

In the opinion of Kutak Rock LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2016B Subordinate Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2016B Subordinate Bond for any period during which such Series 2016B Subordinate Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2016B Subordinate Bonds, or a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Bond Counsel is further of the opinion that interest on the Series 2016B Subordinate Bonds is a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Series 2016B Subordinate Bonds is exempt from present State of California personal income taxes. See “TAX MATTERS” herein.



\$451,170,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Subordinate Revenue Bonds
2016 Series B
(AMT)



Dated: Date of Delivery

Due: May 15, as shown on the inside cover

The Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series B (the “Series 2016B Subordinate Bonds”) of the Department of Airports of the City of Los Angeles (the “Department”) are being issued as described herein. Capitalized terms not defined on the cover of this Official Statement shall have the meanings ascribed to them in this Official Statement.

The Series 2016B Subordinate Bonds are being issued to (i) pay or reimburse the Department for certain capital projects at Los Angeles International Airport, (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2016B Subordinate Bonds, and (iv) pay costs of issuance of the Series 2016B Subordinate Bonds. See “PLAN OF FINANCE.”

The Series 2016B Subordinate Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues and (ii) certain funds and accounts held by the Subordinate Trustee. The Series 2016B Subordinate Bonds are being issued on parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS.”

The Series 2016B Subordinate Bonds do not constitute or evidence an indebtedness of the City of Los Angeles (the “City”) or a lien or charge on any property or the general revenues of the City. Neither the faith and the credit nor the taxing power of the City, the State of California or any public agency, other than the Department, to the extent described herein, is pledged to the payment of the principal of or interest on the Series 2016B Subordinate Bonds. The Department has no power of taxation. The Series 2016B Subordinate Bonds constitute and evidence an obligation of the Department payable only in accordance with Section 609(b) of the City Charter and any other applicable provisions thereof. None of the properties of the Airport System is subject to any mortgage or other lien for the benefit of the owners of the Series 2016B Subordinate Bonds. The Department is under no obligation to pay the Series 2016B Subordinate Bonds, except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Subordinate Indenture.

Interest on the Series 2016B Subordinate Bonds will be payable on each May 15 and November 15, commencing May 15, 2017. The Series 2016B Subordinate Bonds are being issued only as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), and will be available in authorized denominations of \$5,000 and integral multiples thereof. The Series 2016B Subordinate Bonds initially are being issued and delivered in book-entry form only.

The Series 2016B Subordinate Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described in this Official Statement. See “DESCRIPTION OF THE SERIES 2016B SUBORDINATE BONDS – Redemption Provisions.”

The Series 2016B Subordinate Bonds are offered when, as and if issued by the Department, subject to the approval of validity by Kutak Rock LLP, Bond Counsel to the Department, and certain other conditions. Certain legal matters will be passed upon for the Department by Michael N. Feuer, City Attorney of the City. Polsinelli LLP serves as Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. Public Resources Advisory Group and Public Financial Management, Inc. serve as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2016B Subordinate Bonds will be made through DTC on or about January 19, 2017.

RBC Capital Markets

Citigroup

Ramirez & Co., Inc.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP[†] NUMBERS

**\$451,170,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Subordinate Revenue Bonds
2016 Series B
(AMT)**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP [*] No. (544445)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP [†] No. (544445)
2018	\$ 180,000	4.00%	1.31%	BG3	2028	\$10,555,000	5.00%	3.09% ^c	BS7
2019	3,975,000	4.00	1.63	BH1	2029	11,090,000	5.00	3.18 ^c	BT5
2020	5,070,000	5.00	1.86	BJ7	2030	11,640,000	5.00	3.26 ^c	BU2
2021	7,500,000	5.00	2.06	BK4	2031	12,220,000	5.00	3.33 ^c	BV0
2022	7,875,000	5.00	2.24	BL2	2032	12,830,000	5.00	3.39 ^c	BW8
2023	8,270,000	5.00	2.37	BM0	2033	13,470,000	5.00	3.45 ^c	BX6
2024	8,680,000	5.00	2.57	BN8	2034	14,150,000	5.00	3.51 ^c	BY4
2025	9,115,000	5.00	2.72	BP3	2035	14,860,000	5.00	3.56 ^c	BZ1
2026	9,580,000	5.00	2.88	BQ1	2036	15,600,000	5.00	3.59 ^c	CA5
2027	10,050,000	5.00	2.98 ^c	BR9					

\$102,230,000 – 5.00% Series 2016B Subordinate Term Bonds due May 15, 2041 – Yield 3.70%^c, CUSIP[†] No. 544445CB3

\$162,230,000 – 5.00% Series 2016B Subordinate Term Bonds due May 15, 2046 – Yield 3.76%^c, CUSIP[†] No. 544445CC1

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^c Priced to May 15, 2026, the first date that that the Series 2016B Subordinate Bonds can be redeemed at par.

No dealer, broker, salesperson or other person has been authorized by the Department to give any information or to make any representation, other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the Department. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2016B Subordinate Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Series 2016B Subordinate Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Subordinate Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2016B Subordinate Bonds. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Department since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with the offering of the Series 2016B Subordinate Bonds, the Underwriters may over-allot or effect transactions that may stabilize or maintain the market price of such Series 2016B Subordinate Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Department undertakes no responsibility for and makes no representations as to the accuracy or completeness of the content of materials contained on the websites referenced in this Official Statement, including but not limited to, updates of such information or links to other Internet sites accessed through such websites. Any information contained on such websites that is inconsistent with the information set forth in this Official Statement should be disregarded. No information contained on such websites is a part of or incorporated into this Official Statement except as expressly noted.

CITY OF LOS ANGELES OFFICIALS

Eric Garcetti, Mayor
Michael N. Feuer, City Attorney
Ron Galperin, City Controller
Miguel Santana, City Administrative Officer
Claire Bartels, Director of Finance/City Treasurer
Holly L. Wolcott, City Clerk

CITY COUNCIL

Gilbert Cedillo (District 1)	Nury Martinez (District 6)	Mike Bonin (District 11)
Paul Krekorian (District 2)	Vacant (District 7)	Mitchell Englander (District 12)
Bob Blumenfield (District 3)	Marqueece Harris-Dawson (District 8)	Mitch O'Farrell (District 13)
David E. Ryu (District 4)	Curran D. Price, Jr. (District 9)	José Huizar (District 14)
Paul Koretz (District 5)	Herb J. Wesson, Jr. (District 10)	Joe Buscaino (District 15)

BOARD OF AIRPORT COMMISSIONERS

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Valeria C. Velasco, Vice President	Beatrice C. Hsu, Commissioner
Gabriel L. Eshaghian, Commissioner	Nolan V. Rollins, Commissioner
Jeffery J. Daar, Commissioner	Cynthia A. Telles, Commissioner

LOS ANGELES WORLD AIRPORTS STAFF

Deborah Flint, Chief Executive Officer
Samson Mengistu, Chief Operating Officer
Robert (Bob) Gilbert, Chief Development Officer
Ryan Yakubik, Deputy Executive Director, Chief Financial Officer
Debbie Bowers, Deputy Executive Director, Commercial Development
Patrick M. Gannon, Deputy Executive Director, Homeland Security and Law Enforcement
Roger Johnson, Deputy Executive Director, Airports Development
Cynthia Guidry, Deputy Executive Director, Planning and Development Group
Samantha Bricker, Deputy Executive Director, Project Development and Project Coordination
Trevor Daley, Deputy Executive Director, Chief of External Affairs
Justin Erbacci, Deputy Executive Director, Chief Innovation and Technology Officer
Aura Moore, Deputy Executive Director, Chief Information Officer
David Shuter, Deputy Executive Director, Facilities Maintenance and Utilities Group
Raymond S. Ilgunas, General Counsel

SUBORDINATE TRUSTEE

U. S. Bank National Association

BOND COUNSEL

Kutak Rock LLP

DISCLOSURE COUNSEL

Polsinelli LLP

CO-FINANCIAL ADVISORS

Public Resources Advisory Group and Public Financial Management, Inc.

AIRPORT CONSULTANT

WJ Advisors LLC

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OFFICIAL STATEMENT
\$451,170,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Subordinate Revenue Bonds
2016 Series B
(AMT)

INTRODUCTION

This introduction contains a summary of the offering and certain documents. Investors must read this Official Statement, including the appendices hereto, in its entirety.

Changes from the Preliminary Official Statement

The Preliminary Official Statement of the Department dated November 2, 2016, as supplemented by the Supplement dated January 3, 2017 (the “Preliminary Official Statement”) included references to the Los Angeles International Airport, Senior Refunding Revenue Bonds, 2016 Series C (the “Series 2016C Senior Bonds”). The Series 2016C Senior Bonds were issued on December 6, 2016. As such, this Official Statement excludes certain information regarding the Series 2016C Senior Bonds, the Senior Indenture and related matters which were contained in the Preliminary Official Statement.

General

The purpose of this Official Statement, which includes the cover page, the inside cover and following pages, the table of contents, and the appendices of this Official Statement, is to provide certain information concerning the issuance by the Department of Airports (the “Department”) of the City of Los Angeles, California (the “City”), acting through the Board of Airport Commissioners of the City (the “Board”), of its Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series B (the “Series 2016B Subordinate Bonds”). Capitalized terms used but not defined herein have the meanings ascribed to them in APPENDIX C-1 – “CERTAIN DEFINITIONS.”

The City, the Department and the Airport System

The Department is designated a proprietary department of the City. The City is a municipal corporation and chartered city duly organized and existing under and pursuant to the provisions of the Constitution of the State of California (the “State”) and the Charter of the City of Los Angeles. The City, acting through the Department, operates and maintains Los Angeles International Airport (“LAX”) and Van Nuys Airport (“VNY”). In addition, the Department maintains LA/Palmdale Regional Airport (“LA/PMD”) and, collectively with LAX and VNY, the “Airport System”), although LA/PMD is not currently certificated by the Federal Aviation Administration (the “FAA”). The Department’s fiscal year (“Fiscal Year”) currently begins on July 1 and ends on June 30 of the immediately subsequent year. The City operates the Airport System as a financially self-sufficient enterprise, without General Fund support, through the Department under the supervision of the Board. The Department is governed by the seven-member Board, which is in possession, management and control of the Airport System. See “THE DEPARTMENT OF AIRPORTS” and “—General Description” regarding the transfer of LA/Ontario International Airport (“LA/ONT”) to Ontario International Airport Authority (“OIAA”).

Aviation Activity

According to Airports Council International (“ACI”) statistics, in calendar year 2015, LAX ranked as the 7th busiest airport in the world and the 3rd busiest airport in North America in terms of total number of enplaned passengers, and 13th busiest airport in the world and 5th busiest airport in North America in terms of total cargo. According to the United States Department of Transportation Origins and Destinations Survey of Airline Passenger Traffic, for Fiscal Year 2015, LAX ranked first nationally in number of domestic origin and destination passengers. LAX is classified by the FAA as a large hub airport. See “LOS ANGELES INTERNATIONAL AIRPORT” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – OVERVIEW OF AIRPORT ROLE.”

Plan of Finance

The Series 2016B Subordinate Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the Capital Program (as defined below), (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2016B Subordinate Bonds, and (iv) pay costs of issuance of the Series 2016B Subordinate Bonds.

See “PLAN OF FINANCE,” “DESCRIPTION OF THE SERIES 2016B SUBORDINATE BONDS,” “AIRPORT AND CAPITAL PLANNING – Financing the Capital Program” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Series 2016B Subordinate Bonds

The Series 2016B Subordinate Bonds are being issued pursuant to the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the “Master Subordinate Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Subordinate Trustee”), and a Twelfth Supplemental Subordinate Trust Indenture, to be dated as of January 1, 2017 (the “Twelfth Supplemental Subordinate Indenture,” and together with the Master Subordinate Indenture and all supplements thereto, the “Subordinate Indenture”), by and between the Department and the Subordinate Trustee; Resolution No. 25899 adopted by the Board on February 18, 2016 and approved by the City Council of the City (the “City Council”) and the Mayor of the City on April 12, 2016 (the “Authorizing Resolutions”), and Resolution No. 26085 adopted by the Board on October 20, 2016 (the “Document Resolution,” and together with the Authorizing Resolution, the “Resolutions”); and under and in accordance with Section 609 of the Charter of the City of Los Angeles, relevant ordinances of the City and the Los Angeles Administrative Code (collectively, the “Charter”).

The Series 2016B Subordinate Bonds are secured by a pledge of and first lien on Subordinate Pledged Revenues. “Subordinate Pledged Revenues” means for a given period, the Pledged Revenues for such period, less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the debt service payable on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to the Senior Indenture. Pledged Revenues generally includes certain income and revenue received by the Department from LAX, but excludes any income and revenue from the Department’s other airports. The Series 2016B Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Subordinate Commercial Paper Notes (as defined below), the payment obligations of the Department under the CP Reimbursement Agreements (as defined below), the Existing Subordinate Bonds (as defined below), any additional bonds issued on parity with the Series 2016B Subordinate Bonds under the terms and provisions of the Master Subordinate Indenture (“Additional Subordinate Bonds”) and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture (“Additional Subordinate Obligations”). The Series 2016B Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS – Pledge of Subordinate Pledged Revenues.”

For purposes of this Official Statement, “Subordinate Bonds” means the Series 2016B Subordinate Bonds, the Existing Subordinate Bonds and any Additional Subordinate Bonds; and “Subordinate Obligations” means the Subordinate Bonds, the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreements and any Additional Subordinate Obligations.

THE SERIES 2016B SUBORDINATE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2016B SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2016B SUBORDINATE BONDS CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2016B SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2016B SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE

FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS.”

Existing Subordinate Obligations

Existing Subordinate Bonds

Pursuant to the Subordinate Indenture and the Charter, the Department has previously issued and, as of January 1, 2017, there were outstanding \$1,066,685,000 aggregate principal amount of its:

- Los Angeles International Airport, Subordinate Revenue Bonds, 2008 Series C (the “Series 2008C Subordinate Bonds”);
- Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series C (the “Series 2009C Subordinate Bonds”);
- Los Angeles International Airport, Subordinate Refunding Revenue Bonds, 2009 Series E (the “Series 2009E Subordinate Bonds” and collectively with the Series 2009C Subordinate Bonds, the “Series 2009 Subordinate Bonds”);
- Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series B (the “Series 2010B Subordinate Bonds”);
- Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series C (the “Series 2010C Subordinate Bonds” and together with the Series 2010B Subordinate Bonds, the “Series 2010 Subordinate Bonds”);
- Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B (the “Series 2013B Subordinate Bonds”);
- Los Angeles International Airport, Subordinate Revenue Refunding Bonds, 2015 Series C (the “Series 2015C Subordinate Bonds”); and
- Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series A (the “Series 2016A Subordinate Bonds”).

The Series 2008C Subordinate Bonds, the Series 2009 Subordinate Bonds, the Series 2010 Subordinate Bonds, the Series 2013B Subordinate Bonds, the Series 2015C Subordinate Bonds, and the Series 2016A Subordinate Bonds are collectively referred to in this Official Statement as the “Existing Subordinate Bonds.”

See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes.”

Subordinate Commercial Paper Notes

Pursuant to the Subordinate Indenture, the Department is authorized to issue and have outstanding, at any one time, its Los Angeles International Airport, Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity – AMT), Series C (Federally Taxable) and Series D (Private Activity – Non-AMT) (collectively, the “Subordinate Commercial Paper Notes”) in a maximum aggregate principal amount not exceeding \$500,000,000 (subject to certain conditions). As of January 1, 2017, Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately \$45.5 million.

Existing Senior Bonds

Pursuant to the Master Trust Indenture, dated as of April 1, 1995, as amended (the “Master Senior Indenture”), by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee (the “Senior Trustee”), and various supplemental trust indentures (collectively with the Master Senior Indenture and all supplements thereto, the “Senior Indenture”), by and between the Department, acting through the Board, and the Senior Trustee, and the Charter, the Department, acting through the Board, has previously issued and, as of January 1, 2017, there were outstanding \$3,584,440,000 aggregate principal amount of its:

- Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the “Series 2008 Senior Bonds”);

- Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the “Series 2009A Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds, 2010 Series A (the “Series 2010A Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds, 2010 Series D (the “Series 2010D Senior Bonds” and together with the Series 2010A Senior Bonds, the “Series 2010 Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds 2012 Series A (the “Series 2012A Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds 2012 Series B (the “Series 2012B Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds 2012 Series C (the “Series 2012C Senior Bonds” and, together with the Series 2012A Senior Bonds and the Series 2012B Senior Bonds, the “Series 2012 Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds 2013 Series A (the “Series 2013A Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds, 2015 Series A (the “Series 2015A Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds, 2015 Series B (the “Series 2015B Senior Bonds” and together with the Series 2015A Senior Bonds, the “Series 2015AB Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds 2015 Series D (the “Series 2015D Senior Bonds”);
- Los Angeles International Airport Senior Revenue Bonds 2015 Series E (the “Series 2015E Senior Bonds” and together with the Series 2015D Senior Bonds, the Series “2015DE Senior Bonds,” and together with the Series 2015AB Senior Bonds, the “Series 2015 Senior Bonds”); and
- Los Angeles International Airport Senior Refunding Revenue Bonds 2016 Series C (the “Series 2016C Senior Bonds”).

The Series 2008 Senior Bonds, the Series 2009A Senior Bonds, the Series 2010 Senior Bonds, the Series 2012 Senior Bonds, the Series 2013A Senior Bonds, the Series 2015 Senior Bonds and the Series 2016C Senior Bonds are collectively referred to in this Official Statement as the “Existing Senior Bonds”).

As of the date of this Official Statement, the only obligations the Department has issued pursuant to the Senior Indenture, and are currently outstanding, are the Existing Senior Bonds. The Existing Senior Bonds are secured by a pledge of and first lien on the Net Pledged Revenues. “Net Pledged Revenues” means, for any given period, Pledged Revenues for such period, less, for such period, LAX Maintenance and Operations Expenses. For purposes of this Official Statement, “Senior Bonds” means the Existing Senior Bonds and any additional bonds issued on parity with respect to Net Pledged Revenues with the Existing Senior Bonds under the terms of the Master Senior Indenture (“Additional Senior Bonds”). See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.”

Investment Considerations

The purchase and ownership of the Series 2016B Subordinate Bonds involve investment risks. Prospective purchasers of the Series 2016B Subordinate Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2016B Subordinate Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS.”

Continuing Disclosure

In connection with the issuance of the Series 2016B Subordinate Bonds, the Department will covenant for the benefit of the owners of the Series 2016B Subordinate Bonds to provide annually certain financial information and operating data concerning the Department to the Municipal Securities Rulemaking Board (“MSRB”) and notice

of certain enumerated events, pursuant to the requirements of Rule 15c2-12 adopted by the Securities and Exchange Commission (“Rule 15c2-12”). See “CONTINUING DISCLOSURE” and APPENDIX G – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Report of the Airport Consultant

Included as APPENDIX A to this Official Statement is a Report of the Airport Consultant dated November 2, 2016 (the “Report of the Airport Consultant”) prepared by WJ Advisors LLC (the “Airport Consultant”) in connection with the issuance of the Series 2016B Subordinate Bonds. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” The Report of the Airport Consultant has not been updated to reflect the issuance of the Series 2016C Senior Bonds, the refunding of any of the Series 2008 Senior Bonds (a portion of which were refunded with proceeds of the Series 2016C Senior Bonds) or the final terms of the Series 2016B Subordinate Bonds.

The Report of the Airport Consultant includes, among other things, descriptions and/or analysis of the following: airline traffic and economic role of LAX; the economic basis for airline traffic; certain key factors which may effect future airline traffic; airline traffic forecasts; LAX’s facilities; certain LAX facilities; the Department’s capital program; the funding of the Capital Program (as defined below); the Department’s financial performance; the Department’s financial framework; forecasts of debt service coverage through Fiscal Year 2023; and a description of the assumptions upon which such forecasts were based.

No assurances can be given that the forecasts and expectations discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which the forecasts are based will be realized. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety for an explanation of the assumptions and forecasts used therein. The financial forecasts in the Report of the Airport Consultant are based upon certain information and assumptions that were provided or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the financial forecasts. See “—Forward-Looking Statements,” “CERTAIN INVESTMENT CONSIDERATIONS – Assumptions in the Report of the Airport Consultant,” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Forward-Looking Statements

The statements contained in this Official Statement, including the appendices that are not purely historical, are forward-looking statements, including statements regarding the Department’s or the Board’s expectations, hopes, intentions or strategies regarding the future. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “project,” “forecast,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “intend” or other similar words. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Department and the Board on the date hereof, and the Department and the Board assume no obligation to update any such forward-looking statements with new forward-looking statements. It is important to note that the Department’s actual results likely will differ, and could differ materially, from those in such forward-looking statements.

The forward-looking statements herein are based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including airlines, customers, suppliers and competitors, among others, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Department and the Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Additional Information

Brief descriptions of the Series 2016B Subordinate Bonds, the Senior Indenture, the Subordinate Indenture and certain other documents are included in this Official Statement and the appendices to this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to such documents and any other documents, statutes, laws, reports or other instruments described in this Official Statement

are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained in this Official Statement has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department or LAX since the date of this Official Statement. This Official Statement is not to be construed as a contract or agreement between the Department and purchasers or owners of any of the Series 2016B Subordinate Bonds. The Department maintains certain websites and social media accounts, the information on which is not part of this Official Statement, is not incorporated by reference in this Official Statement and should not be relied upon in deciding whether to invest in the Series 2016B Subordinate Bonds.

PLAN OF FINANCE

The Series 2016B Subordinate Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the Capital Program, (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2016B Subordinate Bonds, and (iv) pay costs of issuance of the Series 2016B Subordinate Bonds.

See “AIRPORT AND CAPITAL PLANNING – Financing the Capital Program” for additional information regarding the projects of the Capital Program being financed with a portion of the proceeds of the Series 2016B Subordinate Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2016B Subordinate Bonds:

SOURCES:	
Principal Amount	\$ 451,170,000.00
Original Issue Premium	51,141,924.25
TOTAL:	\$ 502,311,924.25
USES:	
Deposit to Series 2016B Subordinate Construction Fund ⁽¹⁾	\$ 460,000,000.00
Deposit to Series 2016B Subordinate Interest Account ⁽²⁾	14,025,830.00
Deposit to Subordinate Reserve Fund	27,089,358.78
Costs of Issuance ⁽³⁾	1,196,735.47
TOTAL:	\$ 502,311,924.25

⁽¹⁾ To be used to pay a portion of the costs of the Capital Program.

⁽²⁾ Represents a portion of the interest accruing on the Series 2016B Subordinate Bonds.

⁽³⁾ Includes legal fees, underwriters’ discount, trustee fees, financial advisory fees, consultant fees, rating agencies’ fees, printing costs, and other costs of issuance.

DESCRIPTION OF THE SERIES 2016B SUBORDINATE BONDS

General

The Series 2016B Subordinate Bonds will bear interest at the rates and mature, subject to redemption prior to maturity, on the dates set forth on the inside front cover page of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2016B Subordinate Bonds will be dated their date of delivery and bear interest from that date payable semi-annually on May 15 and November 15 of each year, commencing May 15, 2017 (each an “Interest Payment Date”). Interest due and payable on the Series 2016B Subordinate Bonds on any Interest Payment Date will be payable to the person who is the registered owner as of the Record Date (DTC, so long as the book-entry system with DTC is in effect). Each Series 2016B Subordinate Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless such date of authentication is an Interest Payment Date, in which event such Series 2016B Subordinate Bond will bear interest from such date of authentication, or unless such date of authentication is after a Record Date and before the next succeeding Interest Payment Date, in which event such Series 2016B Subordinate Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is on or before May 1, 2017, in which event such Series 2016B Subordinate Bond will bear interest from its date of delivery. If interest on the Series 2016B Subordinate Bonds is in default, Series 2016B Subordinate Bonds issued in exchange for Series

2016B Subordinate Bonds surrendered for transfer or exchange will bear interest from the last Interest Payment Date to which interest has been paid in full on the Series 2016B Subordinate Bonds surrendered.

The Series 2016B Subordinate Bonds are being issued in denominations of \$5,000 and integral multiples thereof (“Authorized Denominations”), in fully registered form in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2016B Subordinate Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2016B Subordinate Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2016B Subordinate Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2016B Subordinate Bonds.

So long as Cede & Co. is the registered owner of the Series 2016B Subordinate Bonds, the principal and redemption price of and interest on the Series 2016B Subordinate Bonds are payable by wire transfer by the Subordinate Trustee to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the Direct and Indirect Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX F – “BOOK ENTRY ONLY SYSTEM.”

Redemption Provisions

Optional Redemption

The Series 2016B Subordinate Bonds maturing on or before May 15, 2026 are not subject to optional redemption prior to maturity. The Series 2016B Subordinate Bonds maturing on or after May 15, 2027 are redeemable at the option of the Department on or after May 15, 2026, in whole or in part at any time, from any moneys that may be provided for such purpose and at a redemption price equal to 100% of the principal amount of the Series 2016B Subordinate Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption

The Series 2016B Subordinate Bonds maturing on May 15, 2041 (the “Series 2016B Subordinate Term Bonds (2041)”) are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Redemption Date (May 15)	Principal Amount
2037	\$16,375,000
2038	17,200,000
2039	18,050,000
2040	18,960,000
2041 [†]	31,645,000

[†]Final Maturity

The Series 2016B Subordinate Bonds maturing on May 15, 2046 (the “Series 2016B Subordinate Term Bonds (2046)”) and together with the Series 2016B Subordinate Term Bonds (2041), the “Series 2016B Subordinate Term Bonds”) are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Redemption Date (May 15)	Principal Amount
2042	\$33,225,000
2043	34,895,000
2044	31,920,000
2045	30,335,000
2046 [†]	31,855,000

[†]Final Maturity

At the option of the Department, to be exercised by delivery of a written certificate to the Subordinate Trustee, on or before the 60th day next preceding any mandatory sinking fund redemption date for any Series 2016B Subordinate Term Bonds, as applicable, it may (a) deliver to the Subordinate Trustee for cancellation Series 2016B Subordinate Term Bonds or portions thereof (in Authorized Denominations) purchased in the open market or otherwise acquired by the Department or (b) specify a principal amount of such Series 2016B Subordinate Term Bonds or portions thereof (in Authorized Denominations) which prior to said date have been optionally redeemed and previously cancelled by the Subordinate Trustee, at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such Series 2016B Subordinate Term Bond or portion thereof so purchased, acquired or optionally redeemed and delivered to the Subordinate Trustee, for cancellation will be credited by the Subordinate Trustee, at 100% of the principal amount thereof against the obligation of the Department to pay the principal of such Series 2016B Subordinate Term Bond, on such mandatory sinking fund redemption date.

