million repayment of the LAX PFCs and the costs of any City employee protection and compensation program arising from a transaction. In addition, consideration should be given to the Airport's land value and the potential for future growth. LAWA's own consultant provided an valuation that included a range with 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.

THE PATH FORWARD

My office recommends that the City of Los Angeles and LAWA explore a potential acquisition (Alternative 4) by the City of Ontario and/or the Ontario International Airport Authority of the Airport, subject to the required FAA approvals. My office recommends that 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 activity across the region. All participants could potentially achieve their goals and objectives 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 capital infrastructure at LAX.

The City Council's Trade, Commerce and Tourism Committee heard our Ontario Airport report on Tuesday, September 25, 2012. At the time of drafting this testimony, we expected the Committee to approve our recommendations and send the report to the full Council for adoption. As part of this process, my office proposed that the Board of Airport Commissioners adopt several principles to assist with analyzing and pursuing alternative Airport management and governance structures including:

- 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

Subcommittee on Aviation
Testimony of Miguel Santana

- 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

It is the City of Los Angeles' goal to maximize the inherent value and facilitate the success of the Airport to benefit the region by considering a different model for the management and operation of the Airport. Depending upon the decision to implement an alternative management structure, any new ownership, governance, or management structure will need to develop a transition plan, timetable, and the concurrence of all interested parties.

Thank you for the opportunity to address your Subcommittee on Aviation.