EXECUTIVE SUMMARY

CONTEXT FOR THE IEA SURVEY
The City of Los Angeles retained KH Consulting Group (KH) of Los Angeles to conduct a City Charter-mandated performance review, also known as an Industrial, Administrative, and Economic (IEA) Survey, of Los Angeles World Airports (LAWA). LAWA is the City’s Department of Airports and consists of three airports – Los Angeles International Airport (LAX), Ontario International Airport (ONT), and Van Nuys Airport (VNY). Palmdale Airport (PMD) is no longer an operating airport.

KH also performed the last two IEA Surveys in 2008 and 1999; thus, KH brings an understanding of the progress and changes made at LAWA during the past 17 years. Consistent with KH’s approach in the last two IEA Surveys, KH focused more on what LAWA should do to improve its strategy, structure, processes, and operations, and less on looking backward at its prior years’ performance. The 2016 IEA Survey also developed performance measurements to enhance LAWA’s accountability and responsiveness to external stakeholders as well as LAWA’s ability to internally manage its operations.

STRENGTHS AND ACCOMPLISHMENTS
Highlights of LAWA’s numerous noteworthy accomplishments since the 2008 IEA Survey include:

- LAX Modernization and Improved Concessions
  - Terminal modernization and facility upgrades, including the transformation of the Tom Bradley International Terminal (TBIT), earning it LEED Gold certification from the U.S. Green Building Council
  - The new Central Utility Plant (CUP) while continuing to operate the old plant and earning LEED Gold status, given its enhancements for energy efficiency and conservation
  - Buy-back agreements for LAX’s terminal assets, which has encouraged further terminal development and modernization
  - Improved concessions at LAX, many of which now have a Los Angeles (LA) motif
  - Formation of the Construction & Logistics Management (CALM) team to develop tactics to handle utility shut-downs and traffic lane closures to improve coordination and minimize impact to people going to and from LAX

- Financial Viability
  - Maintaining ‘AA’ senior lien bond ratings while issuing nearly $4 billion of bonds to support LAX’s modernization
  - Strengthened revenue streams through new rate agreements with airlines and new concessions agreements

- Better Systems
  - The Federal Aviation Administration (FAA) finding of zero discrepancies during its annual airfield inspection
The new Airport Response Control Center (ARCC) for managing LAX daily operations and emergencies
- An improved pavement management system across all airports
- New technology upgrades to information systems

**KEY FINDINGS AND RECOMMENDATIONS**

This section highlights the 30 recommendations in the 2016 IEA Survey Report. All of the proposed action steps should be started within the next six months to two years. Many of the recommendations, once implemented, will become ongoing initiatives.

**Strategy and Budgeting**

*LAWA would benefit from a strategic framework for defining priorities, which it should then budget for, measure, and improve.* Beyond the modernization initiatives, LAWA currently lacks strategic priorities that guide its business directions. Strategic priorities can also serve as the foundation for budgeting and a performance management system. A “strategy-linked” budgeting process will reflect expected outcomes, providing insights regarding priorities, along with budget performance reports against outcomes for BOAC, executive leadership, and divisions.

**Corporate Social Responsibility (CSR)**

*To improve public accountability, LAWA should embrace the principles of Corporate Social Responsibility (CSR).* LAWA currently lacks formal corporate values and guiding principles about how it will conduct itself. CSR emphasizes the role of organizations to embrace actively their responsibility to stakeholders, moving beyond regulatory compliance to include meeting high ethical standards and national or international norms.

*Because of LAWA’s public accountability role, it must continually strive to be a prudent steward of the airport assets, while ensuring the quality, safety, and convenience demanded by its passenger base and Los Angeles residents.* LAWA has many stakeholders: airlines, passengers, adjacent communities, airport-related businesses, and government. LAWA must balance the public trust, accountability to the airlines, and needs of government (e.g., City of Los Angeles, LA Metro, FAA, or Transportation Security Administration (TSA)).