Notices of Redemption

The Subordinate Trustee is required to give notice of redemption, in the name of the Department, to Holders affected by redemption (or to DTC, so long as the book-entry system with DTC is in effect) at least 30 days but not more than 60 days before each redemption date and send such notice of redemption by first class mail (or with respect to the Series 2016B Subordinate Bonds held by DTC, either via electronic means or by an express delivery service for delivery on the next following Business Day) to each Holder of a Series 2016B Subordinate Bond to be redeemed; each such notice will be sent to the Holder's registered address.

Each notice of redemption will specify the date of issue, the maturity date, the interest rate and the CUSIP number of the Series 2016B Subordinate Bonds to be redeemed, if less than all of the Series 2016B Subordinate Bonds of a maturity date are called for redemption, the numbers of the Series 2016B Subordinate Bonds assigned to the Series 2016B Subordinate Bonds to be redeemed, the principal amount to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the Series 2016B Subordinate Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption and not paid, will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue.

Failure to give any required notice of redemption as to any particular Series 2016B Subordinate Bonds will not affect the validity of the call for redemption of any Series 2016B Subordinate Bond, in respect of which no failure occurs. Any notice sent as provided in the Twelfth Supplemental Subordinate Indenture will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, Series 2016B Subordinate Bonds called for redemption become due and payable on the date fixed for redemption at the applicable redemption price. In the event that funds are deposited with the Subordinate Trustee, sufficient for redemption, interest on the Series 2016B Subordinate Bonds to be redeemed will cease to accrue on and after the date fixed for redemption.

Upon surrender of a Series 2016B Subordinate Bond, to be redeemed in part only, the Subordinate Trustee will authenticate for the holder a new Series 2016B Subordinate Bond or Series 2016B Subordinate Bonds of the same maturity date and interest rate equal in principal amount to the unredeemed portion of the Series 2016B Subordinate Bond surrendered.

The Department may provide that if at the time of mailing of notice of an optional redemption there has not been deposited with the Subordinate Trustee moneys sufficient to redeem all the Series 2016B Subordinate Bonds called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Subordinate Trustee, not later than the opening of business one Business Day prior to the scheduled redemption date, and such notice will be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit on the required date, then the redemption will be cancelled and on such cancellation date notice of such cancellation will be mailed to the holders of such Series 2016B Subordinate Bonds.

Effect of Redemption

On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Twelfth Supplemental Subordinate Indenture and sufficient moneys for payment of the redemption price being held in trust by the Subordinate Trustee to pay the redemption price, interest on such Series 2016B Subordinate Bonds will cease to accrue from and after such redemption date, such Series 2016B Subordinate Bonds will cease to be entitled to any lien, benefit or security under the Master Subordinate Indenture and the Twelfth

Supplemental Subordinate Indenture and the Holders of such Series 2016B Subordinate Bonds will have no rights in respect thereof except to receive payment of the redemption price. The Series 2016B Subordinate Bonds which have been duly called for redemption under the provisions of the Twelfth Supplemental Subordinate Indenture and for the payment of the redemption price of which moneys are required to be held in trust for the Holders of the Series 2016B Supplemental Bonds to be redeemed, all as provided in the Twelfth Supplemental Subordinate Indenture, will not be deemed to be Outstanding under the provisions of the Master Subordinate Indenture and the Twelfth Supplemental Subordinate Indenture.

Selection of the Series 2016B Subordinate Bonds for Redemption; Series 2016B Subordinate Bonds Redeemed in Part

Redemption of the Series 2016B Subordinate Bonds will only be in Authorized Denominations. The Series 2016B Subordinate Bonds are subject to redemption in such order of maturity (except mandatory sinking fund payments on the Series 2016B Subordinate Term Bonds) as the Department may direct and by lot, selected in such manner as the Subordinate Trustee (or DTC, as long as DTC is the securities depository for the Series 2016B Subordinate Bonds) deems appropriate, within a maturity. Except as otherwise provided under the procedures of DTC, on or before the 45th day prior to any mandatory sinking fund redemption date, the Subordinate Trustee will proceed to select for redemption (by lot in such manner as the Subordinate Trustee may determine), from the Series 2016B Subordinate Term Bonds an aggregate principal amount of such Series 2016B Subordinate Term Bonds equal to the amount for such year as set forth in the table under "Mandatory Sinking Fund Redemption" above and will call such Series 2016B Subordinate Term Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS

Flow of Funds

Pursuant to Section 635 of the Charter of the City, all fees, charges, rentals and revenue from every source collected by the Department in connection with its possession, management and control of its assets are deposited in the City Treasury to the credit of the Airport Revenue Fund. Pursuant to the Charter and the Master Senior Indenture, the Department has established the LAX Revenue Account in the Airport Revenue Fund and has covenanted to deposit all LAX Revenues in such account and such LAX Revenues will immediately upon receipt thereof become subject to the lien and pledge of the Senior Indenture and the Subordinate Indenture. The Department has notified the City Treasurer of the pledge of, lien on and interest in LAX Revenues granted by the Senior Indenture and the Subordinate Indenture and has instructed the City Treasurer that all such LAX Revenues are to be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Department or the City.

The Master Senior Indenture generally defines "LAX Revenues" to mean, except to the extent specifically excluded therefrom, all income, receipts, earnings and revenues received by the Department from LAX, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to: (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at LAX; and (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at LAX, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of LAX (or any LAX Airport Facilities or activities or undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto. LAX Revenues include all income, receipts and earnings from the investment of amounts held in the LAX Revenue Account, any senior construction fund or Subordinate Construction Fund allowed to be pledged by the terms of a supplemental senior indenture or Supplemental Subordinate Indenture, any senior debt service reserve fund, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund, and allocated earnings on the Maintenance and Operations Reserve Fund.

The Subordinate Obligations (including the Series 2016B Subordinate Bonds) are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues, and (ii) certain funds and accounts held by the Subordinate Trustee.

The Master Subordinate Indenture generally defines “Subordinate Pledged Revenues” to mean, for any given period, the Pledged Revenues for such period, less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the principal and interest coming due and payable on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to the Senior Indenture.

The Master Senior Indenture generally defines “Pledged Revenues” to mean, except to the extent specifically excluded in the Senior Indenture or under the terms of any supplemental senior indenture (only with respect to the series of bonds issued pursuant to such supplemental senior indenture), LAX Revenues. Pledged Revenues also include any additional revenues designated as Pledged Revenues pursuant to a supplemental senior indenture. To date, the Department has not designated any additional revenues as Pledged Revenues. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (a) any amounts received by the Department from the imposition of ad valorem taxes; (b) gifts, grants and other income (including any investment earnings thereon) otherwise included in LAX Revenues which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds or the Subordinate Obligations; (c) Net Proceeds or other insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Department from the sale of LAX Airport Facilities under the threat of condemnation, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid, to a use inconsistent with the payment of debt service on the Senior Bonds or the Subordinate Obligations, (d) any Transfer (as defined herein) and (e) LAX Special Facilities Revenue (as defined herein). In addition, the following, including any investment earnings thereon, are excluded from Pledged Revenues, unless designated as Pledged Revenues under the terms of a supplemental senior indenture: (i) senior swap termination payments or Subordinate Swap Termination Payments paid to the Department pursuant to a senior qualified swap or a Subordinate Qualified Swap, as applicable; (ii) Facilities Construction Credits; (iii) Passenger Facility Charges collected with respect to LAX (“PFC revenues”), unless otherwise pledged under the terms of any supplemental senior indenture; (iv) Customer Facility Charges, unless otherwise pledged under the terms of the any supplemental senior indenture (provided that only Customer Facility Charges in respect of LAX may be pledged); (v) unless otherwise pledged, all revenues of the Airport System not related to LAX; and (vi) Released LAX Revenues. Senior swap termination payments, Subordinate Swap Termination Payments, Facilities Construction Credits, PFC revenues, Customer Facility Charges, other revenues of the Airport System not related to LAX and Released LAX Revenues have not been designated as Pledged Revenues under the terms of any supplemental senior indenture.

The Master Senior Indenture requires that Pledged Revenues credited to the LAX Revenue Account be applied as follows and in the order set forth below:

FIRST, to the payment of LAX Maintenance and Operation Expenses for the Airport System that are payable from LAX Revenues, which include payments to the City for services provided by it to LAX;

SECOND, to the payment of amounts required to be deposited in any senior debt service funds for the Senior Bonds pursuant to the Master Senior Indenture and any supplemental senior indenture;

THIRD, to the payment of amounts required to be deposited in any senior debt service reserve fund pursuant to the Master Senior Indenture and any supplemental senior indenture;

FOURTH, to the payment of Subordinate Obligations (including the Series 2016B Subordinate Bonds), pursuant to the Master Subordinate Indenture and any Supplemental Subordinate Indenture;

FIFTH, to the payment of amounts required to be deposited in the Subordinate Reserve Fund and any other debt service reserve fund established for the Subordinate Obligations pursuant to any Supplemental Subordinate Indenture;

SIXTH, to the payment of Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of such Third Lien Obligations;

SEVENTH, to the payment of any reserve requirement for the Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such Third Lien Obligations;

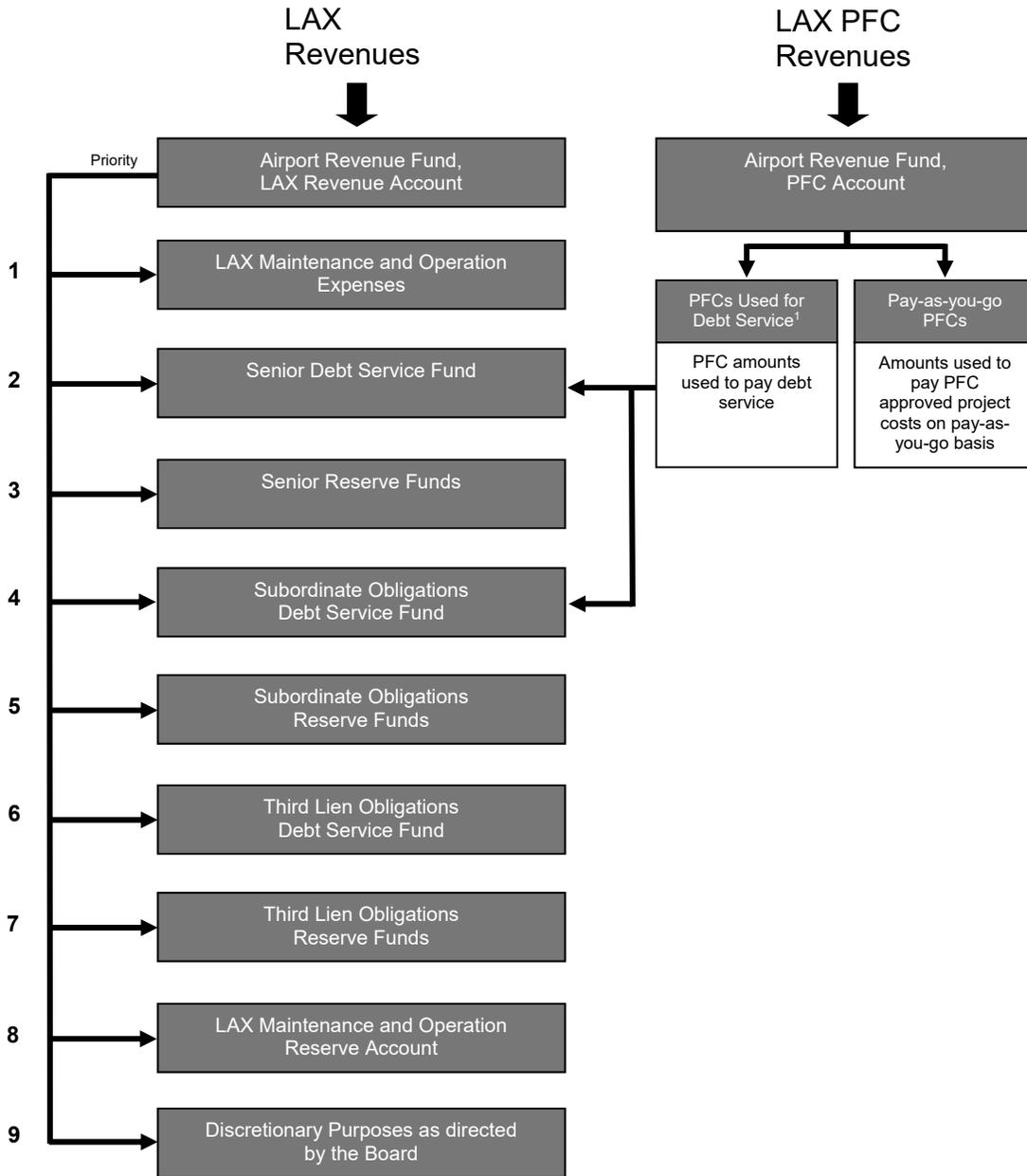
EIGHTH, to the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Department. The Department has covenanted to fund the Maintenance and Operation Reserve Account each Fiscal Year in

an amount which, when added to any moneys in such account, will be equal to not less than 25% nor more than 50% of the budgeted LAX Maintenance and Operation Expenses for the current Fiscal Year; and

NINTH, to the payment of such amounts as are directed by the Department for discretionary purposes as authorized by the Charter which include capital projects, defraying the expenses of any pension or retirement system applicable to the employees of the Department, defraying the Maintenance and Operation Expenses of the Airport System, for reimbursement to another department or office of the City on account of services rendered, or materials, supplies or equipment furnished to support purposes of the Department and for any other lawful purpose of the Department, but only to the extent any such purposes relate to LAX.

The following is a graphic description of the flow of funds described above and the flow of PFC revenues. See “—Passenger Facility Charges.”

**FLOW OF LAX REVENUES AND
LAX PFC REVENUES**



⁽¹⁾ Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a supplemental senior indenture. To date, the Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues nor otherwise pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. However, the Department expects to use PFC revenues to pay a portion of the debt service on PFC Eligible Obligations (as defined herein). See "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges" for additional information about the Department's expected use of PFC revenues.

With respect to the application of Pledged Revenues described in paragraphs FIRST, EIGHTH and NINTH above (i.e., to fund LAX Maintenance and Operation Expenses, the deposits to the LAX Maintenance and Operation Reserve Account, and for the discretionary purposes as directed by the Board), the Department need apply only such amount of Pledged Revenues pursuant to the provisions of such paragraphs as is necessary, after taking into account all other moneys and revenues available to the Department for application for such purposes, to pay the amounts required by such paragraphs.

The Senior Indenture provides that, notwithstanding the provisions therein, nothing precludes the Department from making the payments described in paragraphs FIRST through NINTH above from sources other than Pledged Revenues.

The Charter does not require the deposit of moneys in certain funds, including, among others, the LAX Maintenance and Operation Reserve Account; however, the Department, pursuant to the Senior Indenture, has covenanted to continue using moneys on deposit in the LAX Revenue Account as described in the flow of funds detailed above.

Pledge of Subordinate Pledged Revenues

The Series 2016B Subordinate Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Subordinate Pledged Revenues. The Series 2016B Subordinate Bonds are also secured by a pledge of and first lien on amounts held in certain funds and accounts pursuant to the Subordinate Indenture, as further described herein.

THE SERIES 2016B SUBORDINATE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2016B SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2016B SUBORDINATE BONDS CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2016B SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2016B SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE.

The Series 2016B Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Existing Subordinate Bonds, the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreements, any Additional Subordinate Bonds and any Additional Subordinate Obligations. See “—Pledge of Subordinate Pledged Revenues” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes.” The Series 2016B Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture.

Subordinate Rate Covenant

The Department has covenanted in the Master Subordinate Indenture to fulfill the following requirements:

(a) The Department will, while any of the Subordinate Obligations remain Outstanding (but subject to all existing contracts and legal obligations of the Department as of the date of execution of the Master Subordinate Indenture setting forth restrictions relating thereto), establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that Subordinate Pledged Revenues in each Fiscal Year will be at least equal to the following amounts:

(i) the interest on and principal of the Outstanding Subordinate Obligations, as the same become due and payable by the Department in such year;

(ii) the required deposits to any Subordinate Debt Service Reserve Fund (including the Subordinate Reserve Fund) which may be established by a Supplemental Subordinate Indenture;

(iii) the reimbursement owed to any Credit Provider as required by a Supplemental Subordinate Indenture;

(iv) the interest on and principal of any indebtedness required to be funded during such Fiscal Year, other than Special Facility Obligations, Senior Bonds and Outstanding

Subordinate Obligations, but including obligations issued with a lien on Subordinate Pledged Revenues, ranking junior and subordinate to the lien of the Subordinate Obligations; and

(v) payments of any reserve requirement for debt service for any indebtedness, other than Senior Bonds and Outstanding Subordinate Obligations, but including obligations issued with a lien on Subordinate Pledged Revenues, ranking junior and subordinate to the lien of the Subordinate Obligations.

(b) The Department has further agreed that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that during each Fiscal Year the Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations. For purposes of this paragraph (b), the amount of any Transfer taken into account may not exceed 15% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations in such Fiscal Year. "Transfer" means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through NINTH, as described under "Flow of Funds" above, have been made as of the last day of the immediately preceding Fiscal Year),

(c) If the Department violates either covenant set forth in paragraph (a) or (b) above, such violation will not be a default under the Master Subordinate Indenture and will not give rise to a declaration of a Subordinate Event of Default if, within 180 days after the date such violation is discovered, the Department revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce Subordinate Pledged Revenues to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent Fiscal Year succeeding the date such violation is discovered, a Subordinate Event of Default may be declared under the Master Subordinate Indenture. The Department may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Department into compliance with said covenants.

In addition to the requirements of the Master Subordinate Indenture, the Charter requires the Department to set rates and charges at LAX in an amount sufficient to pay debt service and premiums, if any, due upon the redemption of revenue bonds, in addition to all maintenance and operation expenses at LAX for each Fiscal Year.

Pursuant to the Master Subordinate Indenture, the Department may exclude from its calculation of Subordinate Aggregate Annual Debt Service, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Subordinate Obligations whose debt service is payable from amounts not included in Subordinate Pledged Revenues (including, but not limited to PFC revenues) which have been irrevocably deposited with the Subordinate Trustee for the payment of debt service on such Subordinate Obligations. See "—Passenger Facility Charges," "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges" and "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues" for additional information about the Department's expected use of PFC revenues.

Subordinate Debt Service Deposits

The Master Subordinate Indenture provides that the Department will cause the City Treasurer, not later than five Business Days prior to each Payment Date, to transfer from the LAX Revenue Account to the Subordinate Trustee for deposit in the Subordinate Debt Service Funds established in respect of each Series of Outstanding Subordinate Obligations the full amount required to pay the principal of and/or the interest on the Subordinate Obligations of that Series due on such Payment Date.

Subordinate Reserve Fund

Pursuant to the Fourth Supplemental Subordinate Indenture, a Subordinate Debt Service Reserve Fund (the "Subordinate Reserve Fund") was established for the Existing Subordinate Bonds and any Additional Subordinate

Bonds which the Department elects to have participate in the Subordinate Reserve Fund. Pursuant to the Twelfth Supplemental Subordinate Indenture, the Department intends to elect to have the Series 2016B Subordinate Bonds participate in the Subordinate Reserve Fund.

Except as otherwise described below, the Subordinate Reserve Fund is required to be funded at all times in an amount equal to the Subordinate Reserve Requirement. The “Subordinate Reserve Requirement” equals the least of (i) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement with respect to all of the Subordinate Obligations participating in the Subordinate Reserve Fund, (ii) 10% of the principal amount of all of the Subordinate Obligations participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to the Subordinate Obligations participating in the Subordinate Reserve Fund if such original issue discount exceeded 2% on such Subordinate Obligations at the time of its original sale, and (iii) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement with respect to all of the Subordinate Obligations participating in the Subordinate Reserve Fund. In the event the Department issues any Additional Subordinate Obligations pursuant to a Supplemental Subordinate Indenture under which the Department elects to have such Additional Subordinate Obligations participate in the Subordinate Reserve Fund, the Department will be required to deposit an amount in the Subordinate Reserve Fund sufficient to cause the amount on deposit in the Subordinate Reserve Fund to equal the Subordinate Reserve Requirement. Such deposit to the Subordinate Reserve Fund can be made at the time of issuance of the Additional Subordinate Obligations participating in the Subordinate Reserve Fund or over 12 months following the date of issuance of the Additional Subordinate Obligations participating in the Subordinate Reserve Fund. At the time of issuance of the Series 2016B Subordinate Bonds, a portion of the proceeds of the Series 2016B Subordinate Bonds will be deposited to Subordinate Reserve Fund and the Subordinate Reserve Requirement will equal \$112,085,415 and will be fully funded with cash and securities.

Moneys or investments held in the Subordinate Reserve Fund may be used only to pay the principal of and interest on the Subordinate Obligations participating in the Subordinate Reserve Fund (including the Series 2016B Subordinate Bonds). Moneys and investments held in the Subordinate Reserve Fund are not available to pay debt service on the Senior Bonds, the Subordinate Commercial Paper Notes, any Subordinate Obligations for which the Department has decided will not participate in the Subordinate Reserve Fund or any Third Lien Obligations. The Subordinate Reserve Fund may be drawn upon if the amounts in the respective Subordinate Debt Service Funds for the Series 2016B Subordinate Bonds, and the other Subordinate Bonds participating in the Subordinate Reserve Fund are insufficient to pay in full any principal or interest then due on such Subordinate Bonds. In the event any amounts are required to be withdrawn from the Subordinate Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Subordinate Debt Service Funds for the Subordinate Bonds secured by the Subordinate Reserve Fund.

The Department may fund all or a portion of the Subordinate Reserve Requirement with a Subordinate Debt Service Reserve Fund Surety Policy. A Subordinate Debt Service Reserve Fund Surety Policy may be an insurance policy or surety bond, or a letter of credit, deposited in the Subordinate Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Subordinate Debt Service Reserve Fund Surety Policy must either extend to the final maturity of the Series of Subordinate Obligations for which the Subordinate Debt Service Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Subordinate Indenture, that the Department will replace such Subordinate Debt Service Reserve Fund Surety Policy prior to its expiration with another Subordinate Debt Service Reserve Fund Surety Policy, or with cash, and the face amount of the Subordinate Reserve Fund Surety Policy, together with amounts on deposit in the Subordinate Reserve Fund, including the face amount of any other Subordinate Debt Service Reserve Fund Surety Policy, are at least equal to the Subordinate Reserve Requirement. Any such Subordinate Debt Service Reserve Fund Surety Policy deposited to the Subordinate Reserve Fund must secure all of the Subordinate Obligations participating in the Subordinate Reserve Fund. As of the date of this Official Statement and at the time of the issuance of the Series 2016B Subordinate Bonds, there are no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund and there will be no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund. See APPENDIX D-2 — “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE” for amendments being made to the definition of Subordinate Debt Service Reserve Fund Surety Policy.

Additional Subordinate Obligations

The Master Subordinate Indenture provides the Department with flexibility in establishing the nature and terms of any Additional Subordinate Obligations hereafter issued with a lien and charge on Subordinate Pledged Revenues on parity with the Series 2016B Subordinate Bonds and the other Subordinate Obligations.

Additional Subordinate Obligations may be issued under the Master Subordinate Indenture on a parity with the Subordinate Obligations provided, among other things, there is delivered to the Subordinate Trustee either:

(a) a certificate, dated as of a date between the date of pricing of the Subordinate Obligations being issued and the date of delivery of such Subordinate Obligations (both dates inclusive), prepared by an Authorized Representative showing that the Subordinate Pledged Revenues, together with any Transfer, for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Subordinate Obligations or preceding the first issuance of the proposed Subordinate Program Obligations were at least equal to 115% of Subordinate Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations, and the proposed Subordinate Obligations, calculated as if the proposed Subordinate Obligations and the full Subordinate Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding; or

(b) a certificate, dated as of a date between the date of pricing of the Subordinate Obligations being issued and the date of delivery of such Subordinate Obligations (both dates inclusive), prepared by a Consultant showing that:

(i) the Subordinate Pledged Revenues, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Subordinate Obligations or the establishment of a Subordinate Program, were at least equal to 115% of the sum of the Subordinate Aggregate Annual Debt Service due and payable with respect to all Outstanding Subordinate Obligations (not including the proposed Subordinate Obligations or the proposed Subordinate Program Obligations) for such Fiscal Year or other applicable period; and

(ii) for the period from and including the first full Fiscal Year following the issuance of such proposed Subordinate Obligations during which no interest on such Subordinate Obligations is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Subordinate Obligations, or (B) the third full Fiscal Year during which no interest on such Subordinate Obligations is expected to be paid from the proceeds thereof, the estimated Subordinate Pledged Revenues, together with any estimated Transfer, for each such Fiscal Year, will be at least equal to 115% of the Subordinate Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations and the proposed Subordinate Obligations calculated as if the proposed Subordinate Obligations and the full Subordinate Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding.

For purposes of subparagraphs (a) and (b) above, the amount of any Transfer taken into account cannot exceed 15% of the Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations, Unissued Program Subordinate Obligations, the proposed Subordinate Obligations and the full Subordinate Authorized Amount of such proposed Subordinate Program Obligations, as applicable, for such applicable Fiscal Year or such other applicable period.

For purposes of subparagraph (b)(ii) above, in estimating Subordinate Pledged Revenues, the Consultant may take into account (1) Pledged Revenues from Specified LAX Projects or LAX Airport Facilities reasonably expected to become available during the period for which the estimates are provided, (2) any increase in fees, rates, charges, rentals or other sources of Pledged Revenues which have been approved by the Board and will be in effect during the period for which the estimates are provided, (3) any other increases in Pledged Revenues which the Consultant believes to be a reasonable assumption for such period. With respect to LAX Maintenance and Operation Expenses, the Consultant may use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical LAX Maintenance and Operation Expenses, (ii) LAX Maintenance and Operation Expenses associated with the Specified LAX Projects and any other new LAX Airport Facilities, and (iii) such other factors, including inflation and changing operations or policies of the Board, as the Consultant believes to be appropriate. The Consultant will include in the certificate or in a separate accompanying report a description of the assumptions used and the calculations made in determining the estimated Subordinate Pledged Revenues and will also set forth the calculations of Subordinate Aggregate Annual Debt Service, which calculations may be based upon information provided by another Consultant.

For purposes of preparing the certificate or certificates described above, the Consultant or Consultants or the Authorized Representative may rely upon financial statements prepared by the Department which have not been subject to audit by an independent certified public accountant if audited financial statements for the Fiscal Year or period are not available; provided, however, that an Authorized Representative certifies as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

The certificate described in subparagraph (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2016B Subordinate Bonds.

Neither of the certificates described above under subparagraphs (a) or (b) will be required:

(1) if the Subordinate Obligations being issued are for the purpose of refunding then Outstanding Subordinate Obligations and there is delivered to the Subordinate Trustee, instead, a certificate of the Authorized Representative showing that the Subordinate Aggregate Annual Debt Service for each Fiscal Year after the issuance of such Refunding Subordinate Obligations will not exceed the Subordinate Aggregate Annual Debt Service for each Fiscal Year prior to the issuance of such Refunding Subordinate Obligations;

(2) if the Subordinate Obligations being issued constitute Subordinate Notes and there is delivered to the Subordinate Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Subordinate Notes being issued, together with the principal amount of any Subordinate Notes then Outstanding, does not exceed 10% of the Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Subordinate Notes and there is delivered to the Subordinate Trustee a certificate of an Authorized Representative setting forth calculations showing that for each of the Fiscal Years during which the Subordinate Notes will be Outstanding, and taking into account the debt service becoming due on such Subordinate Notes, the Department will be in compliance with the rate covenant under the Master Subordinate Indenture (as described above under “—Subordinate Rate Covenant”); or

(3) if the Subordinate Obligations being issued are to pay costs of completing a Specified LAX Project for which Subordinate Obligations have previously been issued and the principal amount of such Subordinate Obligations being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Subordinate Obligations originally issued for such Specified LAX Project and reasonably allocable to the Specified LAX Project to be completed as shown in a written certificate of an Authorized Representative and there is delivered to the Subordinate Trustee (i) a Consultant’s certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (ii) a certificate of an Authorized Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the construction fund allocable to such Specified LAX Project) of the original Subordinate Obligations issued to finance such Specified LAX Project have been or will be used to pay costs of the Specified LAX Project, (B) the then estimated costs of the Specified LAX Project exceed the sum of the costs of the Specified LAX Project already paid plus moneys available in the construction fund established for the Specified LAX Project (including unspent proceeds of the Subordinate Obligations previously issued for such purpose), and (C) the proceeds to be received from the issuance of such Subordinate Obligations plus moneys available in the construction fund established for the Specified LAX Project (including unspent proceeds of the Subordinate Obligations previously issued for such purpose) will be sufficient to pay the remaining estimated costs of the Specified LAX Project.

Passenger Facility Charges

Passenger Facility Charges – Pledged Revenues

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a supplemental senior indenture. The Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues. The Department has not pledged PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations, and the Department has no current plans to pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. Although PFC revenues are not included in Pledged Revenues and have not been pledged to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations, the Department expects to (to the extent approved by the FAA) use PFC revenues to pay a portion of the debt service on certain Senior Bonds and/or certain Subordinate Obligations which are or become PFC

Eligible Obligations. For additional information regarding PFC revenues and the Department's expected use of PFC revenues, see "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges," "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues."

Passenger Facility Charges – Exclusion from Rate Covenant and Additional Bonds Tests

Debt service paid with PFC revenues is not included in the calculation of the rate covenants set forth in the Master Senior Indenture and the Master Subordinate Indenture. Debt service on Additional Senior Bonds and Additional Subordinate Bonds expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds tests set forth in the Master Senior Indenture and the Master Subordinate Indenture. As of the date of this Official Statement, the Department has not irrevocably committed any PFC revenues to the payment of debt service on PFC Eligible Obligations.

Permitted Investments

Moneys held by the Subordinate Trustee under the Subordinate Indenture, including moneys in the Subordinate Debt Service Funds (and the accounts therein) and in the Subordinate Reserve Fund, may be invested as directed by the Department in Subordinate Permitted Investments, subject to the restrictions set forth in the Subordinate Indenture and subject to restrictions imposed upon the Department by the Charter. Investments held in the Subordinate Reserve Fund cannot exceed a maturity of five years.

All moneys held in the Airport Revenue Fund are currently invested by the City Treasurer in investments authorized by State law. Pursuant to State law, the City Treasurer must present an annual investment policy to the City Council for confirmation. The City has provided to the Department its "City of Los Angeles Investment Policy" for the current fiscal year which authorizes the City Treasurer to invest the City's funds in a manner which maximizes safety, liquidity, yield and diversity. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Investment Practices of the City Treasurer."

Events of Default and Remedies; No Acceleration

Subordinate Events of Default under the Subordinate Indenture and related remedies are described in APPENDIX C-2 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Events of Default and Remedies." Except as described in the following sentence, the occurrence of a Subordinate Event of Default does not grant any right to accelerate payment of the Subordinate or the Senior Bonds to any of the Subordinate Trustee, the Senior Trustee, or the Holders of the Subordinate Obligations or Senior Bonds. Pursuant to the CP Reimbursement Agreements, the Department granted to the CP Banks the right to accelerate any payments due the CP Banks upon an event of default under the CP Reimbursement Agreements. The Subordinate Trustee is authorized to take certain actions upon the occurrence of a Subordinate Event of Default, including proceedings to enforce the obligations of the Department under the Subordinate Indenture. See APPENDIX C-2 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Events of Default and Remedies – Application of Moneys." See also "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes."

Amendments to the Master Subordinate Indenture

On June 1, 2016, pursuant to a Supplemental Subordinate Indenture, the Department amended certain provisions of the Master Subordinate Indenture, which are more particularly described in APPENDIX D-2 – "AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE" (the "Master Subordinate Indenture Amendments").

Certain of the Master Subordinate Indenture Amendments do not require the consent of the Bondholders of the Subordinate Obligations (including the Series 2016B Subordinate Bonds), but cannot become effective until the Department receives the written consent of the CP Banks (the "Master Subordinate Indenture Amendments Requiring CP Bank Consent"). The remaining Master Subordinate Indenture Amendments cannot become effective until the earlier of: (a) the date none of the Existing Subordinate Bonds, other than the Series 2016A Subordinate Bonds, remain Outstanding (the "Prior Existing Subordinate Bonds"), or (b) the date the Department receives the written consent of 51% or more of the Bondholders of the Outstanding Prior Existing Subordinate Bonds (the "Master Subordinate Indenture Amendments Requiring Bondholder Consent").

The Master Subordinate Indenture Amendments do not require the consent of the purchasers of the Series 2016B Subordinate Bonds in order to become effective. Any purchaser of the Series 2016B Subordinate Bonds will be purchasing the Series 2016B Subordinate Bonds subject to the Master Subordinate Indenture Amendments. The Department will not be requesting a separate written consent from the purchasers of the Series 2016B Subordinate Bonds for the Master Subordinate Indenture Amendments.

The Department does not expect to seek the written consent of the CP Banks for the Master Subordinate Indenture Amendments Requiring CP Bank Consent until the CP Letters of Credit are extended and/or replaced (the CP Letters of Credit are scheduled to expire on October 3, 2017 and January 16, 2018); and therefore, in all likelihood, the Master Subordinate Indenture Amendments Requiring CP Bank Consent will not become effective until the expiration and/or replacement date(s) of the CP Letters of Credit.

As of the date of this Official Statement, the Department has no plans to solicit the written consent of Bondholders of the Outstanding Prior Existing Subordinate Bonds, and therefore, in all likelihood, the Master Subordinate Indenture Amendments Requiring Bondholder Consent will not become effective until the date the Outstanding Prior Existing Subordinate Bonds are no longer Outstanding.

Amendments to the Master Senior Indenture

On June 1, 2016, pursuant to a supplemental senior indenture, the Department amended certain provisions of the Master Senior Indenture which are more particularly described in APPENDIX D-1 — “AMENDMENTS TO THE MASTER SENIOR INDENTURE” (collectively, the “Master Senior Indenture Amendments”). The amendments to the Master Senior Indenture do not require the consent of the Bondholders of the Subordinate Obligations (including the Series 2016B Subordinate Bonds) and are provided in this Official Statement for informational purposes only.

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Senior Bonds

Pursuant to the Senior Indenture, the Department has previously issued and, as of January 1, 2017 there were outstanding \$3,584,440,000 aggregate principal amount of Existing Senior Bonds. The Existing Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS – Flow of Funds.” The following table sets forth information about the Existing Senior Bonds that were outstanding as of January 1, 2017.

TABLE 1
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SENIOR BONDS
AS OF JANUARY 1, 2017

Series	Original Principal Amount	Principal Amount Outstanding	Final Maturity (May 15)
2008A	\$ 602,075,000	\$ 292,220,000	2038
2009A	310,410,000	277,570,000	2039
2010A	930,155,000	888,025,000	2040
2010D	875,805,000	846,125,000	2040
2012A	105,610,000	87,235,000	2029
2012B	145,630,000	136,385,000	2037
2012C	27,870,000	21,755,000	2019
2013A	170,685,000	170,685,000	2043
2015A	267,525,000	265,780,000	2045
2015B	47,925,000	47,925,000	2045
2015D	296,475,000	296,475,000	2041
2015E	27,850,000	27,850,000	2041
2016C	226,410,000	226,410,000	2038
Total	\$ 4,034,425,000	\$ 3,584,440,000	

Source: Department of Airports of the City of Los Angeles.

Subordinate Bonds and Subordinate Commercial Paper Notes

Pursuant to the Subordinate Indenture, the Department has previously issued and, as of January 1, 2017, there were outstanding \$1,066,685,000 aggregate principal amount of the Existing Subordinate Bonds. Additionally, pursuant to the Subordinate Indenture, the Department is authorized to issue and to have outstanding, from time to time, up to \$500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. As of January 1, 2017, there were Subordinate Commercial Paper Notes outstanding with a maturity value of approximately \$45.5 million. The Subordinate Bonds and the Subordinate Commercial Paper Notes are and will be secured by a pledge of and lien on Subordinate Pledged Revenues. The following table sets forth information about the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes that were outstanding as of January 1, 2017.

TABLE 2
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SUBORDINATE BONDS AND SUBORDINATE COMMERCIAL PAPER NOTES
AS OF JANUARY 1, 2017

Subordinate Obligations	Original Principal Amount	Principal Amount Outstanding	Final Maturity Date
Existing Subordinate Bonds			
- Series 2008C	\$ 243,350,000	\$ 16,925,000	May 15, 2019
- Series 2009C	307,350,000	299,045,000	May 15, 2039
- Series 2009E	39,750,000	17,015,000	May 15, 2020
- Series 2010B	134,680,000	134,680,000	May 15, 2040
- Series 2010C	59,360,000	59,360,000	May 15, 2040
- Series 2013B	71,175,000	69,455,000	May 15, 2038
- Series 2015C	181,805,000	180,995,000	May 15, 2038
- Series 2016A	289,210,000	289,210,000	May 15, 2042
Total Existing Subordinate Bonds	\$ 1,326,680,000	\$ 1,066,685,000	
Subordinate Commercial Paper Notes			
- Series A ⁽¹⁾	-- ⁽⁵⁾	-- ⁽⁶⁾	Various
- Series B ⁽²⁾	-- ⁽⁵⁾	-- ⁽⁶⁾	Various
- Series C ⁽³⁾	-- ⁽⁵⁾	45,429,000 ⁽⁶⁾	Various
- Series D ⁽⁴⁾	-- ⁽⁵⁾	-- ⁽⁶⁾	Various
Total Subordinate Commercial Paper Notes		\$ 45,429,000	
Total outstanding Existing Subordinate Bonds and Subordinate Commercial Paper Notes		\$1,112,114,000	

⁽¹⁾ The Subordinate Commercial Paper Notes Series A (Governmental – Non AMT) may be issued in various Subseries designated Subseries A-1 through A-4.

⁽²⁾ The Subordinate Commercial Paper Notes Series B (Private Activity - AMT) may be issued in various Subseries designated Subseries B-1 through B-4.

⁽³⁾ The Subordinate Commercial Paper Notes Series C (Federally Taxable) may be issued in various Subseries designated Subseries C-1 through C-4.

⁽⁴⁾ The Subordinate Commercial Paper Notes Series D (Private Activity – Non AMT) may be issued in various Subseries designated Subseries D-1 through D-4.

⁽⁵⁾ Original Principal Amount of Subordinate Commercial Paper Notes varies.

⁽⁶⁾ The Subordinate Commercial Paper Notes have rolling maturities of 270 days or less.

Source: Department of Airports of the City of Los Angeles

Each Series of Subordinate Commercial Paper Notes is divided into four Subseries designated Subseries A-1 through A-4, Subseries B-1 through B-4, Subseries C-1 through C-4 and Subseries D-1 through D-4. The Subordinate Commercial Paper Notes are issuable in maturities of 1 to 270 days. The Department utilizes the proceeds of Subordinate Commercial Paper Notes to, among other things, finance capital projects at LAX and to pay maturing Subordinate Commercial Paper Notes.

To provide credit support for the Subordinate Commercial Paper Notes, the Department entered into four separate reimbursement agreements (collectively, the “CP Reimbursement Agreements”) with Bank of the West, Sumitomo Mitsui Banking Corporation, acting through its New York Branch, Barclays Bank PLC and Wells Fargo Bank, National Association, respectively (collectively, the “CP Banks”), pursuant to which each CP Bank issued a separate irrevocable transferable direct-pay letter of credit (collectively, the “CP Letters of Credit”). Each CP Letter of Credit provides credit support for the timely payment of the principal of and interest on certain specified Subseries of the Subordinate Commercial Paper Notes as described in more detail in the following table.

CP Bank	Subseries of Subordinate Commercial Paper Notes Supported by CP Letter of Credit	Principal Amount of Subordinate Commercial Paper Notes Supported by CP Letter of Credit	Total Stated Amount of CP Letter of Credit⁽¹⁾	CP Letter of Credit Termination Date⁽²⁾
Bank of the West	A-1, B-1, C-1, D-1	\$ 50,000,000	\$ 54,500,000	October 3, 2017
Sumitomo Mitsui Banking Corporation, acting through its New York Branch	A-2, B-2, C-2, D-2	\$ 100,000,000	\$ 109,000,000	October 3, 2017
Barclays Bank PLC	A-3, B-3, C-3, D-3	\$ 150,000,000	\$ 163,500,000	January 16, 2018
Wells Fargo Bank, National Association	A-4, B-4, C-4, D-4	\$ 200,000,000	\$ 218,000,000	October 3, 2017

⁽¹⁾ Equal to principal of Subordinate Commercial Paper Notes supported by CP Letter of Credit plus interest on such Subordinate Commercial Paper Notes accruing at a rate of 12% for 270 days based on 360-day year.

⁽²⁾ Unless extended or terminated sooner in accordance with the respective terms of the CP Letter of Credit.

Each CP Letter of Credit only supports the payment of the principal of or interest on the applicable Subseries of Subordinate Commercial Paper Notes.

In the event the Department does not immediately reimburse a CP Bank for a drawing under the applicable CP Letter of Credit, the Department is required pursuant to the applicable CP Reimbursement Agreement to pay all principal of and interest due to the applicable CP Bank as a result of such drawing within five years of the applicable date of the original drawing. Upon the happening of an event of default under a CP Reimbursement Agreement the obligations of the Department to the applicable CP Bank may become immediately due and payable. Events of default under the CP Reimbursement Agreements include, but are not limited to (i) failure to pay principal of or interest on any drawing, advance or other obligations under the applicable CP Reimbursement Agreement, (ii) failure to perform the terms of the applicable CP Reimbursement Agreement, (iii) defaults in any payment of any debt secured by a charge, lien or encumbrance on the Net Pledged Revenues or the Subordinate Pledged Revenues and (iv) certain downgrades of the Senior Bonds. Any obligations of the Department incurred pursuant to the CP Reimbursement Agreements are secured by Subordinate Pledged Revenues on parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes. Redacted copies of the CP Reimbursement Agreements are available on the MSRB’s Electronic Municipal Market Access (“EMMA”) website.

Debt Service Requirements

The following table sets forth debt service requirements on the Existing Senior Bonds, the Existing Subordinate Bonds and the Series 2016B Subordinate Bonds:

TABLE 3
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
SENIOR BONDS AND SUBORDINATE BONDS DEBT SERVICE REQUIREMENTS⁽¹⁾

Fiscal Year	Total Debt Service on Existing Senior Bonds	Total Debt Service on Existing Subordinate Bonds⁽²⁾	Principal Requirements on Series 2016B Subordinate Bonds	Interest Requirements on Series 2016B Subordinate Bonds	Total Debt Service on Series 2016B Subordinate Bonds	Total Debt Service on Outstanding Subordinate Bonds⁽²⁾⁽³⁾	Total Debt Service⁽²⁾
2017	\$ 251,370,411	\$ 79,845,925	\$ -	\$ 7,255,462	\$ 7,255,462	\$ 87,101,387	\$ 338,471,798
2018	252,372,883	85,010,174	180,000	22,516,950	22,696,950	107,707,124	360,080,007
2019	253,053,077	84,849,090	3,975,000	22,509,750	26,484,750	111,333,840	364,386,917
2020	253,061,927	84,664,665	5,070,000	22,350,750	27,420,750	112,085,415	365,147,342
2021	253,047,482	81,371,196	7,500,000	22,097,250	29,597,250	110,968,446	364,015,928
2022	253,055,243	81,374,290	7,875,000	21,722,250	29,597,250	110,971,540	364,026,783
2023	253,048,050	79,792,135	8,270,000	21,328,500	29,598,500	109,390,635	362,438,685
2024	258,888,892	79,799,098	8,680,000	20,915,000	29,595,000	109,394,098	368,282,990
2025	258,897,505	79,799,705	9,115,000	20,481,000	29,596,000	109,395,705	368,293,210
2026	258,893,786	79,794,390	9,580,000	20,025,250	29,605,250	109,399,640	368,293,426
2027	258,885,905	79,798,414	10,050,000	19,546,250	29,596,250	109,394,664	368,280,569
2028	258,878,880	79,790,962	10,555,000	19,043,750	29,598,750	109,389,712	368,268,592
2029	258,885,586	79,791,888	11,090,000	18,516,000	29,606,000	109,397,888	368,283,474
2030	258,880,455	79,794,717	11,640,000	17,961,500	29,601,500	109,396,217	368,276,672
2031	258,894,686	79,796,073	12,220,000	17,379,500	29,599,500	109,395,573	368,290,259
2032	258,891,530	79,793,569	12,830,000	16,768,500	29,598,500	109,392,069	368,283,599
2033	258,872,673	79,790,561	13,470,000	16,127,000	29,597,000	109,387,561	368,260,234
2034	258,898,705	79,789,982	14,150,000	15,453,500	29,603,500	109,393,482	368,292,187
2035	259,675,480	79,797,536	14,860,000	14,746,000	29,606,000	109,403,536	369,079,016
2036	259,664,003	79,800,640	15,600,000	14,003,000	29,603,000	109,403,640	369,067,643
2037	260,893,113	79,531,418	16,375,000	13,223,000	29,598,000	109,129,418	370,022,531
2038	245,766,479	77,940,722	17,200,000	12,404,250	29,604,250	107,544,972	353,311,451
2039	238,750,188	73,958,500	18,050,000	11,544,250	29,594,250	103,552,750	342,302,938
2040	244,355,750	68,350,819	18,960,000	10,641,750	29,601,750	97,952,569	342,308,319
2041	59,969,750	19,125,500	31,645,000	9,693,750	41,338,750	60,464,250	120,434,000
2042	27,122,250	13,665,750	33,225,000	8,111,500	41,336,500	55,002,250	82,124,500
2043	27,124,500	-	34,895,000	6,450,250	41,345,250	41,345,250	68,469,750
2044	20,694,500	-	31,920,000	4,705,500	36,625,500	36,625,500	57,320,000
2045	20,706,000	-	30,335,000	3,109,500	33,444,500	33,444,500	54,150,500
2046	-	-	31,855,000	1,592,750	33,447,750	33,447,750	33,447,750
Total	\$6,281,499,689	\$1,946,817,719	\$ 451,170,000	\$ 452,223,662	\$ 903,393,662	\$2,850,211,381	\$9,131,711,070

⁽¹⁾ Totals may not add due to individual rounding. Debt service on the Subordinate Commercial Paper Notes (which may be outstanding from time to time up to \$500 million aggregate principal amount) and payment obligations under the CP Reimbursement Agreements are not reflected in this table. Approximately \$45.5 million of Subordinate Commercial Paper Notes are outstanding. For additional information on these obligations, see “—Subordinate Bonds and Subordinate Commercial Paper Notes” above.

⁽²⁾ Assumes that the Series 2008 Senior Bonds maturing on May 15, 2038 will be redeemed at a price equal to 100% of the principal amount thereof, plus accrued interest thereon on May 15, 2034.

⁽³⁾ Interest on the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds does not reflect the application of the cash subsidy payments the Department expects to receive from the United States Treasury.

Source: Department of Airports of the City of Los Angeles.

Future Financings

As discussed in the Report of the Airport Consultant, the Department is currently reviewing plans to issue Additional Senior Bonds the proceeds of which would be approximately \$2.2 billion and Additional Subordinate Obligations (including the Series 2016B Subordinate Bonds) the proceeds of which would be approximately \$933.2 million through Calendar Year 2022 to, among other things, complete the Capital Program. The Airport Consultant's forecast period continues through Fiscal Year 2023, one year beyond the Fiscal Year in which the last series of Additional Senior Bonds or Additional Subordinate Obligations to fund costs of the Capital Program is assumed to be issued.

During the Airport Consultant's forecast period (through Fiscal Year 2023), the Department may pursue additional capital projects and acquisitions beyond those described in the preceding paragraph. Generally, such projects and acquisitions are referred to in this Official Statement and the Report of the Airport Consultant as Other Projects. The largest component of the Other Projects are the CONRAC (as defined below), the Intermodal Transportation Facilities (as defined below), the Automated People Mover System (as defined below), and certain parking projects to support these potential projects. Any Other Projects and the funding of Other Projects and any additional Pledged Revenues and Operations and Maintenance Expenses are not included in the Report of the Airport Consultant. Funding for such Other Projects may include, among other things the net proceeds from Additional Senior Bonds and/or Additional Subordinate Obligations.

See "CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness," "AIRPORT AND CAPITAL PLANNING" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM" for a discussion of certain projects the Department is considering undertaking and the Other Projects.

Additionally, the Department continuously evaluates refunding opportunities and, when economically beneficial, may refund one or more Series of Senior Bonds and/or Subordinate Bonds.

Other Obligations

General Obligation Bonds

The City last issued general obligation bonds for Department purposes in 1956, and those bonds were retired in February 1990. The Board has covenanted in the Master Senior Indenture not to adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis. There are currently no outstanding general obligation bonds of the City for Department purposes issued or authorized but unissued.

Other Repayment Obligations

Under certain circumstances the obligation of the Department, pursuant to a written agreement, to reimburse the provider of a Credit Facility or a Liquidity Facility (a "Repayment Obligation") may be secured by a pledge of and lien on Net Pledged Revenues on parity with the Senior Bonds or by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Subordinate Obligations. See "– Subordinate Bonds and Subordinate Commercial Paper Notes" above for additional information about the pledge of and lien on Subordinate Pledged Revenues granted to the CP Banks in connection with the CP Banks' issuance of the CP Letters of Credit.

If a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase Senior Bonds, all or a portion of the Department's Repayment Obligation may be afforded the status of a Senior Bond under the Master Senior Indenture. Additionally, if a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase Subordinate Obligations as applicable, all or a portion of the Department's Repayment Obligations may be afforded the status of a Subordinate Obligation under the Master Subordinate Indenture. The Department currently does not have any Senior Repayment Obligations outstanding. See APPENDIX C-2 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Repayment Obligations Afforded Status of Subordinate Bonds."

Credits

The Department from time to time has provided credits to its Aeronautical Users (as defined below) that may be applied as an offset against amounts otherwise due to the Department by such Aeronautical Users as charges for use of LAX facilities, including amounts owed pursuant to the Airport Terminal Tariff or landing fees. Because these credits are applied as an offset to amounts owed to the Department by such Aeronautical Users, the

Department receives less money from these Aeronautical Users than such Aeronautical User would otherwise provide absent the credit. Thus, although the credits are not secured by any pledge of or lien on the Department's revenues, the effect of using such credits is the creation of a higher payment priority for such credits than for the Senior Bonds and Subordinate Obligations, including the Series 2016B Subordinate Bonds. Credits are discussed in greater detail under "USE OF AIRPORT FACILITIES – Department Acquisition of Certain Terminal Improvements; Credits." See also "SPECIAL FACILITY FINANCINGS – Conduit Financings."

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2016B Subordinate Bonds involve investment risk and may not be suitable for all investors. Prospective investors are urged to read this Official Statement, including the appendices to the Official Statement, in its entirety. The factors set forth in this Official Statement, among others, may affect the security for and/or trading value of the Series 2016B Subordinate Bonds. The information in this Official Statement does not purport to be a comprehensive or exhaustive discussion of all risks or other considerations that may be relevant to an investment in the Series 2016B Subordinate Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. Additional risk factors relating to the purchase of Series 2016B Subordinate Bonds are described throughout this Official Statement, whether or not specifically designated as risk factors. Additional risks and uncertainties not presently known, or currently believed to be immaterial, may also materially and adversely affect, among other things, Net Pledged Revenues or Subordinate Pledged Revenues. In addition, although the various risks discussed in this Official Statement are generally described separately, prospective investors of the Series 2016B Subordinate Bonds should consider the potential effects of the interplay of multiple risk factors. Where more than one significant risk factor is present, the risk of loss to an investor may be significantly increased. There can be no assurance that other risks or considerations not discussed in this Official Statement are or will not become material in the future.

Demand for Air Travel, Aviation Activity and Related Matters

The Senior Bonds are payable solely from Net Pledged Revenues and other available funds. The Subordinate Obligations are payable solely from Subordinate Pledged Revenues and other available funds. Net Pledged Revenues, Subordinate Pledged Revenues and PFC revenues depend significantly on the level of aviation activity, enplaned passenger traffic at LAX and passenger spending at airport facilities.

Air travel demand has historically correlated to the national economy, generally, and consumer income and business profits in particular. The long term implications of recent economic and political conditions are unclear. A lack of sustainable economic growth could negatively affect, among other things, financial markets, commercial activity and consumer spending. There can be no assurance that economic and political turmoil or lack of sustainable economic growth will not adversely affect demand for travel.