*LAWA should monitor and plan to increase its contribution to the Los Angeles economy.* LAWA is an important economic engine, contributing at least $2.6 billion to the regional economy and 360,000 jobs in Los Angeles County. Despite its importance, economic development is seen as a consequence or secondary effect of airport activities, and not as a central part of LAWA’s mission. As a result, LAWA has neither developed a strategic approach to maximize its economic impact and benefits, nor compiled and monitored data on its economic impact.

The FAA requires LAWA to spend all airport-generated revenues for aviation-related purposes, including land acquisition projects. Following these guidelines, LAWA has begun to invest successfully in real estate surrounding LAX. The new LA Metro Crenshaw/LAX Line and the Automated People Mover (APM)
that will connect LA Metro trains with LAX will stimulate economic development in the vicinity of LAX. To systematically and effectively employ land use development, LAWA should establish a comprehensive economic development strategy that can guide policy and investments by LAWA to meet measurable goals and objectives for economic development.

**LAWA should present the "big picture" of its environmental impact, while communicating its sustainability efforts.** The 2008 Los Angeles World Airports Sustainability Plan remains the most recent policy document guiding LAWA’s sustainability efforts. LAWA has prepared Environmental Sustainability Reports since 2008 as part of its public accountability. During the past six months, LAWA’s environmental staff members have made progress in achieving a more cohesive perspective on environmental sustainability and the environmental reality of LAWA’s facilities. Consistent with CSR principles, LAWA’s next environmental report will expand from the original focus on compliance with regulations and the production of required Environmental Impact Reports (EIRs) to a broader view of the issues. LAWA is seeking Level 3 accreditation through the Airport Council International—North America (ACI-NA) Airport Carbon Accreditation program¹ for achieving carbon reduction. LAWA has also set targets in Greenhouse Gas (GHG) emission reductions.

LAWA should continuously work toward moderating its environmental impact and informing the public about both its environmental impact and its mitigation efforts. All airports are sources of pollution, consuming natural resources and producing pollutants. Any assessment of environmental sustainability at LAWA inevitably occurs in the context of an unspoken, but widespread belief, on the part of the public and stakeholders that the economic and social benefits of air travel outweigh the environmental impacts. Transparency is the best way to ensure that environmental costs and economic benefits are being considered. LAWA must establish goals and objectives to meet its CSR goals, and not just comply with regulations, but go beyond them.

**LAWA must always strive to maintain good relationships with external stakeholders, given their diverse interests.** LAWA has a dispersed and complex network of external stakeholders. Local communities and neighbors are primarily concerned about adverse environmental impacts on them – primarily traffic and noise. Many of the residents also benefit from airport-related businesses and employment opportunities.

**LAWA should establish goals and measurements for evaluating the effectiveness of government affairs’ activities.** Airports require close working relationships with other governmental agencies, including the FAA, TSA, LA Metro, and other City of Los Angeles departments and elected officials. Since the 2008 IEA Survey, LAWA has had uneven working relationships with City Hall. City of Los Angeles relationships are important to nurture. For example, LAWA has been working with the Los Angeles Department of Water & Power (LADWP) to mitigate power outages and surges at LAX. Such outages and surges are a major hindrance to the airlines and airport operations; they can also erode travelers’ perceptions when elevators or escalators are out of commission.

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¹ Airport Council International (ACI), Airport Carbon Accreditation, Issue 5.3, January 2015.  
www.airportcarbonaccredited.org
LAWA may reduce losses and improve performance with a stronger Internal Audit function with BOAC oversight. LAWAs lack of an active Audit Committee on BOAC and a robust Internal Audit function. Some key areas have not had independent audits in years. Therefore, BOAC should re-activate its Audit Committee, which would approve and ensure completion of the annual risk-based audit plan.