The level of aviation activity and enplaned passenger traffic at LAX depend upon a number of factors including those discussed above and other economic and political conditions; international hostilities; world health concerns; aviation security concerns including incidents of terrorism; federal government mandated security measures that result in additional taxes and fees and longer passenger processing and wait times as discussed in more detail under "—Security Concerns" below; accidents involving commercial passenger aircraft; airline service and routes; airline fares and competition; airline industry economics, including labor relations, fuel prices, aging aircraft fleets and other factors discussed in more detail under "—Financial Condition of the Airlines" below; capacity of the national air traffic control and airport systems; competition from other airports; reliability of air service; business travel substitutes, including teleconferencing, videoconferencing and web-casting; consumer price sensitivity; and the capacity, availability and convenience of service at LAX, among others. An outbreak of a disease or similar public health threat that affects travel demand or travel behavior, or travel restrictions or reduction in the demand for air travel caused by an outbreak of a disease or similar public health threat in the future, could have a material adverse impact on the airline industry and result in substantial reductions in and/or cancellations of, bookings and flights.

In addition to revenues from airlines, the Department derives a substantial portion of its revenues from concessionaires including parking operations, terminal commercial manager concessions, duty free concessions, food and beverage concessions, retail concessions and rental cars. See "USE OF AIRPORT FACILITIES – Concession and Parking Agreements." Declines in passenger traffic or changes in the way passengers transact with concessionaires may adversely affect the commercial operation of concessionaires and alter the mix of revenues at

LAX. While the Department's many agreements with concessionaires require the concessionaires to pay a minimum annual guarantee, severe financial difficulties could lead to a failure by one or more concessionaires and consequently, create risk for the required payments and interruption of such concessionaires operations. See also "—Financial Condition of the Airlines and Aviation-Related Industry; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

Many of these factors are outside the Department's control. Changes in demand, decreases in aviation activity, changes in passenger consumer behavior and their potential effects on enplaned passenger traffic and revenues at LAX may result in reduced Net Pledged Revenues, Subordinate Pledged Revenues and PFC revenues. A number of these factors are discussed in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC."

Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies

Financial Condition of the Airlines. The ability of the Department to generate Net Pledged Revenues and Subordinate Pledged Revenues depends, in part, upon the financial health of the aviation industry. The economic condition of the industry has historically been volatile, and the aviation industry has undergone significant changes, including mergers, acquisitions, bankruptcies and closures in recent years. Further, the aviation industry is sensitive to a variety of factors, including the cost and availability of labor, fuel, aircraft, supplies and insurance; general economic conditions; international trade; currency values; competitive considerations, including the effects of airline ticket pricing; traffic and airport capacity constraints; governmental regulation, including security and climate change-related regulations; taxes imposed on airlines and passengers; maintenance and environmental requirements; passenger demand for air travel; strikes and other union activities; availability of financing; and disruptions caused by airline accidents, criminal incidents, public health concerns and acts of war or terrorism.

Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are influenced by the state of the national economy (see the factors discussed in "—Demand for Air Travel, Aviation Activity and Related Matters" above), other regional and world economies, business profitability, security concerns and other factors. Significant structural changes to the airline industry have occurred in recent years, including reducing or eliminating service on unprofitable routes, reducing airline work forces, implementing pay cuts, streamlining operations and merging with other airlines. Airfares have become easier to compare, which has made pricing and marketing among airlines more competitive. The price of fuel has been a significant cost factor for the airline industry and affects airline earnings. Fuel prices are particularly sensitive to worldwide political instability, economic uncertainties and increased demand from developing economies, production disruption, regulations and weather. Changes in the costs of aviation fuel may have an adverse impact on air transportation industry profitability. Decreased passenger service by a specific airline or a decreased demand for air travel more generally could also adversely affect the Revenues, which are sensitive to passenger traffic levels. The Department does not make any representation concerning the financial health of any airline, and no assurance can be given regarding the impact, if any, that future unfavorable events affecting airline users or the airline industry more broadly might have upon Net Pledged Revenues, Subordinate Pledged Revenues or the Department.

The aviation industry is cyclical and subject to intense competition and variable demand. Traffic volumes are responsive to a number of factors described above under "—Demand for Air Travel, Aviation Activity and Related Matters." Airline debt levels fluctuate. The airlines are vulnerable to fuel price spikes, labor activity, recession and external shocks (such as terrorism, pandemics, military conflicts and natural disasters). As a result, aviation industry-related financial performance, including those concessionaires that rely on airline passenger traffic and revenues for profitability, can fluctuate dramatically from one reporting period to the next. A reduction in the demand for air travel due to unfavorable economic conditions also limits airlines' ability to raise fares to counteract increased fuel, labor and other costs. Deterioration in either the domestic and/or global economy may therefore have a material impact on revenue in the industry. Future increases in passenger traffic will depend largely on the ability of the U.S. and other countries to sustain growth in economic output and income. Following significant and dramatic changes which occurred in the financial markets in September 2008, the global economy experienced a recession followed by weak growth. There can be no assurances that the prolonged weak economic conditions or other national and international fiscal concerns will not have an adverse effect on the air transportation industry while the Series 2016B Subordinate Bonds remain outstanding. Finally, volatility in the financial and credit markets may have a material adverse effect on the financial condition of airline companies, because such economic

conditions could make it difficult for certain airlines to obtain financing on acceptable terms to refinance certain maturing debt and to meet future capital commitments.

Consolidation of Airline Industry. The airline industry continues to evolve as a result of competition and changing demand patterns and it is possible that airlines serving LAX could consolidate operations through acquisition, merger, alliances, and code share sales strategies.

Major domestic airlines have joined or may be forming alliances with other major domestic airlines. Depending on which airlines serving LAX, if any, merge or join alliances, the result may be fewer flights by one or more airlines, which decrease could be significant. Such decreases could result in reduced Net Pledged Revenues and Subordinate Pledged Revenues, reduced passenger facility charge collections and increased costs for the airlines and concessionaires serving LAX. It is not possible at this time to predict the effect on gate usage at LAX, or the corresponding impact on Net Pledged Revenues, Subordinate Pledged Revenues, passenger facility charge collections or airline or concessionaires costs, as a result of unknown potential airline consolidations.

On April 1, 2016, Alaska Air Group, Inc. (“Alaska Air Group”), Virgin America Inc. (“Virgin America”), and Alpine Acquisition Corp., a wholly-owned subsidiary of Alaska Air Group (“Merger Sub”), entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which, subject to satisfaction or waiver of the conditions therein, Alaska Air Group will acquire Virgin America by means of a merger of Merger Sub with and into Virgin America (the “Merger”). On December 14, 2016, the Merger was completed. Virgin America and Alaska Air Group will continue to operate as separate airlines until a single operating certificate is issued by the FAA and operational integration is complete. Alaska Airlines represented a market share of approximately 4.5% of enplanements at LAX in Fiscal Year 2016. Virgin America represented a market share of approximately 4.1% of enplanements at LAX in Fiscal Year 2016.

Effect of Airline and Concessionaire Bankruptcies. A number of airlines and concessionaires (i.e., rental car companies) that served or are currently serving LAX have filed for bankruptcy in the past, and may do so in the future. Historically, bankruptcies of airlines operating at LAX have resulted in transitory reductions of service levels, even in cases where such airlines continued to operate in bankruptcy. Future bankruptcies, liquidations or major restructurings of other airlines and/or concessionaires may occur. While it is not possible to predict the impact on LAX of future bankruptcies, liquidations or major restructurings of airlines and concessionaires, if an airline or concessionaire has significant operations at LAX, its bankruptcy, liquidation or a major restructuring, could have a material adverse effect on revenues of the Department, operations at LAX, the costs to other airlines or concessionaires to operate at LAX (as certain costs allocated to any such airline or concessionaire may be passed on to the remaining airlines or concessionaires under their respective agreements; there can be no assurance that such other airlines or concessionaires would be financially able to absorb the additional costs) and may result in delays or reductions in payments on Senior Bonds and Subordinate Obligations (including the Series 2016B Subordinate Bonds).

In the event of a bankruptcy by an airline or concessionaire operating at LAX, the automatic stay provisions of the United States Bankruptcy Code (the “Bankruptcy Code”) could prevent (unless approval of the bankruptcy court was obtained) an action to collect amounts owing by the airline or concessionaire to the Department or other actions to enforce the obligations of the airline or concessionaire to Department and/or the City (e.g., requirements to make capital investments under the applicable agreements). With the authorization of the Bankruptcy Court, the airline or concessionaire may be able to repudiate some or all of its agreements with the Department and/or the City and stop performing its obligations (including payment obligations) under such agreements. The airline or concessionaire may be able, without the consent and over the objection of the Department and/or the City, the Senior Trustee, the Subordinate Trustee, and the holders of the Senior Bonds and the Subordinate Obligations (including the Series 2016B Subordinate Bonds), to alter the terms, including the payment terms, of its agreements with the Department and/or the City, as long as the Bankruptcy Court determines that the alterations are fair and equitable. In addition, with the authorization of the Bankruptcy Court, the airline or concessionaire may be able to assign its rights and obligations under any of its agreements with the Department and/or the City to another entity, despite any contractual provisions prohibiting such an assignment. The Senior Trustee, the Subordinate Trustee, and the holders of the Senior Bonds and the Subordinate Obligations (including the Series 2016B Subordinate Bonds), as applicable, may be required under the Bankruptcy Code to return to the airline or concessionaire as preferential transfers any money that was used to make payments on the Senior Bonds or the Subordinate Obligations (including the Series 2016B Subordinate Bonds) and that was received by the Department from the airline or concessionaire during the 90 days immediately preceding the filing of the bankruptcy

petition. Claims by the Department and/or the City under any agreement with such airline or concessionaire may be subject to further limitations under the Bankruptcy Code.

Pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the “1990 PFC Act”) and the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) (“AIR 21,” and collectively with the 1990 PFC Act, the “PFC Acts”), the FAA has approved the Department’s applications to require the airlines to collect and remit to the Department a passenger facility charge on each enplaning revenue passenger at LAX. See “AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges.” The PFC Acts provide that PFC revenues collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Department) imposing the PFC revenues, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for passenger facility charge collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. The airlines, however, are permitted to commingle passenger facility charge collections with other revenues and are also entitled to retain interest earned on passenger facility charge collections until such passenger facility charge collections are remitted. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Department cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at LAX. Regardless, the Department could be held to be an unsecured creditor with respect to unremitted PFC revenues held by an airline that has filed for bankruptcy protection. Additionally, the Department cannot predict whether an airline operating at LAX that files for bankruptcy protection would have properly accounted for the PFC revenues owed to the Department or whether the bankruptcy estate would have sufficient moneys to pay the Department in full for the PFC revenues owed by such airline. See “AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges,” “—Considerations Regarding Passenger Facility Charges” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues” for additional information about the Department’s expected use of PFC revenues.

With respect to an airline or concessionaire in bankruptcy proceedings in a foreign country, the Department is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals nor the extent to which any such orders would be enforceable in the United States.

Other possible effects of a bankruptcy of an airline or concessionaire include, but may not be limited to, delays or reductions in revenues received by the Department and potentially in delays or reductions in payments on the Series 2016B Subordinate Bonds. Regardless of any specific adverse determinations in an airline or concessionaire bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2016B Subordinate Bonds. The Department has not incurred any material losses from recent airline bankruptcies. See also “USE OF AIRPORT FACILITIES” regarding performance guaranties required by the Department.

The Department makes no representation with respect to the continued viability of any of the carriers or concessionaire serving LAX, airline service patterns, or the impact of any airline failures on the Net Pledged Revenues, Subordinate Pledged Revenues and passenger facility charge collections.

See also “AIRLINE INDUSTRY INFORMATION,” “LOS ANGELES INTERNATIONAL AIRPORT – Air Carriers Serving LAX” – Table 6, “—Aviation Activity” – Table 9 and Table 10 and “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Top Revenue Providers and Sources” – Table 15.

Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in light of existing international hostilities, potential terrorist attacks and world health concerns, including epidemics and pandemics. As a result of terrorist activities certain international hostilities and risk of violent crime, the Department has implemented enhanced security measures mandated by the FAA, the Transportation Security Administration (“TSA”), the Department of Homeland Security and Airport management. Current and future security measures may create significantly increased inconvenience, costs and delays at LAX which may give rise to the avoidance of air travel generally and the switching from air to ground travel modes and may adversely affect the Department’s operations, expenditures and revenues.

LAX has been the target of a foiled terrorist bombing plot and has been recognized as a potential terrorist target. In November 2013, a shooting occurred at LAX in which a TSA officer was killed and several other people were injured in an apparent attack against TSA officers. Recent incidents at international airports underscore this risk. LAX is a high profile public facility in a major metropolitan area. The Department cannot predict whether LAX or any of the Department’s other airports will be actual targets of terrorists or other violent acts in the future.

Computer networks and data transmission and collection are vital to the efficient operation of the airline industry. Air travel industry participants, including airlines, the FAA, the TSA, the Department, concessionaires and others collect and store sensitive data, including intellectual property, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers and employees. The secure processing, maintenance and transmission of this information is critical to air travel industry operations. Despite security measures, information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise networks and the information stored there could be disrupted, accessed, publicly disclosed, lost or stolen. Any such disruption, access, disclosure or other loss of information could result in disruptions in the efficiency of the air travel industry, legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, operations and the services provided, and cause a loss of confidence in the air travel industry, which could ultimately adversely affect Department revenues.

Regulations and Restrictions Affecting LAX

The operations of LAX are affected by a variety of contractual, statutory and regulatory restrictions and limitations including extensive federal legislation and regulations, including, without limitation, the provisions of the Airport Terminal Tariff, terminal leases, the Rate Agreement (as defined herein), various grant assurances, the federal acts authorizing the imposition, collection and use of PFC revenues and extensive federal legislation and regulations applicable to all airports in the United States, all of which are subject to change in at times and in manners that the Department is unable to predict and which could have adverse consequences on the Department and/or the airlines and concessionaires operating at LAX.

In general, federal aviation law requires that airport fees charged to airlines and other Aeronautical Users be reasonable and that to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. Although the Department believes it is in compliance with these requirements, the Department faces occasional challenges to the reasonableness of rates charged and payments made. See “AIRPORT AND CAPITAL PLANNING –Financing the Capital Program – Grants.” Further, no assurance can be given that additional challenges relating to the reasonableness of fees charged at LAX or the use of airport generated revenues will not be filed in the future. An adverse determination in a challenge or audit could limit the ability of the Department to charge airlines and other Aeronautical Users rates sufficient to meet the covenants in the Senior Indenture and the Subordinate Indenture which would require the Department to increase rates and fees charged to non-Aeronautical Users, could result in the loss of certain federal funding and could have a material adverse impact on the Net Pledged Revenues. Further, federal grants are paid on a reimbursement basis and are subject to audit. Failure to comply with federal statutes and regulations can result in the loss of PFC revenues and federal grants.

The Internal Revenue Service (“IRS”) includes a Tax Exempt and Government Entities Division (the “TE/GE Division”), which has a subdivision that is specifically devoted to tax-exempt bond compliance. The

Department can provide no assurance that, if an IRS examination of the Series 2016B Subordinate Bonds was undertaken, it would not adversely affect the market value of the Series 2016B Subordinate Bonds.

Climate change concerns have led to new laws and regulations at the federal and State levels that could have a material adverse effect on the Department's operations and on airlines operating at LAX. The U.S. Environmental Protection Agency (the "EPA") has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On December 14, 2009, the EPA made an "endangerment and cause or contribute finding" under the Clean Air Act, codified at 40 C.F.R.1. In the finding, the EPA determined that the body of scientific evidence supported a finding that six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding requires that the EPA regulate emissions of certain GHGs from motor vehicles. The Clean Air Act regulates aircraft emissions under provisions that are parallel to the requirements for motor vehicle emissions. Accordingly, the EPA may elect or be forced by the courts to regulate aircraft emissions as a result of this endangerment finding. While the EPA has not yet taken any action to regulate GHG emissions from aircraft, regulation may still be forthcoming. On July 5, 2011, the U.S. District Court for the District of Columbia issued an order concluding that the EPA has a mandatory obligation under the Clean Air Act to consider whether the greenhouse gas and black carbon emissions of aircraft engines endanger public health and welfare. The EPA is in the process of making its required determinations. The Department cannot predict what the EPA's findings will be or what effect they will have on the Department or the air traffic at LAX.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California passed Assembly Bill 32, the California Global Warming Solutions Act of 2006 ("AB 32"), which requires the statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("CARB") made the final adjustments to its implementation of AB 32: the California cap-and-trade program (the "California Cap-and-Trade Program"). In August 2016, Senate Bill 32 was enacted and extends the California Cap-and-Trade Program and CARB to ensure that California-wide GHG emissions are reduced by at least 40% below the California-wide emissions limit not later than December 31, 2030. The Department's annual metric tons of carbon dioxide equivalent ("MtCO₂e") emissions exceed 25,000 metric tons and therefore the Department is required to participate in the California Cap-and-Trade Program. California Cap-and-Trade Program credits are market based, thus, the annual costs for participation in the program may vary. The California Cap-and-Trade Program may result in rising electricity and fuel costs, which may adversely affect the airlines serving LAX and the Department's operations.

The South Coast Air Quality Management District ("SCAQMD") also imposes rules and regulations specifically targeted to various air pollutants and types of operations such as hydrant fueling, private vehicle fueling, power generators, boilers and the use of various volatile organic chemical containing materials.

See "AIRPORT SYSTEM ENVIRONMENTAL MATTERS."

It is not possible to predict whether future restrictions or limitations on operations at or affecting LAX will be imposed, whether future legislation or regulations will affect anticipated federal funding or passenger facility charge collections for capital projects for LAX or whether such restrictions or legislation or regulations would adversely affect Net Pledged Revenues or Subordinate Pledged Revenues.

Federal Funding; Impact of Federal Sequestration

On February 6, 2012, Congress passed a four-year reauthorization bill for the FAA, the FAA Modernization and Reform Act of 2012, which was signed into law on February 14, 2012 by the President. This was the first long-term FAA authorization since the last such authorization expired in 2007. Between 2007 and the 2012 reauthorization, there were 23 short-term extensions of the FAA's authority and a two-week partial shutdown of the FAA in the summer of 2011. On July 11, 2016, Congress passed a fourteen month extension of the FAA's authority that extended funding to September 30, 2017, the FAA Extension, Safety and Security Act of 2016, which was signed into law on July 15, 2016 by the President. As reauthorized, the FAA Extension, Safety and Security Act of 2016 retained the federal cap on passenger facility charges at \$4.50 and continued funding for the Airport Improvement Program ("AIP") through Federal fiscal year 2017. The AIP provides federal capital grants to support airport infrastructure, including entitlement grants (determined by formulas based on passenger, cargo, and general

aviation activity levels) and discretionary grants (allocated on the basis of specific set-asides and the national priority ranking system). There can be no assurance that the FAA will receive spending authority beyond the recent fourteen month extension. In addition, the AIP could be affected by the automatic across-the-board spending cuts, known as sequestration, described in more detail below. The Department is unable to predict the level of available AIP funding it may receive. If there is a reduction in the amount of AIP grants awarded to the Department for LAX, such reduction could (i) increase by a corresponding amount the capital expenditures that the Department would need to fund from other sources (including operating revenues, Additional Senior Bonds or Additional Subordinate Obligations), (ii) result in decreases to the Department's Capital Improvement Plan or (iii) extend the timing for completion of certain projects. See "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Grants." Federal funding received by the Department and aviation operations could be adversely affected by the implementation of sequestration – a unique budgetary feature first introduced in the Budget Control Act of 2011, which among other things, reduced subsidy payments to be made to issuers of "direct-pay" bonds, such as Build America Bonds, including the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds. The Department is unable to predict by what percentage, if any, reductions would be made to Build America Bonds subsidy payments in the future.

Sequestration could also adversely affect FAA and TSA budgets, operations and the availability of certain federal grant funds typically received annually by the Department which may cause the FAA or TSA to implement furloughs of its employees and hiring freezes, including air traffic controllers, and result in flight delays and flight cancellations, implement hiring freezes.

The Department is unable to predict future sequestration funding cuts or furloughs of federal employees responsible for federal airport security screening, air traffic control and customs and border protection or the impact of such actions on airline traffic at LAX or the Department's revenues.

Considerations Regarding Passenger Facility Charges

Pursuant to the PFC Acts, the FAA has approved the Department's applications to require the airlines to collect and remit to the Department a passenger facility charge on each enplaning revenue passenger at LAX. The Department expects to use PFC revenues to pay a portion of the debt service on PFC Eligible Obligations.

Debt service to be paid with PFC revenues is not included in the coverage calculations described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS – Passenger Facility Charges," "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Report of the Airport Consultant; Projected Debt Service Coverage" and in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues."

No assurance can be given that the Department's authority to collect PFC revenues will be increased or extended. Further, no assurance can be given that PFC revenues will actually be received in the amounts or at the times contemplated by the Department. The amount and timing of receipt of actual PFC revenues are expected to vary depending on actual levels of qualified passenger enplanements at LAX. See "—Demand for Air Travel, Aviation Activity and Related Matters" above.

In addition, the FAA may terminate the Department's ability to impose PFC revenues, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Acts or the regulations promulgated thereunder, or (b) the Department otherwise violates the PFC Acts or regulations. The Department's authority to impose passenger facility charges may also be terminated if the Department violates certain AIP grant assurances and certain provisions of the Airport Noise and Capacity Act of 1990 ("ANCA") and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the Department's authority to impose passenger facility charges would not be summarily terminated. No assurance can be given that the Department's authority to impose passenger facility charges will not be terminated by Congress or the FAA, that the passenger facility charge program will not be modified or restricted by Congress or by the FAA so as to reduce PFC revenues available to the Department or that the Department will not seek to decrease the amount of the passenger facility charges to be collected.

In the event the FAA or Congress reduced or terminated the Department's ability to collect PFC revenues, or passenger facility charge collections were otherwise less than anticipated, the Department would need to find other funding sources to pay debt service it expects to pay with PFC revenues. In addition, in such a circumstance

the Department might need to find other sources of funding, including issuing Additional Senior Bonds and/or Additional Subordinate Obligations, to finance the projects currently being paid for, or projected to be paid for, with PFC revenues.

The overall capital program funding plan, projected airline payments and other financial results reflected in the Report of the Airport Consultant are based on an assumption by the Airport Consultant that the current \$4.50 passenger facility charge level will remain the same during the forecast period (through Fiscal Year 2023).

See “AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues” for additional information about the Department’s expected use of PFC revenues.

Delays and Cost Increases; Future Capital Projects; Additional Indebtedness

The estimated costs of and the projected schedule for the Capital Program and certain other information regarding Other Projects are described in the Report of the Airport Consultant. These are subject to a number of uncertainties and capital project budgets are updated from time to time. The ability of the Department to complete its capital projects may be adversely affected by various factors including: (i) estimating variations, (ii) design and engineering variations, (iii) changes to the scope, scheduling or phasing of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental issues. No assurance can be made that the existing or future projects will not cost more than the current budget or future budgets for such projects. Schedule delays or cost increases could result in the need to issue Additional Senior Bonds and/or Additional Subordinate Obligations and may result in increased costs to the airlines operating at the Airport.

In addition, certain funding sources are assumed to be available for the Department’s projects. For example, the Report of the Airport Consultant assumes that the Department will receive AIP grant funding and TSA funding for various projects referenced under “AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Grants” and described in greater detail in the Report of the Airport Consultant. See also “— Considerations Regarding Passenger Facility Charges” above. No assurances can be given that such funding will, in fact, be available. If such funding sources or other funding sources incorporated in the Report of the Airport Consultant are not available, the Department may need to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds and/or Additional Subordinate Obligations, to finance such projects. Such changes could result in actual results differing materially from the forecasts in the Report of the Airport Consultant.

In addition, the Department intends to undertake future capital projects at LAX. The Department may pursue capital projects and acquisitions beyond the Capital Program. See “AIRPORT AND CAPITAL PLANNING” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM” for a discussion of the Other Projects.

Because the cost, scope and timing for undertaking certain future projects and acquisitions beyond the Capital Program (including the Other Projects) is uncertain, associated financial impacts are not included in the financial forecasts in the Report of the Airport Consultant. The costs of any such projects are not known at this time. If additional projects are undertaken and other financing sources are not available, the Department may issue Additional Senior Bonds and/or Additional Subordinate Obligations to finance such projects, and may elect to divert financial and other resources to such projects. As a result, actual results could differ materially from forecasts.

Department management intends to implement certain capital projects using a modular and phased approach, so that future projects (or project phases) can be deferred if unanticipated events occur (such as lower than anticipated growth or declines in aviation activity at LAX). The Department may ultimately decide not to proceed with certain capital projects or may proceed with them on a different schedule, resulting in different results than those included in the forecasts. The Department’s ability to finance its Capital Improvement Plan also depends upon the orderly function of the capital markets which have in the past experienced substantial disruptions. Another disruption may negatively impact the timing and ability of issuers of municipal debt, such as the Department, to access short or long term funding. No assurance can be given that this source of funding will actually be available in the amounts or at the times desired by the Department.

See “AIRPORT AND CAPITAL PLANNING” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM” for a discussion of certain projects the Department is considering undertaking and “LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT – Runway 25L Construction Litigation” regarding recently constructed portions of Runway 25L, the centerline taxiway and other southside airfield improvements.

Seismic Risks; Other Force Majeure Events

The City is located in a seismically active region of the State. During the past 150 years, the Los Angeles area has experienced several major and minor earthquakes. On January 17, 1994, the Los Angeles area experienced an earthquake that measured 6.7 on the Richter Scale. LAX experienced no disruption of service following that incident. Damage in excess of \$11 million was sustained at VNY and LAX. The Department received funds from the Federal Emergency Management Agency (“FEMA”) and from its insurance carrier as a result of the earthquake damage at VNY.

In March 2015, the Uniform California Earthquake Rupture Forecast (the “2015 Earthquake Forecast”) was issued by the Working Group on California Earthquake Probabilities. Organizations sponsoring the Working Group on California Earthquake Probabilities include the U.S. Geological Survey, the California Geological Survey, the Southern California Earthquake Center and the California Earthquake Authority. According to the 2015 Earthquake Forecast, the probability of the Southern California region experiencing an earthquake measuring 6 or larger on the Richter Scale by 2044 is approximately 100%, measuring 6.7 or larger on the Richter Scale by 2044 is approximately 95%, measuring 7 or larger on the Richter Scale by 2044 is approximately 76%, measuring 7.5 or larger on the Richter Scale by 2044 is approximately 36%, and measuring 8 or larger on the Richter Scale by 2044 is approximately 7%, and the likelihood of the Los Angeles region experiencing an earthquake measuring 6 or larger on the Richter Scale by 2044 is approximately 96%, measuring 6.7 or larger on the Richter Scale by 2044 is approximately 60%, measuring 7 or larger on the Richter Scale by 2044 is approximately 46%, measuring 7.5 or larger on the Richter Scale by 2044 is approximately 31%, and measuring 8 or larger on the Richter Scale by 2044 is approximately 7%. LAX’s facilities could sustain extensive damage in a major seismic event, ranging from total destruction of LAX to destabilization or liquefaction of the soils, to little or no damage at all.

The Department’s ability to generate revenues is also at risk from other force majeure events, such as extreme weather events, droughts, and other natural occurrences, fires, explosions, spills of hazardous substances, strikes and lockouts, sabotage, or wars, blockades or riots. No assurance can be given that such events will not occur while the Series 2016B Subordinate Bonds are outstanding. Although the Department has attempted to mitigate the risk of loss from many of these occurrences by purchasing commercial property and casualty insurance, no assurance can be given that such insurance will always be available in sufficient amounts at a reasonable cost or available at all or that insurers will pay claims in a timely manner or at all.

Any damage to facilities or other properties could adversely affect the Department’s revenues or require substantial new capital spending to replace or improve facilities. The Department carries only limited earthquake insurance as described under “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Risk Management and Insurance.” The Department is unable to predict when another earthquake or other force majeure event may occur and what impact, if any, it may have on the Department’s operations or finances or whether the Department will have sufficient resources to rebuild or repair damaged facilities following a major earthquake or other force majeure event.

Capacity of the National Air Traffic Control System; Capacity of LAX

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing enhanced air traffic management programs, air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations, but, as airline travel increases in the future, flight delays and restrictions may be expected. In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at LAX will depend on the capacity at LAX itself. In the Southern California Association of Governments (“SCAG”) Regional Transportation Plan, the overall practical capacity of LAX was described as a range of 78.9 to 96.6 million annual passengers. The forecasts of the Airport Consultant is conditioned on the assumption that, during the forecast period, neither available airfield or terminal capacity, nor demand management initiatives, will constrain traffic growth at LAX.

Enforceability of Remedies; Limitation on Remedies

As discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS – Events of Default and Remedies; No Acceleration,” except as described in the following sentence, the occurrence of a Subordinate Event of Default does not grant any right to accelerate payment of the Subordinate Obligations or the Senior Bonds to any of the Subordinate Trustee, the Senior Trustee, or the Holders of the Subordinate Obligations or Senior Bonds. Pursuant to the CP Reimbursement Agreements, the Department granted to the CP Banks the right to accelerate any payments due to the CP Banks upon an event of default under the CP Reimbursement Agreements. The Subordinate Trustee is authorized to take certain actions upon the occurrence of a Subordinate Event of Default, including proceedings to enforce the obligations of the Department under the Subordinate Indenture.

The rights and remedies available to the owners of the Series 2016B Subordinate Bonds, and the obligations incurred by the Department, may become subject to, among other things, the federal bankruptcy code; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors’ rights generally, now or hereinafter in effect; equity principles; limitations on the specific enforcement of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain circumstances, of the police powers inherent in the sovereignty of the State and its governmental bodies having an interest in serving a significant and legitimate public purpose; and regulatory and judicial actions that are subject to discretion and delay. The foregoing could subject the owners of the Series 2016B Subordinate Bonds to, among other things, judicial discretion and interpretation of rights; the automatic stay provisions of the federal bankruptcy code; rejection of significant agreements; avoidance of certain payments to the owners of the Series 2016B Subordinate Bonds as preferential payments; assignments of certain obligations, including those in favor of the owners of the Series 2016B Subordinate Bonds; significant delays, reductions in payments and other losses to the owners of the Series 2016B Subordinate Bonds; an adverse effect on the liquidity and values of the Series 2016B Subordinate Bonds; additional borrowing, which borrowing may have priority over the lien of the Master Subordinate Indenture; alterations to the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants) and other terms or provisions of the Master Subordinate Indenture or the Series 2016B Subordinate Bonds, and other obligations.

Legal opinions to be delivered concurrently with the delivery of the Series 2016B Subordinate Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2016B Subordinate Bonds may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, as well as limitations on legal remedies against cities in the State of California.

See also APPENDIX C-2 – “SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Events of Default and Remedies – Application of Moneys.” See also “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes.”

Rate Covenant Limitations

As described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS –Subordinate Rate Covenant,” the Subordinate Indenture includes covenants with respect to the establishment of rates and charges. However, the Subordinate Indenture provides that so long as the Department is taking specified steps to meet the applicable rate covenant, an event of default will not be triggered until the end of the second subsequent Fiscal Year. The ability of the Department to increase rates and charges and to reduce expenses is limited by, among other things, federal law (including the provisions thereof described under “—Regulations and Restrictions Affecting LAX”) and certain agreements with airlines and other users of LAX facilities. See “USE OF AIRPORT FACILITIES.”

Assumptions in the Report of the Airport Consultant; Actual Results May Differ from Forecasts and Assumptions

The Report of the Airport Consultant included as APPENDIX A incorporates numerous assumptions regarding the utilization of LAX and other matters and states that the forecasts in the Report of the Airport Consultant is subject to uncertainties. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety for an understanding of all of the assumptions used to prepare the

forecasts made therein. No assurances can be given that the forecasts and expectations discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which the forecasts are based will be realized. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances will occur. Therefore, actual results achieved during the forecast period will vary from those set forth in APPENDIX A and the variations may be material and adverse. Further, the Report of the Airport Consultant does not cover the entire period through maturity of the Series 2016B Subordinate Bonds. See “INTRODUCTION – Forward-Looking Statements,” APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “— Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.”

Retirement Plan Funding

As described in more detail under “THE DEPARTMENT OF AIRPORTS – Retirement Plan,” Department employees, including Airport Police, participate in the Los Angeles City Employees’ Retirement System (“LACERS”) and under requirements of the Charter, the Department makes contributions to LACERS with respect to its employees in amounts determined by LACERS and its actuaries. The Department’s pension cost varies from year to year depending on, among other things, the annual contribution rate determined by LACERS and its actuaries, the total salaries paid to the Department’s covered employees and the retirement benefits accruing to those employees. For Fiscal Year 2016, pursuant to GASB 68 (as described below), a proportional allocation of the City’s Net Pension Liability (as described below) in the aggregate amount of approximately \$642.4 million was allocated to the Department with respect to LAX. The LACERS Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2016 (“LACERS Valuation Report” and together with the Los Angeles City Employees’ Retirement System, Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015, the “LACERS Reports”) has reported unfunded actuarial accrued liabilities (“UAAL”) for retirement benefits and for health subsidy benefits. Due to LACERS’ smoothing methodology, certain investment losses have not been recognized in the determination of LACERS’ UAAL. Contributions by the Department to LACERS are expected to increase significantly in the coming Fiscal Years, as contribution rates are subject to change due to changes in market conditions, assumptions and funding methodologies. Factors beyond the Department’s control, including but not limited to, returns on LACERS plan assets, may affect the Department’s retirement and health subsidy benefit expenses and may increase the Department’s related funding obligations. These increases may adversely affect the Department’s financial condition.

Investors are cautioned that information about the City’s Net Pension Liability and LACERS, including UAALs, funded ratios and calculations of required contributions, included or referenced in this Official Statement, are “forward looking” information. Such “forward looking” information reflects the judgment of LACERS and its actuaries as to the amount of assets that LACERS will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

For information regarding the City’s Net Pension Liability, LACERS-related unfunded actuarial accrued liabilities, LACERS system assets, LACERS funded ratios and certain of the City’s projected contributions to LACERS, related assumptions and other LACERS-related information, see APPENDIX B – “ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015” and APPENDIX H – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES.” The information in APPENDIX H has been provided by the City. The LACERS Reports are available on LACERS’ website and contain additional information regarding LACERS assumptions, plan details and investment of plan assets. The Department is relying upon, and has not independently confirmed or verified, the accuracy or completeness of this section, Appendix H or the LACERS Reports, or other information incorporated by reference therein.

AIRLINE INDUSTRY INFORMATION

General

Many of the major scheduled domestic airlines serving LAX, or their respective parent corporations, and many of the foreign airlines serving LAX with American Depositary Receipts (“ADRs”) registered on a national exchange, are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the Securities and Exchange

Commission (the “SEC”). Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial aid and operating statistics with the U.S. DOT. Such reports can be inspected at the U.S. DOT’s Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, 1200 New Jersey Avenue, S.E., Washington, D.C. 20590, and copies of such reports can be obtained from U.S. DOT at prescribed rates.

Foreign airlines serving LAX, or foreign corporations operating airlines serving LAX (unless such foreign airlines have ADRs registered on a national exchange), are not required to file information with the SEC. Such foreign airlines, or foreign corporations operating airlines serving LAX, file limited information only with the U.S. DOT. See “CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel; Aviation Activity and Related Matters,” “—Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies” and “—Security Concerns.”

The Department undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or U.S. DOT as described in this section or (ii) any material contained on the SEC’s website as described in this section, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC’s website. Any such information is not part of this Official Statement nor has such information been incorporated by reference herein, and such information should not be relied upon in deciding whether to invest in the Series 2016B Subordinate Bonds.

SPECIAL FACILITY FINANCINGS

LAX Special Facility Obligations

Pursuant to the Master Senior Indenture, the Department may (i) designate a separately identifiable existing facility or improvement or a planned facility or improvement as a “LAX Special Facility”, (ii) pursuant to an indenture other than the Master Senior Indenture and without a pledge of any Pledged Revenues (except as otherwise provided in (iv) below), incur debt primarily for the purpose of acquiring, constructing, renovating or improving, or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility or improvement, (iii) provide that the contractual payments derived from or related to such LAX Special Facility, together with other income and revenues available to the Department from such LAX Special Facility to the extent necessary to make certain payments required under the Master Senior Indenture, will be “LAX Special Facilities Revenue” and will not be included as Pledged Revenues, unless otherwise provided in any supplemental indenture, and (iv) provide that the debt so incurred will be an “LAX Special Facilities Obligation” and the principal of and interest thereon will be payable solely from the LAX Special Facilities Revenue and the proceeds of such LAX Special Facilities Obligation set aside exclusively to pay debt service on such LAX Special Facility Obligation (except the Department may, in its sole discretion, determine to make Pledged Revenues or such other moneys not included in Pledged Revenues available (through a specific pledge or otherwise and subject to any covenant or other provisions of the Master Senior Indenture or such other indentures or agreements of the Department) to the payment of principal of and interest on such LAX Special Facility Obligation in such amounts and at such times as may be agreed to by the Department). The Department may from time to time refinance any such LAX Special Facility Obligation with other LAX Special Facility Obligations.

The Department does not currently have any outstanding LAX Special Facility Obligations.

Conduit Financings

In addition to the improvements financed or planned to be financed at LAX through the issuance of revenue bonds, interest income, PFC revenues and grants-in-aid, other improvements at LAX have been financed through the issuance of bonds by the Regional Airports Improvement Corporation (“RAIC”) and by the California Statewide Communities Development Authority (“CSCDA”). Bonds of RAIC and CSCDA are not obligations of the Department or the City, are not payable from or secured by any pledge of, or lien upon, moneys in the Airport Revenue Fund, and do not rely on the taxing power of the City. RAIC and CSCDA bonds are secured solely by the payment obligations of the airlines or other users of the facilities financed with such bonds and, in the case of RAIC bonds, by leasehold deeds of trust on the financed properties.

Certain of the outstanding RAIC bonds have buy-back rights, whereby the Department may, at any time, purchase the financed facilities by retiring the bonds used to finance those facilities. The Department may from time to time identify leases related to improvements which can be terminated on terms favorable to the Department. Financing for any such lease terminations and any restructuring of third-party debt associated with such lease terminations could be provided by the Department through use of moneys in the Airport Revenue Fund or by issuing Additional Senior Bonds, additional Subordinate Bonds, Subordinate Commercial Paper Notes or other obligations of the Department. See “USE OF AIRPORT FACILITIES – Terminal Leases.”

THE DEPARTMENT OF AIRPORTS

General Description

The City, acting through the Department, currently operates two airports in LAX’s Service Region. The airports are LAX and VNY. The Department voluntarily returned the certificate relating to LA/PMD to the FAA, but may, upon compliance with certain requirements, request to have the LA/PMD certificate reissued. The Airport System is operated as a financially self-sufficient enterprise, without City General Fund support.

LAX is described under “LOS ANGELES INTERNATIONAL AIRPORT.”

VNY is a general aviation airport located approximately 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is one of the busiest general aviation airports in the United States with over 205,648 operating movements in Fiscal Year 2016 as reported by the FAA. More than 100 businesses are located at the airport, including four fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs.

LA/PMD is located in the Antelope Valley approximately 60 miles north of LAX. Currently, there is no scheduled service at LA/PMD. The Department owns approximately 17,500 acres of land at and around LA/PMD. The Department has transferred operation, management, and control of the LA/PMD terminal facility from the Department to the City of Palmdale, but has retained certain rights for future development of the adjoining 17,500 acres.

Further to a Settlement Agreement by and among the City, the Department, the Board, City of Ontario, and OIAA, a joint powers authority of the County of San Bernardino and the City of Ontario (the “ONT Settlement Agreement”) relating to litigation filed by the City of Ontario in June 2013 (the “Ontario Litigation”) against the City, the Department, and the Board, the City has transferred, assigned and delivered to OIAA the City’s right, title and interest in and to certain of the assets, properties, rights and interests solely used or held solely for use in connection with the Department’s operation of LA/ONT. In connection therewith, the Department has received or will receive, among other things: (a) \$30 million from the City of Ontario to the City for the benefit of the Department to be used for the capital and operating expenses of the Airport System; (b) \$40 million from the unrestricted cash of the LA/ONT accounts to other Department non-LA/ONT accounts (as described above) to be used for the capital and operating expenses of the Airport System; and (c) \$120 million from OIAA to the Department, over a period of approximately 10 years and subject to certain conditions and limitations, including that a portion thereof may be paid by the transfer of certain previously collected passenger facility charges.

Airports in Airport System Comparison

Certain operating data for LAX, VNY, and LA/PMD is set forth below. The Department uses the method of counting passengers and cargo that is used by ACI, the effect of which is to include transit passengers and cargo.

TABLE 4
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
OPERATING RESULTS FOR AIRPORT SYSTEM
FISCAL YEAR 2016⁽¹⁾

Airport	Net Operating Revenues (000)⁽²⁾	Enplanements and Deplanements	Aircraft Arrivals and Departures	Total Landed Weight (000 Lbs.)⁽³⁾	Enplaned/Deplaned Cargo (Tons)
LAX	\$ 542,733	77,799,530	627,503	59,178,746	2,120,781
VNY	4,335	--	--	41,381	--
LA/PMD ⁽⁴⁾	645	--	--	--	--
Total⁽⁵⁾	\$ 547,713	77,799,530	627,503	59,220,127	2,120,781

⁽¹⁾ Derived from unaudited financial statements. Due to its date of publication, certain of the information contained in this table is more current than certain of the information contained in the Annual Financial Report of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) Los Angeles International Airport for the Fiscal Years ended June 30, 2016 and 2015. The City has transferred LA/ONT to OIAA. See “—General Description.”

⁽²⁾ Operating revenues less operating expenses, before depreciation. This definition of Net Operating Revenues varies from the definition of the term “Net Pledged Revenues” as defined in the Senior Indenture.

⁽³⁾ Reflects landed weight for revenue-generating landings only.

⁽⁴⁾ See “—Subsidization within the Airport System” below. Currently there is no scheduled service at LA/PMD. See “—General Description.”

⁽⁵⁾ Numbers may not add due to rounding.

Source: Department of Airports of the City of Los Angeles.

Subsidization within the Airport System

Previous provisions of the Charter (which have been deleted from the current Charter) required LAX Revenues to be used to make up any deficiencies of any of the other airports in the Airport System, including any operating losses and major catastrophic or other liabilities of such airports. Although the current Charter no longer contains any requirement for subsidization within the Airport System, the Department anticipates that LAX Revenues will continue to be used for subsidizing deficiencies incurred in the Airport System. No assurance can be given that major catastrophic liabilities or other unanticipated events will not occur within the Airport System which would require substantial unanticipated transfers of LAX revenues or that subsidies, if provided to the other airports in the Airport System, will not be substantially higher than they have been in the past.

VNY serves as a reliever airport for LAX. Any VNY subsidy, when provided, is recovered by the Department through an increase in landing fees at LAX. Landing fees at LAX are calculated based on LAX’s operating costs and amortization of debt as well as certain costs associated with VNY. In Fiscal Year 2016 LAX provided a subsidy to VNY of approximately \$2.4 million.

In Fiscal Year 2016, LAX provided a subsidy of approximately \$205,000 to LA/PMD. The subsidy for LA/PMD is not incorporated in LAX landing fees but rather is paid from discretionary funds and may increase or decrease in the future. See “AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Hazardous Substances.”

Board of Airport Commissioners

The Department is governed by the Board which is in possession, management and control of the Airport System. The Board is comprised of seven members. Each member is appointed by the Mayor of the City (the “Mayor”), subject to confirmation by the City Council, for staggered five-year terms. A Board member continues to hold office following the expiration of his or her term until a replacement has been appointed and confirmed by the City Council. One member is required to live near LAX and one is required to live near VNY. The President and Vice President of the Board are elected by the Board members for one-year terms. The current members of the Board are set forth below:

Member	Occupation	Date of Appointment	Current Term Expires
Sean O. Burton, President	Real Estate Investor	August 2013	June 30, 2019
Valeria C. Velasco, Vice President	Attorney	September 2005	June 30, 2017
Gabriel L. Eshaghian	Real Estate Investor	August 2013	June 30, 2019
Nolan V. Rollins	Attorney	August 2015	June 30, 2019
Beatrice C. Hsu	Business Executive	August 2013	June 30, 2021
Jeffery J. Daar	Attorney	August 2015	June 30, 2020
Cynthia A. Telles	Civic Leader	August 2013	June 30, 2018

The Charter provides that, in the event a Board member has reason to believe that such Board member might have a conflict of interest disqualifying such Board member from acting on a matter and the City Attorney decides that it is probable that a court would hold that a disqualification exists, the matter will be referred to the Board of Referred Powers. The Board of Referred Powers is a City Council committee consisting of five individuals designated by the City Council from time to time.

Oversight

The Charter allows the City Council to review all Board actions. The Charter states that actions of the Board become final at the expiration of five meeting days of the City Council unless the City Council acts within that time, by a two-thirds vote, to bring an action of the Board before the City Council for review or to waive review of the action. If the City Council chooses to assert jurisdiction over the action, the City Council may, by a two-thirds vote, veto the action of the Board within 21 calendar days of voting to bring the matter before it, or the action of the Board is final. An action vetoed by the City Council shall be remanded to the Board which will have the authority it originally held to take action on the matter. In addition, the Charter provides that certain actions of the Board, including the issuance of debt, must also be approved by the City Council. The City Council approved the issuance of the Series 2016B Subordinate Bonds on April 12, 2016.

Additionally, the Department is subject to periodic audits, reviews, inspections and other inquiries by, among others, the City Controller, the FAA, the U.S. DOT, the Office of the Inspector General, the U.S. and California Environmental Protection Agencies, various water control boards and air quality management districts, the California Coastal Commission and the Department's own auditors. See "CERTAIN FUNDING SOURCES – Grants" and "AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Hazardous Substances."

Department Management

Responsibility for the implementation of the policies formulated by the Board and for the day-to-day operations of the Airport System rests with the senior management of the Department. The Chief Executive Officer is appointed by the Board, subject to confirmation by the Mayor and the City Council. Subject to civil service rules and regulations, she is empowered to appoint and remove the senior managers. Within each of the various divisions in the Department, there are various sections that are assigned certain responsibilities for the efficient operation and development of the Airport System. As of October 1, 2016 there were 3,896 authorized positions for the Airport System. The current principal administrative officers and their positions are named below:

Deborah Flint, Chief Executive Officer. Deborah Flint was appointed Chief Executive Officer in June 2015, and oversees two airports, LAX and VNY as General Manager. Ms. Flint came to the Department from the Port of Oakland where she held the position of aviation director since 2010, being the primary executive responsible for the operation, management and business development of Oakland International Airport ("OAK"). Prior to serving as aviation director at the Port of Oakland, Ms. Flint was the assistant aviation director and led the operation of the airport. Other experiences include leading OAK's Capital Program in which she coordinated the design, financing and implementation of major airport projects, as well as participated in the issuance of hundreds of millions of dollars in revenue bonds. She also served as acting port executive director of the Port of Oakland (maritime). She began her career with the port in 1992 in port finance and advanced through the port's Finance and Aviation divisions. Ms. Flint holds a Bachelor of Science degree in business administration from San Jose State University, and attended the Executive Leadership Institute's Continuing Education in Public Administration program. She was appointed in 2012 to the President's Advisory Committee on Consumer Protection (aviation). She also serves on the Transportation Research Board's Airport Cooperative Research Program and the California Airports Council, and is a regional advisor to the Airports Council International World Board.

Samson Mengistu, Chief Operating Officer. Mr. Mengistu was appointed Chief Operating Officer in January 2016. As Chief Operating Officer Mr. Mengistu is responsible for oversight over the Department's activities involving Operations and Emergency Management, Finance and Budget, Administration, Information Technology and Facilities and Maintenance. Mr. Mengistu joined the City in 1989 after working extensively in the property management field. In an early assignment, he established and managed the Department's soundproofing program. Immediately prior to his current position, he served as the Department's Deputy Executive Director for Finance and Administration and as the Department's Acting Executive Director from February to June 2007. Mr. Mengistu was appointed the Department's Deputy Executive Director of Board Relations and Special Programs in 2003, serving as the Board liaison. In addition, he was in charge of the Department's \$500 million Property Acquisition Program and the Risk Management and Procurement Divisions. As Deputy Executive Director for Finance and Administration from 2006 to 2015 he was in charge of the functions of Finance, Comptroller, Board Office, Human Resources, Risk Management and Contract Services. Mr. Mengistu earned a Bachelor of Arts degree in Economics and a Master of Science in Public Administration from California State University, Los Angeles.

Robert (Bob) Gilbert, Chief Development Officer. Mr. Gilbert became Chief Development Officer effective November 14, 2016. Mr. Gilbert brings to the Department 40 years of global experience in aviation and airport management. Over the last 15 years Mr. Gilbert has been involved in various levels of automated people mover and light rail connections to airports, from conceptual development to construction, through operations and maintenance. Previously, Mr. Gilbert served as program manager and led the consultant team for the LAX Master Plan and Environmental Impact Study/Environmental Impact Report (the "EIS/EIR"). Mr. Gilbert comes to the Department after serving as Deputy Executive Director for Facilities at Orlando International Airport and program manager for the airport operational readiness program for King Abdulaziz International Airport in the Kingdom of Saudi Arabia. Mr. Gilbert's other professional experience includes working closely with Chicago's Department of Aviation executive staff as an officer at Landum & Brown's Chicago office where he was responsible for, among others, supporting the aviation Department's noise management office, sustainability and environmental programs as well as Chicago O'Hare International Airport's redevelopment initiatives. He holds a Bachelor of Science degree from the United States Air Force Academy and a Master of Public Administration from Troy University.

Ryan Yakubik, Deputy Executive Director, Chief Financial Officer. Mr. Yakubik was appointed Chief Financial Officer in 2013 and Deputy Executive Director in 2016. He currently oversees all Department financial and accounting functions including financial reporting, rates and charges, grants administration, budget, accounting operations, financial systems and all debt/financing-related functions for the Airport System. He previously served as Director of Capital Development and Budget beginning in October 2007. Mr. Yakubik came to the Department after more than eight years in the financial services industry where he served as a fixed income portfolio manager for institutional clients. He holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles and is a Chartered Financial Analyst.

Debbie Bowers, Deputy Executive Director, Commercial Development. Ms. Bowers was appointed as Deputy Executive Director, Commercial Development in April 2008. In this role, she manages major revenue-generating programs of the Department, including property leasing and development, terminal concessions, rental cars, advertising and landside contracts for taxi, shuttle and parking management. Ms. Bowers has more than twenty years of experience in private and public sector commercial real estate. Most recently, she served as the Acting Deputy Airport Director for the Aviation Department in Broward County, Florida and as Assistant to the County Administrator, Deputy Port Director and Director of Real Property. Prior to her work in government, Ms. Bowers worked as an executive in corporate real estate. Ms. Bowers holds a Juris Doctor degree from the Chicago-Kent College of Law, Illinois Institute of Technology; Master of Business Administration-Finance degree from Florida Atlantic University; and Bachelor of Science degree in Chemistry from the University of Southern Alabama.

Patrick M. Gannon, Deputy Executive Director, Homeland Security and Law Enforcement. Mr. Gannon was appointed Deputy Executive Director for Security and Public Safety in June 2014. As Deputy Executive Director for Security and Public Safety, Gannon provides leadership, management oversight and policy direction to all law enforcement and security staff at the Department's airports; coordinates with other law-enforcement agencies; is responsible for counter-terrorism efforts; and oversees firefighting, emergency medical, and fire-prevention services provided by the Los Angeles Fire Department at LAX. He also participates in airport-wide leadership teams and has responsibility for integrating the law enforcement and homeland security functions with Airport Operations and other aviation staff. Mr. Gannon joined the Department as chief of Airport Police in October 2012 after retiring from the Los Angeles Police Department ("LAPD") following 34 years of service, of which 12

years were at the executive management level. At the time of his retirement, he was serving as deputy chief and commanding officer of LAPD's Operations-South Bureau. This bureau serves more than 800,000 residents in South Los Angeles with 1,700 sworn employees and 150 civilian employees. Mr. Gannon successfully completed the Senior Management Institute for Police in Boston and the West Point Leadership Program and holds a bachelor's degree in Public Administration from California State University, Dominguez Hills and a master's degree in Public Administration from the University of Southern California.