Guest Experience

Mayor Garcetti established “Guest Experience” at LAX as a priority for LAWA in early 2015. The term “guest” includes both passengers and people who come to LAX as “meeters and greeters” of passengers. KH divided the Guest Experience initiative into two parts: core services and world-class features.

Core Services

Core services are expected of all airports, and include safety and security, efficient movement to and through LAX, level of air services (cities served), and clean and well-maintained facilities. Unless the airport meets acceptable thresholds in these areas, travelers will rate LAX – or any other airport – lower in terms of satisfaction and as a desirable airport to use.

LAWAs highest priority is to ensure that the airports are safe and secure. LAWAs should continually strive to protect guest safety and security in a partnership that includes both sworn and non-sworn officers, including those from other law enforcement agencies (e.g., TSA, Customs Border Patrol (CBP), or Federal Bureau of Investigation (FBI)). The total number of Part 1 violent crimes (aggravated assault, homicide, rape, and robbery) has steadily declined from 14 in 2013 to 3 in 2015 (year-end estimate). Most Part 1 crimes at LAX are property crimes (e.g., burglary, theft, and auto theft), which have averaged between 7.5 and 8.1 Part 1 Crimes per 1 million annual passengers (MAP) per year for the last 3 years.2

LAWA needs to proactively manage Central Terminal Area (CTA) congestion during and after construction. LAWAs completed the preferred concept plan for its $5-billion Second Modernization Program to improve land access to LAX, including a 2.2-mile APM that will link a Consolidated Rent-A-Car Center (CONRAC) with a new LA Metro Crenshaw/LAX station and the LAX terminals.

In the next few years with the Second Modernization Program, guests will face increasing challenges in accessing the CTA because of major construction and rising passenger volumes. The lack of focus on landside operations appears to be one of the most serious weaknesses at LAWAs. ARCC and CALM are steps in the right direction; however, LAWAs lacks traffic engineering expertise and sufficient staffing for landside operations to deal with CTA congestion problems. LAWAs will need an integrated approach on accessing and exiting the CTA, parking, and terminals to minimize congestion. Specific actions LAWA can take are to:

- Assign landside operations overall operating responsibility for terminal, traffic, and parking performance
- Add staff to allow adequate 24/7 coverage of landside operations as a function distinct from airside operations

- Add specialized expertise in traffic engineering
- Form a cross-functional team to draw on the experience in ARCC and CALM to develop and execute a coordinated landside operations strategy.³
- Increase operations technology investments, given anticipated construction-related challenges

**LAWA maintenance should continue its efforts to address preventive and unscheduled maintenance.**
LAWA only began to track planned maintenance systematically through Maximo in July 2015. Such tracking is important for stabilizing operations and system reliability, which affect the guest experience.

**World-Class Features**⁴
The City of Los Angeles wants LAX to be world class and competitive with other international airports in the United States and overseas. City of Los Angeles officials believe that arriving passengers’ first impression of Los Angeles is based on what they experience at LAX. A bland corridor does not evoke the desired image of Los Angeles, as discussed under “Guest Experiences.”

**World-class features heighten the guest experience by making the airport friendly and enjoyable.**
World-class elements include ambiance/LA sense of place, concessions and amenities, hospitality, and informed guests. International airports are gateways to metropolitan areas, and these factors distinguish truly excellent airports from more mundane facilities, serving as introductions to the anticipated experiences in the local areas. World-class features can also be a major source of airport revenue; for example, LAWA’s concessions generate $1.5 billion in total revenues. The Second Modernization Project will further improve these features and the guest experience.

**LAWA needs to ramp up its sense of LA and its amenities for LAX to be world class.** LAWA has focused on upgrading its concessions and ensuring that more of them reflect the ambiance of Los Angeles. Although improving, LAX does not evoke a vibrant sense of Los Angeles.