Roger Johnson, Deputy Executive Director, Airports Development. Mr. Johnson is the Program Executive for the Landside Access Modernization Program ("LAMP") including the proposed Automated People Mover project, roads and CONRAC projects at the Department. Mr. Johnson has been with the Department since 2006, and also served the Department from 2000-2003 as Deputy Executive Director for Technology and Environmental Affairs. Mr. Johnson is responsible for the LAX modernization and for major construction projects at VNY. Mr. Johnson has more than 30 years of experience in construction, construction management, environmental management and civil and environmental engineering. Previously, Mr. Johnson was the program manager for the LAX Master Plan Program Environmental Impact Study/Environmental Impact Report. His professional experience also includes serving as the Vice President and Technical Services Manager for Camp Dresser & McKee Inc. where he was responsible for management of the Aviation, Planning and Environmental and Land Use Planning Division. Mr. Johnson graduated from California State Polytechnic University, Pomona with a Bachelor of Science in Engineering.

Cynthia Guidry, Deputy Executive Director, Planning and Development Group. Cynthia Guidry manages the Planning and Development Group for the Department, appointed to this position in January 2016. She previously served as Deputy Executive Director of the Capital Programming and Planning Group since 2014 and has led the Department's planning efforts in several accomplishments including airside, landside and terminal projects. Ms. Guidry's staff provides technical expertise and support for facility infrastructure improvements and manages critical systems such as the LAX Central Utility Plant. Ms. Guidry joined the Department in August 2001 and during her tenure has held a number of positions. For the past five years, Ms. Guidry held the position of Chief Airport Planner. She is a registered Professional Engineer. Ms. Guidry holds a Bachelor of Science degree in Civil Engineering from the University of California at Irvine and a Master of Business Administration degree from Pepperdine University.

Samantha Bricker, Deputy Executive Director, Project Development and Coordination. Ms. Bricker was appointed as Deputy Executive Director, Project Development and Coordination in July 2016. Ms. Bricker is responsible for the environmental programs group and coordinating with external agencies and stakeholders in support of the Department's Capital Program. Before her appointment at the Department, Ms. Bricker was the Chief Operating Officer at the Exposition Metro Line Construction Authority for over 10 years where she oversaw the planning, procurement, real estate program, government and community outreach, finance and budget for the Exposition Light Rail transit project. She holds a Master's degree in Political Science from University of California Los Angeles and a Bachelor's degree in Political Science from Northwestern University.

Trevor Daley, Deputy Executive Director, Chief of External Affairs. Mr. Daley was appointed Deputy Executive Director and Chief of External Affairs for the Department in June 2016. He oversees the Department's government affairs, public and media relations, and community relations activities. Prior to joining the Department, Mr. Daley served for over 17 years as a trusted advisor and senior aide to U.S. Senator Dianne Feinstein, culminating as the senator's State Director responsible for four statewide offices and 30 staff members. Prior to joining the senator's team, Daley was a staff member for Los Angeles City Councilmember Ruth Galanter where, among other assignments, he served as the point person for Van Nuys Airport. He also facilitated the creation of a new vision for the Sepulveda Boulevard Task Force near LAX. Daley provides advice and volunteer services to local non-profit organizations including the Los Angeles Gay and Lesbian Center, Human Rights Campaign, A Community of Friends, Women Against Gun Violence, The Trevor Project, and Project Angel Food. Mr. Daley holds a Bachelor of Arts degree in Sociology from the University of San Francisco.

Justin Erbacci, Deputy Executive Director, Chief Innovation and Technology Officer. Mr. Erbacci was appointed Chief Innovation and Technology Officer in July 2016. He is responsible for the overall information technology ("IT") vision, strategy and operations. His focus is on leveraging innovative technologies and processes to help transform the Airport System. Mr. Erbacci has over 15 years of experience in global IT leadership. He came to the Department from Star Alliance where he was responsible for the development, implementation and operation of all global IT applications, and for leading all Star Alliance customer experience and joint operational activities at

the over 1,300 airports where its airlines operated. Additionally, Mr. Erbacci also held IT leadership roles at Credit Suisse and United Airlines. Prior to these companies he worked at various consultancies including Cambridge Management Consultants and Deloitte and Touche. Mr. Erbacci also practiced law as a civil rights defense litigator for the City of Chicago. Mr. Erbacci holds a Master of Business Administration degree from the Vienna School of Economics/University of South Carolina, a Juris Doctor degree from Loyola University of Chicago's School of Law, and a Bachelor of Arts from Loyola University of Chicago.

Aura Moore, Deputy Executive Director, Chief Information Officer. Ms. Moore was appointed Deputy Executive Director and Chief Information Officer in July 2016. She oversees day-to-day Information Technology operations and serves as top technology infrastructure and systems leader at LAX and VNY. Moore draws from a public service career of over 20 years at agencies throughout the City. Her previous positions with the Department included Network Infrastructure Program Manager, IT Project Management Director and Deputy CIO. She also served as Interim CIO prior to her appointment. Moore created the Office of Airport Technology and Business Systems, a group tasked with strengthening the Department's security, business and airport operations through efficiently delivering large-scale airport technology projects. During her tenure as Interim CIO, she expanded her focus to enhancing the guest experience through implementing self-service technologies and establishing partnerships designed to improve passenger processing. Moore is credited with modernizing technology infrastructure throughout the LAX campus, where she consolidated surveillance systems and expanded coverage for enhanced security and safety. She also worked to replace manual processes with new systems that have improved airport operational efficiencies. Moore holds a Master of Science degree in Electrical Engineering from the University of Southern California and a Bachelor of Science in Electrical Engineering from California State University, Long Beach.

David Shuter, Deputy Executive Director, Facilities Maintenance and Utilities Group. Mr. Shuter was appointed as a Deputy Executive Director in October 2006. Mr. Shuter oversees the Facilities Maintenance and Utilities Group, which includes the Facilities, Engineering and Technical Services Division, the Maintenance Services Division, the Central Utilities Plant, the Facilities Maintenance Coordination and Response Division, the Department's Asset Management Division, and the Shutdown Control Center. In his previous position as Deputy Executive Director for Projects and Facilities Development, from 2006-2009, Mr. Shuter also oversaw the Major Projects Division. Prior to joining the Department, Mr. Shuter served as vice president and regional manager for Gannett Fleming, Inc., providing project and program management services. As a Brigadier General, U.S. Marine Corps, Mr. Shuter had full authority for all facets of airfield operations, construction and facilities maintenance over four air bases in the western U.S. Following his Marine Corps career he was the executive director of the Orange County Fixed Guideway Agency, a member of the Orange County Airport Land Use Commission, and General Manager of Powers Design International, a company that built concept cars for Ford and some international manufacturers. Mr. Shuter holds a Bachelor of Science degree in Aeronautical Engineering and a Master of Science in Aerospace Engineering.

Raymond S. Ilgunas, General Counsel. Mr. Ilgunas is a Managing Assistant City Attorney and serves as General Counsel to the Department. He advises the Board, the Department, the Department's Executive Director, the City Council and its subcommittees and the Mayor on legal matters relating to the operation and management of the Airport System. He is responsible for overseeing all cases and contracts relating to the Airport System and providing specialized legal counsel on federal regulatory matters governing airports. Also, he is the primary counsel to the Department's Chief Operating Officer and Finance Division in connection with all Airport System financing issues. Prior to joining the Department, Mr. Ilgunas also served as counsel to the Community Redevelopment Agency of the City of Los Angeles (the "CRA/LA"). In this capacity, he provided legal advice to the CRA/LA's Board, its Housing, Management and Budget and Project Review Committees, the Executive Director, City Council and its subcommittees and the Mayor concerning all aspects of redevelopment. Prior to his position at CRA/LA, Mr. Ilgunas held a variety of legal positions serving as counsel to the Land Use, Ethics, General Counsel and Criminal Divisions in the City Attorney's Office. Mr. Ilgunas serves on the ACI-North America and California Airports Council Legal Steering Committees and Los Angeles County Bar Judicial Applications Evaluation Committee. Mr. Ilgunas holds a Juris Doctorate degree from Loyola Law School, Los Angeles and a Bachelor of Arts degree from Loyola Marymount University.

Employees and Labor Relations

The Department is a civil service organization, which as of October 1, 2016 had 3,896 authorized positions, of which 3,625 were authorized at LAX, 206 were authorized at LA/ONT and 65 were authorized at VNY. This

wide range of job classifications is grouped into eight job categories, including Officials and Administrators, Professionals, Technicians, Protective Service, Paraprofessionals, Administrative Support, Skilled Craft and Service Maintenance.

As a municipal organization, the Department’s employee and labor relations are governed by applicable State and City civil service rules and regulations as well as 23 separate labor agreements between management and unions (“Memoranda of Understanding”). Most of the Department’s employees are covered by the Memoranda of Understanding. The following table lists all Memoranda of Understanding between the Department and labor and management unions as of October 1, 2016.

**TABLE 5
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
MEMORANDA OF UNDERSTANDING
BETWEEN THE CITY AND**

EMPLOYEE LABOR ORGANIZATIONS REPRESENTING EMPLOYEES OF THE DEPARTMENT

Bargaining Unit	Expires
Service Employees International Union, Local 721	
Equipment Operation and Labor Employees Representation Unit No. 4	June 30, 2018
Professional Engineering and Scientific Unit No. 8	June 30, 2018
Service and Craft Representation Unit No. 14	June 30, 2018
Service Employees Representation Unit No. 15	June 30, 2018
Supervisory Professional Engineering and Scientific Unit No. 17	June 30, 2018
Safety/Security Representation Unit No. 18	June 30, 2018
Municipal Construction Inspectors Association, Inc.	
Inspectors Unit No. 5	June 30, 2014*
Los Angeles Professional Managers Association	
Management Employees Unit No. 36	June 30, 2018
American Federation of State, County and Municipal Employees	
Clerical and Support Services Unit No. 3	June 30, 2018
Executive Administrative Assistants Unit No. 37	June 30, 2018
Engineers and Architects Association	
Administrative Unit No. 1	June 22, 2019
Supervisory Technical Unit No. 19	June 22, 2019
Supervisory Administrative Unit No. 20	June 22, 2019
Technical Rank and File Unit No. 21	June 22, 2019
Local No. 501, International Union of Operating Engineers	
Plant Equipment Operation and Repair Representation Unit No. 9	June 30, 2018
Los Angeles City Supervisors and Superintendents Association, Laborer’s International Union of North America, Local 777	
Supervisory Blue Collar Unit No. 12	June 30, 2018
Los Angeles/Orange Counties Building and Construction Trades Council	
Building Trades Rank and File Representation Unit No. 2	June 30, 2018
Supervisory Building Trades and Related Employees Representation Unit No. 13	June 30, 2018
Use of Union Hiring Halls for Temporary Use of Craft Workers No. 35	On-going
All City Employees Association, Local 2006, AFSCME, Council 36, AFL-CIO	
Professional Medical Services Unit No. 10	June 30, 2018
Los Angeles Airport Peace Officers Association	
Peace Officers Representation Unit No. 30	June 23, 2018
Airport Supervisory Police Officers’ Association of Los Angeles	
Supervisory Peace Officers’ Unit No. 39	June 30, 2018
Airport Police Command Officers Association of Los Angeles	
Management Peace Officers’ Unit No. 40	June 30, 2018

* Negotiations pending. The agreement applicable to each employee labor organization remains in effect until a new agreement is reached, subject to termination by either party.

Source: Department of Airports of the City of Los Angeles.

The Human Resources Division of the Department is responsible for counseling employees and managers regarding proper personnel and civil service procedures and rules; representing management in contract negotiations

with unions; maintaining a comprehensive strike plan for the Department's various divisions; acting as Skelly/hearing officer in disciplinary meetings; representing management in grievance meetings and arbitration hearings; providing recommendations to management on staffing needs; and providing training to employees and supervisors.

Retirement Plan

Department employees, including Airport Police, participate in LACERS. LACERS is a contributory plan, established in 1937 under the Charter, covering most City employees except certain uniformed fire and police personnel and employees of the Department of Water and Power. The LACERS plan is the obligation of the City. Under requirements of the Charter, the Department makes contributions to LACERS with respect to its employees in amounts determined by LACERS and its actuaries. The Department does not participate in the governance or management of LACERS.

The Department's pension cost varies from year to year depending on, among other things, the annual contribution rate determined by LACERS and its actuaries, the total salaries paid to the Department's covered employees and the retirement benefits accruing to those employees. The Department contributed approximately \$74.4 million, \$69.8 million, \$62.1 million, \$58.0 million, \$54.7 million and \$50.2 million to LACERS with respect to LAX in Fiscal Years 2017, 2016, 2015, 2014, 2013 and 2012, respectively. For each of these Fiscal Years, the contribution made by the Department equaled 100% of the annual required contribution as calculated by LACERS and its actuaries.

On November 8, 2016 the voters of the City of Los Angeles passed a Charter amendment which provides that new Airport Peace Officers enroll into the Los Angeles Fire and Police Pension ("LAFPP") and allows current Airport Peace Officers to voluntarily transfer into LAFPP from LACERS. Officers electing to transfer into LAFPP would be required to pay the full costs associated with all prior LACERS years of service. The City Administrative Officer has provided a Financial Impact Statement which indicates that (i) according to an independent actuarial analysis, the City's annual cost of providing future retirement benefits (normal cost) for current and new officers joining LAFPP will be 14 to 19 percent higher than if these same officers were with LACERS, an increase which represents \$140,000 to \$190,000 for every \$1 million of total payroll of current and new officers joining LAFPP; (ii) the actual annual cost increase will depend on the numbers of officers joining LAFPP; and (iii) the Department, not the City's General Fund, will pay all future employer contributions to LAFPP for these officers.

For Fiscal Year 2016, pursuant to GASB 68, a proportional allocation of the City's Net Pension Liability in the aggregate amount of approximately \$642.4 million was allocated to the Department with respect to LAX. In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the Department. GASB 68 revised and established new financial reporting requirements for most governments that provide their employees with pension benefits, including the Department. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' fiduciary net position (the amount held in a trust for paying retirement benefits, generally the market value of assets) and their long-term obligation for pension benefits as a liability ("Net Pension Liability"), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also revised and implemented new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual employer pension contributions, which continue to be determined actuarially by each plan. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. GASB 68 addresses the disclosure of pension liability only and does not impose any funding requirements.

Due to LACERS' smoothing methodology, certain investment losses have not been recognized in the determination of LACERS' UAAL. Contributions by the Department to LACERS are expected to increase significantly in the coming Fiscal Years, as contribution rates are subject to change due to changes in market conditions, assumptions and funding methodologies.

Investors are cautioned that information about the City's Net Pension Liability and LACERS, including UAALs, funded ratios and calculations of required contributions, included or referenced in this Official Statement, are "forward looking" information. Such "forward looking" information reflects the judgment of LACERS and its actuaries as to the amount of assets that LACERS will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees and

beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

For information regarding the City's Net Pension Liability, LACERS-related unfunded actuarial accrued liabilities, LACERS system assets, LACERS funded ratios and certain of the City's projected contributions to LACERS, related assumptions and other LACERS-related information, see APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015" and APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES." The information in APPENDIX H has been provided by the City. The LACERS Reports are available on LACERS' website and contain additional information regarding LACERS assumptions, plan details and investment of plan assets. The Department is relying upon, and has not independently confirmed or verified, the accuracy or completeness of this section, Appendix H or the LACERS Reports, or other information incorporated by reference therein. See also "CERTAIN INVESTMENT CONSIDERATIONS – Retirement Plan Funding."

LOS ANGELES INTERNATIONAL AIRPORT

Introduction

LAX is located approximately 15 miles from downtown Los Angeles on the western boundary of the City. LAX occupies approximately 3,670 acres in an area generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the south by the Imperial Highway and on the west by the Pacific Ocean. The LAX site, originally known as Mines Field, has been in use as an aviation field since 1928. During World War II it was used for military flights. Commercial airline service started in December 1946, and the present terminal complex was constructed in 1961. In the early 1980s, LAX added domestic and international terminals, parking structures and a second level roadway. LAX offers commercial air service to every major city in the United States and to virtually every major international destination, and is classified by the FAA as a large hub airport.

LAX is the major facility in the Airport System and accounted for approximately 95.0% of the total passenger traffic, approximately 80.0% of the air cargo volume and approximately 90.0% of the air carrier operations for the Airport System for Fiscal Year 2016.

No airline dominates in shares of enplaned passengers or provides formal "hubbing" activity at LAX. No air carrier accounted for more than 20% of LAX's total enplanements for Fiscal Year 2016. For Fiscal Year 2016, approximately 79% of passengers at LAX represented originating and destination passengers (that is, all passengers beginning or ending their trips at LAX). The remaining approximately 21% of passengers represented connections to or from regional markets as well as domestic connections to or from international markets. The level of connecting passengers at LAX is due primarily to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets along the west coast of the United States; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the alliances among airlines serving LAX. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES."

Facilities

The Department maintains facilities occupying approximately 3,425 acres at LAX. The central terminal complex features a decentralized design concept with nine individual terminals constructed on two levels lining a U-shaped two-level roadway (the "Central Terminal Area"). The total terminal area is approximately 5.8 million square feet. Although many of the terminals are physically connected, they function largely as independent terminals with separate ticketing, baggage, security screening checkpoints and passenger processing systems.

Passenger terminal facilities include ticketing and baggage check-in on the upper departure level and baggage claim on the ground level, fronting on the lower-level roadway. Passenger terminal facilities provide access to and from aircraft arrival/departure areas. LAX currently has a total of 113 contact gates in the Central Terminal Area along with a number of remote gate positions for a total of 141 gates. Several of the jet gates accommodate propeller driven aircraft.

The existing airfield consists of four parallel east-west runways configured in two pairs. The north airfield complex includes Runway 6L-24R (8,926 feet) and Runway 6R-24L (10,285 feet). The south airfield complex includes Runway 7R-25L (11,095 feet) and Runway 7L-25R (12,091 feet). All runways are 150 feet wide, except

for Runway 7R-25L, which is 200 feet wide. For approaches during Instrument Flight Rules conditions, instrument landing systems are installed on all eight runway ends. The current runway system at LAX can accommodate arrivals and departures of all commercial aircraft currently in service, including the Airbus A380.

Approximately 16,700 public parking spaces are available at LAX in parking lots owned by the Department, including approximately (i) 8,600 parking spaces in eight parking garages in the Central Terminal Area, (ii) 5,300 public parking spaces in parking Lot C, (iii) 2,700 public parking spaces in the Park One surface parking lot located adjacent to Terminal 1 and (iv) 22 public parking spaces in a cell phone waiting lot. See “USE OF AIRPORT FACILITIES – Concession and Parking Agreements.”

Cargo facilities at LAX provide approximately 2.2 million square feet of building space in 26 buildings on 166 acres of land devoted exclusively to cargo. Rental car company facilities, major commercial airline maintenance hangars and office buildings, a 12-story administration building, a control tower, a central utility plant, two flight kitchens, a fuel farm, and FAA, TSA and U.S. Coast Guard facilities are also located at LAX.

Air Carriers Serving LAX

The following table sets forth the air carriers serving LAX as of September 1, 2016. See “AIRLINE INDUSTRY INFORMATION.”

**TABLE 6
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
AIR CARRIERS SERVING LAX
AS OF SEPTEMBER 1, 2016**

<u>Scheduled U.S. Carriers (20)</u>	<u>Foreign Flag Carriers (51)</u>	<u>Nonscheduled Carriers (6)</u>	<u>All-Cargo Carriers (36)</u>
Alaska Airlines ¹	ABC Aerolineas	Clay Lacy Aviation	ABX Air Inc.
Allegiant Air	Aeroflot*	Lynden Air	Aerologic GmbH
American Airlines [‡]	Aer Lingus	Miami Air	Aerotransporte De Carga Union
Boutique Air	AeroMexico*	Omni Air International	Aerotransportes Mas De Carga
Compass	Avianca/TACA [†]	TEM Enterprise (Extra Airways)	Air Bridge Cargo Airlines
Delta Air Lines*	Air Berlin [‡]	Volga-Dnepr	Air China Cargo
Dynamic Int'l Airways	Air Canada [†]		Air Transport International
Envoy Air	Air China [†]		Ameriflight
Frontier Airlines	Air France*		Asiana Cargo
Great Lakes Aviation	Air New Zealand [†]		Atlas Air Cargo
Hawaiian Airlines	Air Pacific (Fiji Airways)		Cargolux
JetBlue Airways	Air Tahiti Nui		Cathay Pacific Cargo
Mesa Airlines	Alitalia*		China Airlines Cargo
MN Airlines (Sun Country)	All Nippon [†]		China Cargo Airlines
Mokulele Airlines	Asiana [†]		China Southern Cargo
SkyWest Airlines	British Airways [‡]		Emirates SkyCargo
Southwest Airlines	Cathay Pacific [‡]		Eva Airways Cargo
Spirit Airlines	China Airlines*		FedEx
United Airlines [†]	China Eastern*		Flugfelagid Atlanta Hf
Virgin America ¹	China Southern*		Gulf & Caribbean Cargo
	Copa [†]		IFL Group
	El Al Israel		Kalitta Air LLC
	Emirates		Korean Cargo
	Etihaad Airways		Lan Cargo
	Ethiopian Airlines [†]		Lufthansa German
	Eva Airways [†]		National Air Cargo Group
	Hainan Airlines		Nippon Cargo
	Iberia [‡]		Polar Air Cargo
	Japan Airlines [‡]		Qantas Airways Cargo
	KLM Royal Dutch*		Qatar Airways Cargo
	Korean Airlines*		Singapore Airlines Cargo
	LATAM [‡]		Sky Lease I
	Lan Peru [‡]		Southern Air
	LACSA		TNT Airways
	Lufthansa German [†]		United Parcel Service
	Norwegian Air Shuttle		Western Global Airlines
	Philippine Airlines		
	Qantas [‡]		
	Qatar		
	Saudi Arabian Airlines*		
	Scandinavian Airlines [†]		
	Singapore Airlines [†]		
	SWISS [†]		
	Thomas Cook Airlines		
	Turkish Airlines [†]		
	Virgin Atlantic Airways		
	Virgin Australia		
	Volaris		
	WestJet		
	WOW Air		
	XL Airways France		

* Member of Sky Team Alliance.

† Member of Star Alliance.

‡ Member of One World Alliance.

¹ On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement which was completed on December 14, 2016. Virgin America and Alaska Air Group will continue to operate as separate airlines until a single operating certificate is issued by the FAA and operational integration is complete. See “CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel, Aviation Activity and Related Matters” and “—Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies.”

Source: Department of Airports of the City of Los Angeles.

Aviation Activity

According to ACI statistics, in calendar year 2015, LAX ranked as the 7th busiest airport in the world and the 3rd busiest airport in North America in terms of total number of enplaned passengers, and 13th busiest airport in the world and 5th busiest airport in North America in terms of total cargo. According to the United States Department of Transportation Origins and Destinations Survey of Airline Passenger Traffic, for Fiscal Year 2015, LAX ranked 1st nationally in number of domestic origin and destination passengers. The following table shows the air passenger activity, total movements and cargo volume at LAX relative to the world's busiest airports.

TABLE 7
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP 15 WORLDWIDE RANKINGS – CALENDAR YEAR 2015

Rank	Airport	Total Passengers	Airport	Total Movements	Airport	Total Cargo (metric tons) ¹
1	Atlanta (ATL)	101,491,104	Atlanta (ATL)	882,497	Hong Kong (HKG)	4,460,065
2	Beijing (PEK)	89,938,624	Chicago (ORD)	875,136	Memphis (MEM)	4,290,638
3	Dubai (DXB)	78,014,840	Dallas/Fort Worth (DFW)	681,261	Shanghai (PVG)	3,275,231
4	Chicago (ORD)	76,949,504	Los Angeles (LAX)	655,564	Anchorage (ANC)	2,630,701
5	Tokyo (HND)	75,573,104	Beijing (PEK)	590,169	Incheon (ICN)	2,595,678
6	London Heathrow (LHR)	74,989,792	Charlotte (CLT)	543,944	Dubai (DXB)	2,506,092
7	Los Angeles (LAX)	74,937,008	Denver (DEN)	541,213	Louisville (SDF)	2,350,656
8	Hong Kong (HKG)	68,283,408	Las Vegas (LAS)	530,330	Tokyo (NRT)	2,122,314
9	Paris (CDG)	65,766,984	Houston (IAH)	502,844	Paris (CDG)	2,090,795
10	Dallas/Fort Worth (DFW)	65,512,164	Paris (CDG)	475,810	Frankfurt (FRA)	2,076,734
11	Istanbul (IST)	61,346,228	London Heathrow (LHR)	474,103	Taipei (TPE)	2,021,865
12	Frankfurt (FRA)	61,032,024	Frankfurt (FRA)	468,153	Miami (MIA)	2,005,175
13	Shanghai (PVG)	60,098,072	Amsterdam (AMS)	465,521	Los Angeles (LAX)	1,931,583
14	Amsterdam (AMS)	58,284,864	Istanbul (IST)	464,774	Beijing (PEK)	1,889,830
15	New York (JFK)	56,827,152	Shanghai (PVG)	449,171	Singapore (SIN)	1,886,800

⁽¹⁾ ACI cargo statistics do not match those presented elsewhere in this Official Statement because ACI uses a different methodology for calculating.

Source: ACI Preliminary World Airport Traffic and Results for 2015, October 2016.

As seen in Table 8 which follows, from Fiscal Year 2006 through Fiscal Year 2008, total enplaned and deplaned passengers at LAX increased at a compound annual growth rate of approximately 0.44%. Several factors contributed to slow passenger enplanement growth at LAX including decreased demand levels along the West Coast of the United States and systemwide changes in the airlines' routes and structures and seat capacities. Due to the global economic environment and capacity reductions by U.S. and foreign flag carriers, total enplanements and deplanements decreased approximately 9.2% in Fiscal Year 2009 from Fiscal Year 2008. From Fiscal Year 2009 through Fiscal Year 2016, total enplaned and deplaned passengers at LAX increased at a compounded annual growth rate of approximately 4.1%. For further discussion of historical passenger activity and factors affecting aviation demand and the airline industry, see APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC." The fiscal year used for national comparisons is different from the Department's fiscal year. See also "CERTAIN INVESTMENT CONSIDERATIONS – Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

The following table presents historical total revenue operations (landings and takeoffs) and total domestic and international enplanements and deplanements at LAX for Fiscal Years 2007 through 2016.