World-class airports also ensure that desired commercial outlets, especially multiple food and shopping opportunities, technology, and amenities, are available on both sides of the security checkpoint. But even at the newly renovated TBIT, the waiting area for meeters and greeters is still dark and crowded with insufficient seating and difficult sight lines to see arriving passengers. With the closure of the Theme building, the only terminal with sit-down restaurants where departing passengers can check in and share a meal with friends and relatives before going through security is TBIT.

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³ Should include Operations, Maintenance, & Emergency Management Group (OMEMG); Commercial Development Group (CDG); Facilities Maintenance & Utilities Group (FMUG); Guest Experience; and Law Enforcement & Homeland Security (LAX airport police).
Times and expectations also change. What was once considered a world-class feature may become a core service, such as Wi-Fi connectivity or charging stations. Despite concerted efforts by LAWA, LAX’s Wi-Fi services lag behind other world-class airports in terms of speed.

**LAX needs to focus on improving its reputation for hospitality and helping to make it easier for guests to navigate LAX.** LAWA’s goal should be to enable guests to feel confident that they know what they need to know about getting to, moving through, and leaving LAX before they start their journeys. LAWA’s “LAX is Happening” website provides travel tips for each terminal; however, wayfinding is a challenge at LAX. Little signage is in foreign languages. Guests should feel welcomed with friendly and informed airport workers. Guests do not care whether their questions are answered by an airline employee, a LAWA employee, or a contract worker – all should be trained in hospitality and airport information. To guests, the combined actions of all those people generate their LAX experience.

**Guest Experience Metrics**

**LAWA will need to be nimble and move expeditiously to leverage technology and access data through proprietary applications (apps) or partnerships.** LAWA has only part of the data needed to track the entire guest experience. The guest experience begins from the moment individuals leave their homes, hotels, or work to get to LAX. Moreover, guests demand real-time information so passengers can be on time for flights and meeters and greeters can meet passengers. LAWA should work with partners to develop technology and wayfinding applications that direct people to the proper place and inform them about waiting times (e.g., Waze, Google, MapQuest, Go LA, CBP, TSA, etc.).

**LAWA should continue its guest experience efforts, tied to performance measurements.** LAWA will need to develop collaborative relationships with multiple jurisdictions (e.g., airlines, TSA, and CBP) to measure guest experiences across their travel experience at LAX.

**Capital Improvements**

Since 2007, LAWA has spent $5.2 billion of its $8.5-billion Capital Improvement Program (CIP) to modernize LAX, including TBIT, making it the largest public works project in the City’s history. The Second Modernization Program, already discussed, is a comprehensive redevelopment of the ground transportation system. In 2016, LAWA intends to initiate procurement of the first two CIP elements, the APM and the CONRAC, using a Design-Build-Finance-Operate-Maintain (DBFOM) delivery method.

**LAWA should undertake some internal improvements to strengthen LAWA’s capacity to implement the Second Modernization Program.** LAWA should enhance its financial system (SAP) to better support capital projects. SAP provides budget versus actual reports; however, for large dollar line items (e.g., construction), budget amounts are released incrementally during the year. Consequently, staff members maintain separate Excel spreadsheets to monitor these costs. LAWA should engage in a business process review of the SAP enterprise software system to evaluate how to take full advantage of SAP functionality, especially data warehousing and linkages to the Prolog construction management and Maximo maintenance management systems.
LAWA can also improve capital program implementation through stronger management readiness and coordinated processes. LAWA would benefit from establishing a business solutions unit at LAWA to focus on process improvements and information systems design. Better estimations of the number of augmentation staff (e.g., contractors) needed may lower capital program and project costs. LAWA will need a full complement of capable staff to implement its aggressive capital program; thus, LAWA should apply additional resources and improved approaches to human resource processes, especially recruitment, hiring, discipline, and promotion (i.e., streamlining the overall cycle time and transparency for these processes).

**LAWA should establish at least 5-year and 10-year CIPs** that include anticipated multi-year capital projects and maintenance of existing and planned facilities.