TABLE 8
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
AIR TRAFFIC DATA⁽¹⁾

Fiscal Year	Revenue Operations		Enplanements and Deplanements			Passenger Growth (%)
	Total Operations	Operations Growth (%)	Domestic⁽²⁾	International⁽²⁾	Total⁽²⁾	
2007	618,383	1.3	44,721,685	16,856,505	61,578,190	0.2
2008	631,986	2.2	44,834,824	17,427,929	62,262,753	1.1
2009	541,223	(14.4)	41,245,318	15,301,832	56,547,150	(9.2)
2010	545,752	(0.8)	42,145,783	15,752,062	57,897,845	2.4
2011	555,319	1.8	44,352,913	16,253,725	60,606,638	4.7
2012	578,876	4.2	45,957,814	16,967,262	62,925,076	3.8
2013	570,865	(1.4)	47,641,025	17,328,077	64,969,102	3.2
2014	597,734	4.7	50,158,762	18,623,420	68,782,182	5.9
2015	608,683	1.8	52,478,217	19,599,402	72,077,619	4.8
2016	627,503	3.1	56,151,106	21,648,424	77,799,530	7.9

⁽¹⁾ Due to its date of publication, certain of the information contained in this table is more current than certain of the information contained in the Annual Financial Report of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) Los Angeles International Airport for the Fiscal Years ended June 30, 2016 and 2015.

⁽²⁾ Enplaned and deplaned passengers.

Source: Department of Airports of the City of Los Angeles.

Enplanements at LAX for the air carriers with the largest share of enplanements at LAX for the previous five Fiscal Years are shown in the table below.

TABLE 9
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE⁽¹⁾
(RANKED BY FISCAL YEAR 2016 RESULTS)

Airline	Fiscal Year 2012		Fiscal Year 2013		Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	Enplanements	Share ⁽²⁾								
1 American Airlines ^{(3)‡}	5,563,500	17.7%	6,028,547	18.5%	6,364,684	18.5%	6,758,247	18.7%	7,607,385	19.5%
2 Delta Airlines ^{(4)*}	3,231,000	10.3	4,171,972	12.8	5,038,929	14.7	6,020,280	16.7	6,550,711	16.8
3 United Airlines ^{(5)†}	6,380,963	20.2	6,544,226	20.1	6,568,648	19.1	6,225,103	17.2	6,020,563	15.5
4 Southwest Airlines	3,516,770	11.2	3,703,743	11.4	3,796,292	11.1	4,212,706	11.7	4,446,133	11.4
5 Alaska Airlines ⁽⁶⁾	1,522,926	4.8	1,623,552	5.0	1,741,179	5.1	1,652,816	4.6	1,763,171	4.5
6 Virgin America ⁽⁶⁾	1,387,310	4.4	1,569,289	4.8	1,657,297	4.8	1,534,368	4.2	1,607,495	4.1
7 Spirit Airlines	265,973	0.8	225,908	0.7	369,236	1.1	510,478	1.4	956,783	2.5
8 JetBlue Airways	358,326	1.1	424,534	1.3	446,183	1.3	570,938	1.6	675,589	1.7
9 Air Canada [†]	468,793	1.5	459,937	1.4	495,695	1.4	597,050	1.7	660,642	1.7
10 Qantas Airways [‡]	603,170	1.9	575,310	1.8	602,278	1.8	614,333	1.7	596,257	1.5
11 Hawaiian Airlines	235,502	0.7	323,104	1.0	339,177	1.0	422,871	1.2	441,634	1.1
12 Aerovias De Mexico*	282,415	0.9	282,156	0.9	337,368	1.0	402,416	1.1	436,396	1.1
13 Cathay Pacific Airways	262,793	0.8	253,131	0.8	284,225	0.8	337,043	0.9	339,240	0.9
14 Air New Zealand [†]	304,228	1.0	324,771	1.0	331,628	1.0	336,537	0.9	335,133	0.9
15 Air France*	255,054	0.8	266,282	0.8	293,305	0.9	288,789	0.8	305,948	0.8
16 Volaris	207,702	0.7	219,494	0.7	249,449	0.7	253,973	0.7	302,444	0.8
17 Lufthansa German Airlines [‡]	240,780	0.8	245,700	0.8	262,448	0.8	277,103	0.8	295,623	0.8
18 Eva Airways [†]	215,751	0.7	214,341	0.7	237,182	0.7	270,524	0.7	288,719	0.7
19 Korean Airlines*	335,310	1.1	317,141	1.0	284,466	0.8	293,193	0.8	279,760	0.7
20 British Airways [‡]	274,882	0.9	275,095	0.8	281,767	0.8	296,368	0.8	277,131	0.7
Other	5,603,769	17.8	4,475,945	13.8	4,351,089	12.7	4,246,632	11.8	4,765,610	12.2
Airport Total ⁽²⁾	31,516,917	100.0	32,524,178	100.0	34,332,525	100.0	36,121,768	100.0	38,952,367	100.0

* Member of Sky Team Alliance.

† Member of Star Alliance.

‡ Member of One World Alliance.

(1) For those airlines that (i) were party to a completed merger or acquisition, (ii) have received a single FAA certificate and (iii) have completed operational integration, only the surviving entity is presented and the activity for the airlines that are now a part of the surviving airline are included in the information presented. Due to its date of publication, certain of the information contained in this table is more current than certain of the information contained in the Annual Financial Report of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) Los Angeles International Airport for the Fiscal Years ended June 30, 2016 and 2015.

(2) Totals may not add due to rounding.

(3) Include US Airways, SkyWest and Compass Airlines as American Eagle/Envoy Air.

(4) Includes SkyWest and Compass Airlines as Delta.

(5) Includes SkyWest Airlines and Continental Airlines as United.

(6) On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement which was completed on December 14, 2016. Virgin America and Alaska Air Group will continue to operate as separate airlines until a single operating certificate is issued by the FAA and operational integration is complete. Alaska Airlines and Virgin America accounted for approximately 3.4 million enplaned passengers (or approximately 8.7% of the enplaned passengers) at LAX in Fiscal Year 2016. See "CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel, Aviation Activity and Related Matters" and "–Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

Source: Department of Airports of the City of Los Angeles.

The following table presents the total revenue landed weight for the air carriers with the largest share of revenue landed weight at LAX for the previous five Fiscal Years.

TABLE 10
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT⁽¹⁾
(RANKED ON FISCAL YEAR 2016 RESULTS)
(000 LBS.)

Airline	Fiscal Year		Fiscal Year		Fiscal Year		Fiscal Year		Fiscal Year	
	2012	Share ⁽²⁾	2013	Share ⁽²⁾	2014	Share	2015	Share	2016	Share
1 American Airlines ^{(3) ‡}	6,890,142	13.8%	7,517,020	15.0%	8,109,193	15.4%	8,358,861	15.2%	9,547,571	16.1%
2 Delta Airlines ^{(4)*}	4,641,153	9.3	5,650,964	11.2	6,670,030	12.7	7,479,719	13.6	8,171,783	13.8
3 United Airlines ^{(5) †}	8,475,974	16.9	7,913,761	15.8	7,947,765	15.1	7,447,619	13.5	7,181,910	12.1
4 Southwest Airlines	4,601,662	9.2	4,641,112	9.2	4,637,202	8.8	4,977,130	9.0	5,203,678	8.8
5 Alaska Airlines ⁽⁶⁾	1,518,762	3.0	1,611,321	3.2	1,718,274	3.3	1,658,662	3.0	1,955,974	3.3
6 Virgin America ⁽⁶⁾	1,637,152	3.3	1,905,138	3.8	2,070,384	3.9	1,860,734	3.4	1,943,146	3.3
7 Federal Express	1,628,897	3.3	1,662,347	3.3	1,740,088	3.3	1,795,385	3.3	1,898,211	3.2
8 Qantas Airways [‡]	1,331,893	2.7	1,297,898	2.6	1,344,193	2.6	1,390,011	2.5	1,340,695	2.3
9 Cathay Pacific Airways [‡]	778,532	1.6	783,011	1.6	893,119	1.7	1,113,726	2.0	1,142,039	1.9
10 Korean Airlines [*]	1,200,835	2.4	1,190,283	2.4	1,179,599	2.2	1,252,622	2.3	1,132,512	1.9
11 Spirit Airlines	305,118	0.6	237,903	0.5	385,800	0.7	508,438	0.9	987,642	1.7
12 Air Canada [†]	583,479	1.2	559,315	1.1	599,464	1.1	734,164	1.3	828,701	1.4
13 JetBlue Airways	378,430	0.8	454,116	0.9	471,412	0.9	643,914	1.2	766,158	1.3
14 Eva Airways [†]	607,128	1.2	606,522	1.2	639,446	1.2	741,350	1.3	748,540	1.3
15 China Airlines [*]	726,682	1.5	665,450	1.3	740,766	1.4	752,462	1.4	745,284	1.3
16 Hawaiian Airlines	335,229	0.7	440,387	0.9	478,332	0.9	662,590	1.2	691,217	1.2
17 Air China [†]	423,990	0.8	441,634	0.9	437,270	0.8	535,570	1.0	684,047	1.2
18 China Southern Airlines	291,410	0.6	445,724	0.9	485,980	0.9	530,600	1.0	665,211	1.1
19 Air New Zealand [†]	589,878	1.2	613,650	1.2	636,972	1.2	660,416	1.2	661,188	1.1
20 Asiana Airlines [†]	524,490	1.0	554,574	1.1	641,538	1.2	655,670	1.2	653,292	1.1
Other	12,538,213	25.1	11,046,176	22.0	10,786,439	20.5	11,268,149	20.5	12,229,947	20.7
Airport Total ⁽²⁾	50,009,049	100.0	50,238,306	100.0	52,613,266	100.0	55,027,792	100.0	59,178,746	100.0

* Member of Sky Team Alliance.

† Member of Star Alliance.

‡ Member of One World Alliance.

(1) For those airlines that (i) were party to a completed merger or acquisition, (ii) have received a single FAA certificate and (iii) have completed operational integration, only the surviving entity is presented and the activity for the airlines that are now a part of the surviving airline are included in the information presented. Due to its date of publication, certain of the information contained in this table is more current than certain of the information contained in the Annual Financial Report of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) Los Angeles International Airport for the Fiscal Years ended June 30, 2016 and 2015.

(2) Totals may not add due to rounding.

(3) Include US Airways, SkyWest and Compass Airlines as American Eagle/Envoy Air.

(4) Includes SkyWest and Compass Airlines as Delta.

(5) Includes SkyWest Airlines and Continental Airlines as United.

(6) On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement which was completed on December 14, 2016. Virgin America and Alaska Air Group will continue to operate as separate airlines until a single operating certificate is issued by the FAA and operational integration is complete. See "CERTAIN INVESTMENT CONSIDERATIONS – Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

Source: Department of Airports of the City of Los Angeles.

In Fiscal Year 2016, according to traffic reports submitted to the Department by the airlines, LAX total air cargo volume was approximately 2.1 million tons. The following chart provides information concerning cargo traffic at LAX over the last ten Fiscal Years.

TABLE 11
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
ENPLANED AND DEPLANED CARGO⁽¹⁾
(TONS)

Fiscal Year	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
2007	975,734	(1.9)	1,105,899	(1.5)	2,081,633	(1.7)
2008	877,455	(10.1)	1,095,273	(1.0)	1,972,728	(5.2)
2009	728,705	(17.0)	886,594	(19.1)	1,615,299	(18.1)
2010	792,005	8.7	1,067,249	20.4	1,859,253	15.1
2011	791,414	(0.1)	1,101,270	3.2	1,892,685	1.8
2012	807,532	2.0	1,107,499	0.6	1,915,032	1.2
2013	814,920	0.9	1,134,220	2.4	1,949,140	1.8
2014	805,423	(1.2)	1,127,263	(0.6)	1,932,685	(0.8)
2015	838,095	4.1	1,274,616	13.1	2,112,710	9.3
2016	853,420	1.8	1,267,361	(0.6)	2,120,781	0.4

⁽¹⁾ Due to its date of publication, certain of the information contained in this table is more current than certain of the information contained in the Annual Financial Report of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) Los Angeles International Airport for the Fiscal Years ended June 30, 2016 and 2015.

Source: Department of Airports of the City of Los Angeles.

With the exception of Fiscal Year 2009, Cargo volumes at LAX have generally remained flat from Fiscal Year 2007 to Fiscal Year 2016, averaging approximately 1.9 million tons each Fiscal Year. See “CERTAIN INVESTMENT CONSIDERATIONS” for discussion of some factors that may impact future aviation activity at LAX. See “USE OF AIRPORT FACILITIES” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC.” for a discussion of the impact of aviation activity on revenues generated at LAX.

Competition

The region served by LAX (the “Airport Service Region”) includes primary and secondary areas. The primary geographical area served by LAX consists of the Los Angeles-Long Beach-Riverside Combined Statistical Area (“Los Angeles CSA”) as designated by the United States Bureau of the Census and includes the five-county area of Los Angeles, Orange, Riverside, San Bernardino and Ventura counties. There are six air carrier airports within the primary area. According to statistics, LAX is the dominant airport in the primary area, with approximately 77% of the total enplaned passengers in Fiscal Year 2016. In Fiscal Year 2016, LAX accounted for approximately 98% of LAX’s primary area’s international enplaned passengers.

Three other airports, LA/ONT, Bob Hope Airport (BUR) in Burbank and John Wayne Airport (SNA) in Orange County, provide air service to major domestic markets and together accounted for approximately 19% of total enplaned passengers in LAX’s primary area in Fiscal Year 2016. Two other airports, Long Beach Airport (LGB) and Palm Springs Airport (PSP), provide limited air service to destinations outside of LAX’s primary area and accounted for approximately 4% of enplaned passengers in LAX’s primary area in Fiscal Year 2016.

The secondary area served by LAX, which includes many of the counties surrounding the Los Angeles CSA, is defined by the location of (and the airline service offered at) other “nearby” air carrier airports. The secondary area comprises seven airports with scheduled air carrier service including Bakersfield’s Meadows Field (BFL), Imperial County Airport (IPL), Carlsbad’s McClellan-Palomar Airport (CRQ), San Diego International Airport (SAN), San Luis Obispo Regional Airport (SBP), Santa Barbara Municipal Airport (SBA), and Santa Maria Municipal Airport (SMX). In addition, Oxnard Airport (OXR) is a general aviation airport located 63 miles to the northwest of LAX.

Emergency Management

The Department has four core groups that are responsible for emergency management: Fire, Law Enforcement, Airport Operations and Emergency Management Division. These core groups are responsible for the emergency planning for all phases of emergency management: mitigation, preparedness, response and recovery. The roles and responsibilities of each entity within these four groups are defined by Emergency Support Functions in the federal National Incident Management System (“NIMS”), the National Response Framework, the California Standardized Emergency Management System (“SEMS”), FAA Regulation Part 139 (“FAR 139”), the Charter, the Airport Rules and Regulations and other statutes. The “Airport Rules and Regulations” are established pursuant to the Charter in order to, among other things, comply with FAA and TSA regulations which require the Department to establish operational and safety procedures and institute certain secondary measures for airport certification. Emergency management responsibilities for the core groups include: (1) hazard vulnerability analysis, (2) development and maintenance of emergency operations plans, (3) integration with the City’s Emergency Operations Organization and the emergency processes of other City departments and agencies, (4) developing, conducting and coordinating training and exercises, (5) planning for continuity of operations/continuity of government for the Airport System, (6) oversight of implementation for new emergency guidelines, mandates, technology, emergency response and preparedness systems at local, state, federal and international levels concerning airport emergency operations and (7) responding to and activating the Department Operations Center, and sending Department representation to the City Emergency Operations Center for emergency activations.

The Department is required by certain federal, state, City and other directives to develop and maintain a number of airport emergency response plans to ensure protection of lives and property and mitigation measures to lessen the impact on the disruption of business. The Department is also subject to Homeland Security Presidential Directive 5, which requires compliance with the NIMS and the National Response Framework. The State requires compliance with SEMS. Under FAR 139 the Department is required to create, maintain and exercise specific emergency plan components that must be specific to LAX and contained in FAA approved Airport Certification Manuals. These plans set forth emergency procedures to ensure prompt response to emergencies to save lives, minimize the possibility and extent of personal and property damage and ensure recovery of the critical transportation infrastructure. The Department has included these emergency procedures in the Airport Rules and Regulations for LAX. The Department holds emergency plan exercises as required by the FAA, TSA regulations, security directives, FAR 139 mandates and City exercise programs. A yearly security exercise is held under the direction of Airport Police and through the collaborative efforts and participation of airport stakeholders. The Department conducts and participates in a number of additional scheduled exercises with federal, airline and City agencies to exercise and test mitigation, preparedness, response and recovery.

See also “CERTAIN INVESTMENT CONSIDERATIONS –Security Concerns” and “—Seismic Risks.”

CERTAIN FUNDING SOURCES

Passenger Facility Charges

Generally, the PFC Acts permit public agencies controlling certain commercial service airports to charge each enplaning passenger a facility charge ranging from \$1.00 to \$4.50. The Department has received approval from the FAA to collect a passenger facility charge up to \$4.50 on each enplaning passenger at LAX.

The proceeds from passenger facility charges must be used to finance eligible airport-related projects. Public agencies wishing to impose and use passenger facility charges to finance eligible airport-related projects must apply to the FAA for the authority to do so. Eligible airport-related projects approved by the FAA are referred to herein as “Approved PFC Projects.”

PFC revenues to fund certain Approved PFC Projects are collected by air carriers as part of the price of a ticket and then remitted to the Department. The air carriers are permitted by the PFC Acts to retain a portion of each passenger facility charge collected (currently \$0.11 of each passenger facility charge collected) as compensation for collecting and handling PFC revenues. PFC revenues received by the Department are net of this collection fee. In the event of an airline bankruptcy, it is unclear whether the Department would be afforded the status of a secured creditor with regard to PFC revenues collected or accrued with respect to that airline. See “CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel, Aviation Activity and Related Matters” and “—Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies.”

Since 1993, the Department has received approval from the FAA to impose and use \$3,095,759,661 of PFC revenues (including investment income) at LAX. Such PFC revenues are expected to be collected in full by October 1, 2023. No assurance can be given that PFC revenues will actually be received in the amounts or at the times contemplated by the Department. The amount and timing of receipt of actual PFC revenues are expected to vary depending on actual levels of qualified passenger enplanements at LAX. If PFC revenues are not available, the Department may be required to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds, additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. See “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” and “—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.” The following table sets forth a summary of the Department’s approved passenger facility charge applications relating to LAX.

TABLE 12
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
APPROVED PASSENGER FACILITY CHARGE APPLICATIONS

Initial Approval Date	Approval Amount
1996	\$ 116,370,846
1996	50,222,938
1997	700,000,000
2005	697,779,968
2007	85,000,000
2010	855,000,000
2011	27,800,572
2014	44,378,659
2015	516,091,523
2015	3,115,155
	\$ 3,095,759,661
Total collected as of June 30, 2016:	\$ 2,322,075,899 ⁽¹⁾

⁽¹⁾ Includes approximately \$203,570,217 of interest.

Source: Department of Airports of the City of Los Angeles

Further to the ONT Settlement Agreement, the FAA permitted the Department to reallocate passenger facility charge collections from LA/ONT to LAX for the purposes of funding portions of the Capital Program in the amount of approximately \$117 million, approximately \$47 million of which is to be transferred to LAX upon the transfer of LA/ONT to OIAA and the balance to be remitted as collected by OIAA. See “THE DEPARTMENT OF AIRPORTS – General Description.”

The Department expects to submit additional applications to impose and use passenger facility charges for eligible expenditures, including, but not limited to, those expenditures funded with proceeds of PFC Eligible Obligations. If such applications to impose and use passenger facility charges for eligible expenditures are approved, such approval may extend the date by which such PFC revenues are expected to be collected.

PFC revenues may also be used for the payment of debt service on certain portions of bonds issued to finance all or a portion of Approved PFC Projects (“PFC Eligible Obligations”). The Department expects to pay a portion of the debt service on the PFC Eligible Obligations with PFC revenues. However, the Department is prohibited from using PFC revenues to pay debt service on PFC Eligible Obligations in excess of the amounts of passenger facility charges approved by the FAA for the Approved PFC Projects. If the actual cost of Approved PFC Projects is less than the amount approved by the FAA, the Department may be required to submit an amendment to the FAA application to reduce the approved amount for applicable projects. The proceeds of the Series 2008 Senior Bonds, the Series 2009A Senior Bonds, the Series 2010A Senior Bonds, the Series 2010D Senior Bonds, the Series 2015 Senior Bonds and the Series 2016A Subordinate Bonds fund Approved PFC Projects and are PFC Eligible Obligations.

The actual amount of PFC revenues received in each Fiscal Year may vary depending on the number of qualifying passenger enplanements at LAX. See “CERTAIN INVESTMENT CONSIDERATIONS” for discussion of a number of factors that may impact the number of passenger enplanements and the Department’s receipt of PFC revenues.

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. To date, the Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues nor otherwise pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. However, the Department expects to use PFC revenues to pay a portion of the debt service on PFC Eligible Obligations. Debt service paid with PFC revenues is not included in the calculation of the rate covenant set forth in the Senior Indenture. Debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds test set forth in the Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS – Subordinate Rate Covenant” and “—Passenger Facility Charges.”

See “AIRPORT AND CAPITAL PLANNING” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues” for additional information about the Department’s expected use of PFC revenues.

Grants

Under the AIP the FAA awards grant moneys to airports around the country for capital improvement projects and airport operating costs. AIP grants include entitlement funds, which are apportioned annually based upon the number of enplaned passengers and total landed weight of all-cargo aircraft at the airport, as well as discretionary funds, which are awarded by the FAA based on a national priority system. Generally, federal grants are paid to the Department on a reimbursement basis when the grant agreement is approved and after eligible expenditures are made. The amount and timing of receipt of actual AIP grant moneys may vary and may not be reimbursed for a significant period of time after the eligible expenditure is made. If AIP grant moneys are not available or timely reimbursed, the Department may be required to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds, additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. See “CERTAIN INVESTMENT CONSIDERATIONS – Federal Funding; Impact of Federal Sequestration” and “—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.”

The following is a table of AIP grants authorized for acceptance by the Board from June 30, 2005 through June 30, 2016:

TABLE 13
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
FEDERAL AIRPORT IMPROVEMENT PROGRAM GRANTS
AUTHORIZED FOR ACCEPTANCE BY THE BOARD
FROM JUNE 30, 2005 THROUGH JUNE 30, 2016

Date	Grant Amount ⁽¹⁾	Project Funded
August 2005	\$ 38.8	Runway 7R/25L project
March 2006	29.5	Runway 7R/25L project
April 2007	29.6	Taxiway improvement projects
June 2008	7.1	Taxiway improvement projects
June 2008	2.0	Taxilane C-10 reconstruction project
February 2009	3.2	Taxiway improvement projects
June 2009	13.5	Crossfield Taxiway improvement project
March 2010	48.5	Taxilane S improvement project
March 2011	17.8	Taxilane T and enabling projects
November 2011	19.9	Taxilane T and enabling projects
September 2013	9.8 ⁽²⁾	Runway 7R/25L Safety Area
August 2014	13.1	TBIT Aprons
September 2014	14.8	Runway 6L-24R Safety Area
September 2015	10.0	TBIT Aprons
September 2015	40.8	Runway 6R-24L Safety Area
June 2016	11.0	TBIT Aprons
July 2016	36.2 ⁽³⁾	Runway 7R/25L Safety Area
Total	\$ 345.5	

⁽¹⁾ Dollars in millions.

⁽²⁾ Reflects an August 2015 amendment to reduce the grant for the Runway 7R/25L Safety Area project by approximately \$24.3 million.

⁽³⁾ Reflects a July 2016 grant for the Runway 7R/25L Safety Area project of approximately \$36.2 million, which restored the approximately \$24.3 million reduction to the grant for the Runway 7R/25L Safety Area project under the August 2015 amendment and provided an additional approximately \$11.9 million.

Source: Department of Airports of the City of Los Angeles

Pursuant to the Aviation and Transportation Security Act, the Department has been awarded approximately \$256 million of reimbursements from the Department of Homeland Security for the installation of in-line baggage screening systems, of which approximately \$235 million has been received as of June 30, 2016 for projects completed at LAX. In June 2011, the Board approved the award of approximately \$13.4 million from the TSA for the Department's Closed Circuit Television Security System at LAX. During Fiscal Year 2016, the Department received approximately \$3 million for security-related reimbursements at LAX.

The Department is subject to periodic compliance reviews by the FAA and the Office of the Inspector General, some of which have included a review of payments made by the Department to the City, to verify the Department's compliance with applicable federal laws, FAA grant assurances and FAA policies concerning the use of airport revenue and airport revenue diversion. In addition, interested parties such as Airlines for America (formerly known as the Air Transport Association of America) and Aircraft Owners and Pilots Association may initiate U.S. DOT proceedings relating to these types of issues.

See "AIRPORT AND CAPITAL PLANNING" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – Federal Grants" for additional information about the Department's expectations concerning grants.

USE OF AIRPORT FACILITIES

General

The Department permits airlines and other parties to use Airport facilities, and receives payment for the use of Airport facilities, pursuant to a variety of arrangements, all of which are intended to fulfill the Department's goal of recovering all costs allocable to areas used from the users of such facilities (including, but not limited to, costs for capital, debt service, maintenance and operations, certain airline equipment and infrastructure). Generally these arrangements consist of:

- Air Carrier Operating Permits;
- The Airport Terminal Tariff and the Rate Agreement;
- Terminal leases;
- Facilities Use Terms and Conditions;
- Concession and parking agreements;
- Non-exclusive licensing agreements; and
- Various other building and miscellaneous leases including for cargo and hangar facilities.

Operating Permits – Landing and Apron Facilities and Landing Fees

The Department has entered into separate operating permits covering the use of landing and apron facilities with air carriers serving LAX. These operating permits grant operating rights to each airline typically for a ten-year term, and are commonly referred to as the “Air Carrier Operating Permits” or the “ACOPs.” For new ACOPs, the Department is currently authorized to issue ACOPs that expire June 30, 2022, with an option to extend each ACOP for another 10-year term. The ACOPs are terminable by either party on 30 days’ notice. The ACOPs require each airline to pay a landing and apron fee to the Department for each aircraft that uses the landing and apron facilities at LAX, generally equal to the product of (i) the units of maximum gross landed weight of the aircraft, with each unit being 1,000 pounds, multiplied by (ii) the applicable landing or apron fee rate currently in effect. Air carriers that are not a party to an ACOP must still comply with the Airport Rules and Regulations, which require the uninterrupted payment of landing and apron fees and such landing and apron fees are substantially higher than for air carriers that are party to an ACOP. The landing and apron fee rates to be charged during each Fiscal Year are based upon the Department’s then-current budget and are adjusted at the end of each Fiscal Year to reflect the actual expenses incurred. All adjustments for deficiencies are billed when determined and overages are credited to the affected airlines. The Department expects that the ACOPs will be renewed upon their expiration, though no assurances can be given that they will be, or that the terms of the new ACOPs will be the same as the existing terms.