**Changes in procurement can reinforce LAWA’s commitment to fair and impartial Requests for Proposal (RFP) processes.** LAWA Procurement awarded $593 million last year. Procurement has challenges in knowing whether LAWA is getting the best value from vendors and contractors responding to Requests for Bid (RFBs). In 2014-2015, 58% of the solicitations received only 1 or 2 bids and represented approximately 60% of contract dollars. In some situations, LAWA is limited in its ability to ensure competition because the FAA only approves one vendor to provide specific products; however, there is room for improvement at LAWA.

LAWA should investigate the causes for the low number of bidders, and take actions to ensure that specifications are biddable, that there are qualified proposers, and that bids are responsible and responsive. In addition, LAWA should assign a more active role to Procurement in managing the selection process for RFPs, especially the larger ones.

**Balanced Scorecards (BSCs) and Performance Measurements**

Major themes of this IEA Survey report include the need to establish much more rigorous, data-driven management processes; the need to significantly improve the passenger experience; and the need to manage increasingly cross-functional and cross-jurisdictional challenges, such as CTA congestion, particularly during the Second Modernization Program.

LAWA currently collects substantial quantities of data related to its operations. Some are mandated, while others are common practice. What is missing is the arrangement of the measurements so that the metrics:

- Support LAWA’s mission and strategic priorities
- Facilitate regular monitoring and continuous improvement of operations and services
- Are shared regularly within LAWA, and with BOAC, City officials, City departments, and other governmental agencies, as well as with the public at large

Based on guidance from the Joint Administrators, and with confirmation from LAWA executive leadership, the KH team applied the Balanced Scorecard (BSC) model to performance measurements in

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5 Robert S. Kaplan and David P. Norton developed the BSC model, which is widely used in corporate America because it strategically links performance planning with a measurement framework.
some key areas that could serve as prototypes for expanding the BSCs into a complete performance management system for all LAWA divisions. The first two BSC prototypes are more strategic and cross-functional; the other two are business-oriented BSC prototypes that affect all LAWA operations:

- **Corporate Social Responsibility (CSR) BSC** (economic and fiscal impact; environmental responsibility (e.g., air, water, and noise impacts))
- **LAX Guest Experience BSC** (core services and world-class services)
- **Administrative BSC** (Procurement, Human Resources, and Internal Audit)
- **Finance BSC** (Finance, Accounting, and Risk Management)

LAWA has multiple challenges in developing a complete performance management system with dashboards, however:

- LAWAN has neither identified its strategic priorities nor established goals, objectives, and targets to measure, benchmark, and monitor progress against its programs and services, except for its Modernization Programs.
- LAWAN executives do not have a set of cross-functional, high-level metrics upon which to focus. Divisions do not routinely share data. Some data collection efforts are labor intensive or the data are not available.
- LAWAN will need to work with its partners to obtain data, particularly for measuring and monitoring guest experiences (e.g., TSA screening times or airline counter baggage check in).

KH developed goals, defined measurements in support of those goals based on prevailing practices and statistics, compiled data for one or more years if available, defined the frequency that LAWA managers should monitor the measurement, and established targets where feasible. LAWA now has a framework for further refinement, such as the development of specific objectives in support of the goals tied to targets.

**On the basis of these BSC prototypes, LAWA should develop BSCs and a complete performance measurement system.** The use of a performance management system will be a dramatic cultural shift toward increased evidence-based, decision-making at LAWA. LAWA should review, refine, adopt, and monitor the BSCs developed during the IEA Survey. LAWA should also develop BSCs for its top strategic priorities and all LAWA divisions. LAWA should designate Finance to manage financial metrics reported in all BSCs.

**ONT – OUTSIDE THE SCOPE OF THE IEA SURVEY**

During the course of the IEA Survey, the City of Los Angeles entered into an agreement to transfer ONT to the newly created Ontario International Airport Authority (OIAA). This transfer will require significant planning and administrative work to ensure a smooth transition of ONT.