For Fiscal Year 2016, revenues to the Department at LAX from landing fees were approximately \$238.5 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.” See also APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES – Airline Revenues.”

Airport Terminal Tariff

Airlines and businesses involved in aeronautical activities other than governmental activities or concessions (each, an “Aeronautical User”) use terminal space at LAX under the terms of the LAX Passenger Terminal Tariff (the “Airport Terminal Tariff”). The Airport Terminal Tariff has no term or expiration date but is subject to change from time to time by the Board. After consultation with airline representatives regarding the Department’s rates and charges, on September 17, 2012, the Board approved certain changes to the Airport Terminal Tariff, as described below, which became effective on January 1, 2013, in all terminals at LAX; provided, however, the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines using Terminal 4 are subject to the rate methodology adopted on September 17, 2012. The Department has entered into a lease for the use of terminal space in Terminal 4 with American Airlines that expires in December 2024. Under this lease, rental rates are not charged pursuant to the Airport Terminal Tariff, rather rental rates on terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. American Airlines is required to pay operation and maintenance charges based on the methodology of the Airport Terminal Tariff. American Airlines is a party to a Rate Agreement (described below); however, the Rate Agreement rates do not apply to the space leased by American Airlines in Terminal 4. The rental rates under all other terminal leases are governed by the Airport Terminal Tariff.

Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space used by Aeronautical Users. Under the Airport Terminal Tariff, Aeronautical Users are required to pay to the Department:

- Terminal Buildings Charge – A charge based on an equalized rate calculated by the Department by dividing the total of all capital and maintenance and operation costs allocated by the Department to the passenger facilities at LAX by the total rentable areas in the Terminals.
- FIS Fee – A fee based on an equalized rate calculated by the Department by dividing the total of all capital and maintenance and operation costs allocated by the Department to Federal Inspection Services (“FIS”) areas at LAX by the number of international passengers passing through the FIS facilities.
- Common Use Area Fees and Charges – Fees and charges based on rates calculated by the Department based on airlines’ use of common areas in the Terminals, such as hold rooms, baggage claim systems and ticket counters.
- Terminal Special Charges – Fees based on rates calculated by the Department for use by the Aeronautical Users of certain equipment and services at LAX that are not otherwise billed to Aeronautical Users through the rates and charges described above, such as, in certain terminals custodial services, outbound baggage system maintenance, terminal airline support systems and loading bridge capital and maintenance.

Aeronautical Users subject to the Airport Terminal Tariff are required to provide a performance guaranty which is at least three times the sum of the estimated monthly installments of the Terminal Buildings Charge and other amounts.

For Fiscal Year 2016, revenues to the Department at LAX from terminal rentals were approximately \$403.6 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.” See also APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES.”

Rate Agreement

In connection with the negotiation of the terms of the Airport Terminal Tariff, to resolve certain litigation that was then pending and potential future litigation regarding the Department’s rate setting methodology, and to provide phase-in of the new rates and charges for airlines, the Department offered the airlines (including certain consortiums that have been formed to manage specified Terminal facilities at LAX) a Rate Agreement. All airlines serving LAX have executed Rate Agreements.

Pursuant to the Rate Agreements, each applicable airline (a “Signatory Airline”) consented to and waived its right to challenge the application of the Airport Terminal Tariff rate methodology approved by the Board in September 2012. Under the Rate Agreement, the rates and charges under the Airport Terminal Tariff are phased in over five years, with the initial Terminal Building Rate set at \$75.00 per rentable square foot for calendar year 2013. In calendar years 2014 through 2017 the Terminal Building Rate will be discounted by 20%, 15%, 10% and 5%, respectively. After calendar year 2017, the Terminal Building Rate will be charged pursuant to the Airport Terminal Tariff without discount.

The Rate Agreement provides that during calendar years 2013 through 2015, the FIS rate was fixed at \$8.50, \$9.50 and \$10.50 per deplaned international passenger, respectively. After calendar year 2015, the FIS rate will be charged pursuant to the Airport Terminal Tariff, as described above, without discount.

Beginning in calendar year 2014, the Department provided Signatory Airlines a credit for a portion of the concession revenues generated in the terminals at LAX. The amount of these credits in Fiscal Year 2016 was approximately \$22.7 million. This credit results in a reduced Terminal Building Rate (and a corresponding reduction in rates derived from the Terminal Building Rate) and a reduced FIS rate paid by the Signatory Airlines.

Under the Rate Agreement, the Department is required to establish a Terminal Renewal and Improvement Fund (the “TRIF”). The TRIF is required to be funded from annual net revenues from the application of the Airport Terminal Tariff. Amounts deposited in the TRIF are required to be used by the Department to fund, together with debt and grant funding, terminal related capital improvements. Deposits into the TRIF may not exceed \$125 million annually or a maximum unused fund balance amount of \$500 million. These limits are subject to annual consumer price index increases. The Department is permitted to collect and amortize charges associated with capital projects funded from TRIF deposits, however, such collection and amortization is required to be deferred for five years after the projects are placed in service. On June 20, 2016, in accordance with the Rate Agreement, the Department transferred the entire balance of approximately \$47 million of the TRIF to the Airport Revenue Fund for financing terminal related capital improvements.

Under the Rate Agreement, beginning in calendar year 2014, 50% of the funds in the TRIF, that are not otherwise committed to projects, in excess of the TRIF limits described above are required to be deposited in a Revenue Sharing Fund. As of June 30, 2016, funds in the TRIF were not in excess of the TRIF limits described above and no amounts were on deposit in the Revenue Sharing Fund. The remaining excess funds may be used by the Department for any lawful purpose. Amounts deposited in the Revenue Sharing Fund are required to be distributed to the Signatory Airlines as a credit against any amount due in the following priority: first, against Terminal rents and second, against landing fees. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES.”

Land and Other Non-Terminal Building Rentals

In addition to terminal leases, under a variety of leases, permits and other use agreements, the Department rents certain cargo, maintenance and other building facilities (“Land Rentals”) and ancillary land facilities at LAX (“Other Building Rentals”). The rental rates and other terms for Land Rentals and Other Building Rentals vary. See “—Facilities Use Terms and Conditions.”

In Fiscal Year 2016, revenues to the Department from Land Rentals were approximately \$96.2 million and revenues to the Department from Other Building Rentals were approximately \$59.1 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.”

Department Acquisition of Certain Terminal Improvements; Credits

In connection with certain Terminal leases, certain Aeronautical Users have agreed to undertake renovations to their leased Terminals. These renovations may include (i) proprietary renovations, which generally include branded improvements to the Terminal and other improvements unique to the Aeronautical User’s operational needs; (ii) Aeronautical User renovations, which generally include non-proprietary improvements to the Terminal usable by any Aeronautical User operating in the Terminal (“Aeronautical User Improvements”); and (iii) Terminal renovations, which generally include improvements to the Terminal that are allocated to the public areas (“Terminal Improvements”). Terminal renovations may also include provision for certain relocations of Terminal users to enable the Terminal renovations.

Under the Department’s Terminal leases, subject to certain conditions, the Department has agreed to purchase from Aeronautical Users certain Aeronautical User Improvements in the aggregate amount of approximately \$836.3 million and the Department has the option to purchase from Aeronautical User certain Terminal Improvements in the aggregate principal amount of approximately \$720.1 million. If the Department does not exercise the option to purchase the Terminal Improvements, it may be required under the Terminal leases to issue to the applicable Aeronautical User a credit in an amount to reimburse the applicable Aeronautical User for costs related to such Terminal Improvements and imputed interest. If such credits are issued, the credits may be issued and amortized over the period from the date on which the Department could exercise the option to purchase the Terminal Improvements through the end of the Terminal lease or such date as the Department extinguishes the credit through cash payment. The Department retains the option to purchase the Terminal Improvements and related credits at any time during the term of the Terminal lease.

The Department, pursuant to the Department’s Terminal leases, also may be required issue credits to certain Aeronautical Users responsible for the cost of relocating other Terminal users to facilitate the Terminal renovations, for the cost of such relocations. The amounts of these credits may vary depending on the scope of the required relocations. As of October 31, 2016, the Department had agreed to issue approximately \$60 million of relocation rental credits. Pursuant to the Department’s Terminal leases, Department’s exposure to the application of these rental credits is limited to approximately \$15 million per year.

Credits are applied as an offset against amounts otherwise due to the Department by such Aeronautical Users as charges for use of LAX facilities, including amounts owed pursuant to the Airport Terminal Tariff and landing fees. Because these credits are applied as an offset to amounts owed to the Department by such Aeronautical Users, the Department receives less money from these Aeronautical Users than such Aeronautical Users would otherwise provide absent the credit. Thus, although the credits are not secured by any pledge of or lien on the Department’s revenues, the effect of using such credits is the creation of a higher payment priority for such credits than for the Senior Bonds or the Subordinate Bonds. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Credits.”

The Department is in negotiations with certain Aeronautical Users regarding new Terminal leases that may contain terms similar to those described above. If the Department enters into any such new leases, the Department may agree to be obligated or have the right to purchase from such Aeronautical Users the applicable Aeronautical User Improvements, the cost of which purchase may be material and financed with the issuance of Additional Senior Bonds and/or Additional Subordinate Obligations when such acquisition is made.

The acquisition of certain Aeronautical User Improvements and Terminal Improvements under Terminal leases are part of the Capital Program, and those terminal acquisition projects identified in the Report of the Airport Consultant, including their capital and operating costs, financing and estimated revenue impacts, have been included in the financial analysis included in the Report of the Airport Consultant. See “AIRPORT AND CAPITAL PLANNING – Capital Development” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM.”

Facilities Use Terms and Conditions

Facilities Use Terms and Conditions apply to users of certain Department owned space at LAX that are not subject to a lease or the Airport Terminal Tariff, principally certain buildings in the airfield and off-Airport facilities. Facilities Use Terms and Conditions have no term or expiration date but are subject to change from time to time by the Board and include a basic per square foot charge, subject to periodic adjustment to fair market rental value. If the Department determines that any portion of the facilities to which the Facilities Use Terms and Conditions apply are being underutilized, the Department may, upon the satisfaction of certain requirements, accommodate other users in such space. Facilities Use Terms and Conditions require users to provide a performance guaranty which is at least three times the sum of the amount of the initial estimated monthly installments of base charges and other additional amounts.

Concession and Parking Agreements

The Department has entered into numerous concession agreements with terminal commercial managers, duty free concessionaires, food and beverage concessionaries, retail concessionaires and others. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES.”

Parking

The Department has entered into various parking operation and management agreements with ABM Onsite Services-West, Inc., LAZ Parking California, LLC (“LAZ”), Colliers International Real Estate Management Services (CA) and Parking Concepts Inc. (together, the “Parking Management Companies”), whereby the Parking Management Companies will provide parking facility management and operational services with respect to Department-owned parking structures and parking lots. Under these agreements the Parking Management Companies are compensated for the provision of services through various monthly management and service fees and, where applicable, are required to remit the gross revenues from the parking facilities, on a daily basis, to the Department. These agreements may be terminated by the Department upon 90 days’ notice.

In July 2009, the Department purchased the property adjacent to Terminal 1, which is operated as the Park One parking lot (the “Park One Property”). In connection with the purchase, the Department assumed an operating lease with PNF-LAX, Inc. (the “PNF Lease”) which, subject to the terms thereof, may be extended at the option of PNF-LAX, Inc. on a periodic basis through December 2028. PNF-LAX exercised an option to extend the term of the PNF Lease to December 31, 2017. Under the PNF Lease, the Department receives escalating annual revenues. In Fiscal Year 2016, the Department received approximately \$9 million, inclusive of base rent and percentage rent on gross revenues after certain thresholds are met. In October 2016, the Board approved the amendment and the restatement of the PNF Lease to, among other things, provide the Department an option to reduce the Park One Property as needed for future projects and extend the term of the PNF Lease to December 2029. The amended and restated PNF Lease is subject to approval by the City Council and the City Attorney.

For Fiscal Year 2016, parking revenues to the Department at LAX were approximately \$94.1 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.”

Rental Cars and Customer Facility Charges

Approximately 40 rental car companies operate at LAX, with vehicle rental sites located off-airport. Thirteen rental car companies (the “Concessionaire Rental Car Companies”) operating at LAX provide free

shuttle services between LAX and their respective locations and are permitted to pick up and drop off their customers directly from the airline terminals. The Concessionaire Rental Car Companies are each required to pay annually to the Department either a minimum annual guaranty or a concession fee, as set forth in the agreements with the Concessionaire Rental Car Companies. The agreements with the Concessionaire Rental Car Companies are scheduled to expire in January 2018. The Department in its sole discretion may extend the term of such agreements for two additional one-year periods. The agreements also permit a Concessionaire Rental Car Company to terminate its agreement at various intervals after January 1, 2017 in the event that the Department and the Concessionaire Rental Car Companies are unable to agree on certain terms related to the planning, programming, financing and other matters related to a consolidated rental car facility (“CONRAC”) or if certain other events related to environmental approvals related to the CONRAC and Customer Facility Charge collections do not occur.

Pursuant to the agreements with the Concessionaire Rental Car Companies, the Department also requires the Concessionaire Rental Car Companies to collect a rental car customer facility charge (a “Customer Facility Charge”) of \$10 per transaction on behalf of the Department. The Customer Facility Charges collected by the Concessionaire Rental Car Companies on behalf of the Department, as permitted by applicable law, are to finance, design and construct the CONRAC; to finance, design, construct and operate a common-use transportation system, as well as acquiring vehicles for use in that system (such as the Automated People Mover System); and to finance, design and construct terminal modifications to accommodate the common use transportation system. Subject to certain conditions precedent, it is expected that commencing January 1, 2017 and thereafter, pursuant to applicable state laws, the Department will be able to require rental car companies to collect a Customer Facility Charge at a rate charged on a per-day basis which may not exceed \$9 per day (for up to 5 days).

For Fiscal Year 2016, the Concessionaire Rental Car Companies paid approximately \$83.3 million in concession fees to the Department. The Department collected Customer Facility Charges for Fiscal Year 2016 of approximately \$32.0 million at LAX. Pledged Revenues do not include Customer Facility Charge revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS – Flow of Funds.”

The Department requires non-Concessionaire Rental Car Companies that service LAX to enter into a non-exclusive license agreement. Subject to the terms of the non-exclusive license agreement non-Concessionaire Rental Car Companies are required to have their customers transported on LAX buses to and from a non-concessionaire rental car site located on West Century Boulevard, near Airport Boulevard. The non-exclusive license agreements expire on January 31, 2018 and are subject to termination by the Department upon 90 days’ notice. Non-Concessionaire Rental Car Companies are required to pay \$6,000 per month, which fees may be adjusted twice each year upon 30 days’ notice.

Duty Free Concessions

The Department entered into a duty free merchandise concession agreement with DFS Group L.P. (“DFS”) for the design, construction, development and operation of duty free and duty paid merchandise concession at all Terminals at LAX (the “DFS Concession Agreement”). The initial term of the DFS Concession Agreement is scheduled to expire in September 2024. Under certain circumstances, the Department has the right to extend the DFS Concession Agreement for three one year extension terms. Under the DFS Concession Agreement, DFS is required to make initial capital investments for initial improvements to its premises of approximately \$25 million and make mid-term capital investments for refurbishment of its premises of approximately \$17 million. The DFS Concession Agreement provides that the Department will receive from DFS the greater of a minimum annual guaranty or performance rent comprised of percentage rent (based on the application of certain percentages to gross sales of various categories of products) and contingent rent (10% of gross sales in excess of \$175 million). Under the DFS Concession Agreement, the minimum annual guaranty is the greater of (i) \$30 million, provided that in the second year of the DFS Concession Agreement, such amount will be increased based on the consumer price index, (ii) a percentage of the prior year’s rent payment, unless, in certain circumstances, international enplaned passengers at LAX have decreased below certain thresholds, and (iii) commencing in the third year of the DFS Concession Agreement, \$6.25 per international enplaned passenger, subject to annual consumer price index increases. DFS is required to provide a performance guaranty in an amount equal to 25% of its minimum annual guaranty.

For Fiscal Year 2016, revenues to the Department at LAX from duty free sales were approximately \$66.3 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.”

Terminal Commercial Manager Concessions

The Department has entered into terminal commercial manager concession agreements with Westfield Airports, LLC (“Westfield”), for concession development in TBIT and Terminals 1, 2, 3 and 6 (the “Westfield Concession Agreements”). Pursuant to the Westfield Concession Agreements, Westfield serves as a developer and manager of retail, specialty retail, food and beverage and other passenger services in the applicable terminals and space, including selecting concessionaires, subject to Department approval. Under the Westfield Concession Agreements, Westfield is required to develop concession and related spaces, market and promote the concessionaires, negotiate and administer contracts with each concessionaire, and monitor and manage concessionaire performance. The term of each Westfield Concession Agreement is 17 years, comprised of a development period and an operational period. The Westfield Agreement is scheduled to expire as follows:

<u>Terminal</u>	<u>Scheduled Expiration</u>
1	June 2032
2	January 2032
3	June 2029
6	January 2031
TBIT	January 2032

Under the Westfield Concession Agreements, Westfield and its concessionaires are required to make initial capital investments in initial premises improvements in an aggregate amount of approximately \$160.5 million, initial capital investments in initial non-premises improvements in an aggregate amount of approximately \$74.5 million and capital investments in mid-term premises improvements in an aggregate amount of approximately \$32.1 million. When all of the terminal space has been delivered to Westfield, the Department is to receive from Westfield the greater of an aggregate minimum annual guaranty of approximately \$34.7 million (for Calendar Year 2015 the minimum annual guaranty was approximately \$18.2 million) or percentage rent comprised of base percentage rent (a percentage of Westfield’s revenues less certain allowances for improvements and management fees) and contingent percentage rent (a certain percentage of Westfield’s revenues in excess of certain benchmarks). Beginning in January 2014, each minimum annual guaranty is subject to increase based on the consumer price index and a percentage of the prior year’s percentage rent and to decrease based on certain reductions in passenger enplanements. Under the Westfield Concession Agreements, Westfield is required to provide performance guaranties in the initial aggregate amounts of \$2 million, which amounts are required to increase to two months minimum annual guaranty, but not less than \$3 million. The Department may terminate (a) Westfield Agreement No.1 in the thirteenth year of operation and (b) Westfield Agreement No. 2 in the tenth year of operation, in each case if Westfield does not meet certain performance targets, subject to certain buy-out payments for Westfield’s investment in improvements.

For Fiscal Year 2016, revenues to the Department at LAX from the terminal commercial manager was approximately \$43.3 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.”

Food and Beverage Concessions

The Department has entered into concession agreements with a number of food and beverage concessionaires for concessions at Terminals 4, 5, 7, 8 and the commuter facilities at LAX (the “Food and Beverage Concession Agreements”). The Food and Beverage Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Food and Beverage Concession Agreements is approximately \$13.8 million. Under the Food and Beverage Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire’s premises, aggregating approximately \$37.9 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately \$7.5 million. Each food and beverage concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Food and Beverage Concession Agreements are scheduled to expire in June 2021 and 2023.

For Fiscal Year 2016, revenues to the Department at LAX for food and beverage concessions were approximately \$22.8 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.”

Advertising Sponsorship and New Media Concession

The Department entered into a Terminal Media Operator Concession Agreement (“TMO Agreement”) with JCDecaux Airport, Inc. (“JCDecaux”), effective February 2014. Pursuant to the TMO Agreement, JCDecaux serves as terminal media operator for the development and operation of certain advertising, sponsorship and other media concession locations within LAX. Under the TMO Agreement JCDecaux is granted the right to, among other things, market certain advertising and digital activation opportunities, develop and manage advertising displays, sponsorship activations and other media elements display locations at LAX. Under the TMO Agreement, JCDecaux is, subject to Department review, required to undertake certain development activities relating to advertising displays and other media elements in TBIT and in other portions of the Airport. The TMO Agreement is scheduled to expire in December 2020. The Department, under certain circumstances and in its sole discretion, may extend the term of the TMO Agreement for one additional period of three years. Subject to certain conditions provided in the TMO Agreement, JCDecaux is required to make an initial investment in certain improvements for the purpose of its sponsorship activations, advertising displays or other media elements equal to \$18.5 million. Additionally, JCDecaux is also required to make additional investments in certain improvements for the purpose of its sponsorship activations, advertising displays or other media elements equal to \$3.5 million over the remainder of the initial term of the TMO Agreement. The annual concession fees payable from JCDecaux to the Department under the TMO Agreement are based on a series of formulas set forth in the TMO Agreement and consist of, among other things, certain fees derived from certain minimum guarantees and/or certain fees derived from a percentage of gross revenues from advertising, media and sponsorship activities. For Fiscal Year 2016, JCDecaux was required to pay to the Department not less than an advertising minimum annual guaranty in the amount of approximately \$21.3 million and a sponsorship minimum annual guaranty in the amount of approximately \$5.1 million. Each of these minimum annual guaranties is subject to increases on an annual basis.

In Fiscal Year 2016, revenues to the Department at LAX from the TMO Agreement were approximately \$26.4 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion for Fiscal Year 2016.”

Retail Concessions

The Department has entered into concession agreements with a number of retail concessionaires for concessions at Terminals 4, 5, 7 and 8 at LAX (the “Retail Concession Agreements”). The Retail Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Retail Concession Agreements is approximately \$7.5 million. Under the Retail Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire’s premises, aggregating approximately \$10.8 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately \$2.1 million. Each concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Retail Concession Agreements are scheduled to expire in June 2023.

For Fiscal Year 2016, revenues to the Department at LAX from Retail Concession Agreements were approximately \$10.4 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2016.”

FINANCIAL AND OPERATING INFORMATION CONCERNING LAX

Summary of Operating Statements

The following table summarizes the financial results from operations for LAX for Fiscal Years 2012 through 2016. See APPENDIX B – “ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015.”

TABLE 14
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL OPERATING STATEMENTS
(DOLLARS IN THOUSANDS)⁽¹⁾

	2012 ⁽²⁾	2013 ⁽²⁾	Fiscal Year 2014 ⁽²⁾	2015 ⁽²⁾	2016
Operating revenues:					
Aviation revenue					
Landing fees	\$ 205,568	\$ 216,359	\$ 222,608	\$ 227,518	\$ 238,491
Building rentals ⁽³⁾	247,939	257,251	315,764	365,296	462,667
Other aviation revenue ⁽³⁾⁽⁴⁾	86,402	84,934	90,154	95,042	102,766
Concession revenue ⁽⁵⁾	278,767	304,139	331,311	354,082	398,692
Airport sales and services	2,190	808	853	2,047	2,838
Other operating revenue	1,224	1,982	1,039	1,815	1,158
Total operating revenue	\$ 822,090	\$ 865,473	\$ 961,729	\$ 1,045,800	\$ 1,206,612
Operating expenses:					
Salaries and benefits	\$ 339,551	\$ 338,004	\$ 356,726	\$ 374,018	\$ 387,595
Contractual services	162,071	162,661	161,771	174,745	182,659
Administrative expense	5,895	1,126	(1,768) ⁽⁶⁾	2,890	3,288
Materials and supplies	35,986	47,908	45,726	46,102	46,062
Utilities	30,664	32,472	39,089	38,355	36,181
Advertising and public relations	3,186	3,421	3,915	4,606	4,095
Other operating expenses	2,807	3,838	4,567	4,682	3,999
Total operating expenses before depreciation and amortization	\$ 580,160	\$ 589,430	\$ 610,027	\$ 645,398	\$ 663,879
Income from operations before depreciation and amortization	\$ 241,930	\$ 276,043	\$ 351,702	\$ 400,402	\$ 542,733
Depreciation and amortization	(123,941)	(134,500)	(141,795)	(178,035)	(226,439)
Operating Income	\$ 117,989	\$ 141,543	\$ 209,907	\$ 222,367	\$ 316,294
Non-Operating revenues/(expenses):					
Passenger facility charges	\$ 121,443	\$ 124,610	\$ 132,809	\$ 137,855	\$ 150,409
Customer facility charges ⁽⁵⁾	26,002	27,295	28,675	29,347	31,996
Interest income	27,553	25,231	20,413	20,327	19,638
Change in fair value of investments	5,249	(22,793) ⁽⁷⁾	1,799	(2,021)	13,776
Other non-operating revenue ⁽⁴⁾	13,910	12,067	11,122	8,618	17,985
Interest expense	(83,068)	(93,610)	(133,694)	(166,919)	(182,386)
Bond expense	(993)	(2,003)	(1,703)	(2,488)	(3,764)
Other non-operating expenses	(252)	(55)	(225)	(7,071) ⁽⁸⁾	(3,026)
Net non-operating revenues / (expenses)	\$ 109,844	\$ 70,742	\$ 59,196	\$ 17,648	\$ 44,628
Income before capital grant					
Contributions	\$ 227,833	\$ 212,285	\$ 269,103	\$ 240,015	\$ 360,922
Federal grants	59,854	12,264	24,674	30,964	49,255
Inter-agency transfers	3,466	(2,126)	6,329	5,303	5,116
Change in net assets	291,153	222,423	300,106	276,282	415,293
Net position, beginning of period	\$ 3,537,227	\$ 3,828,380	\$ 4,044,923	\$ 4,345,029	\$ 4,053,417
Change in accounting principle and removal of net pension obligation	--	(5,880)	--	(567,894) ⁽⁹⁾	--
Net position, end of period	\$ 3,828,380	\$ 4,044,923	\$ 4,345,029	\$ 4,053,417	\$ 4,468,710

(1) Totals may not add due to rounding.

(2) Restated. Certain reclassifications have been made to conform to fiscal year 2016 presentation.

(3) Terminal use and gate use fees reclassified from other aviation revenue to building rentals revenue.

(4) Includes reimbursement of security-related expenses; TSA revenue pertaining to law enforcement officers and canines reclassified from operating revenue to non-operating revenue.

(5) Customer facility charges were reclassified from concession revenue to non-operating revenue.

(6) Fiscal Year 2014 negative Administrative expenses primarily due to an adjustment of approximately \$4.7 million for allowance for uncollectible accounts. See Note 1 to APPENDIX B – “ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015.”

(7) The annualized rates of return of the Treasury Pool reserve and core portfolio for Fiscal Year 2013 were approximately 0.15% and approximately 0.23% respectively, compared to prior Fiscal Year rates of approximately 2.38% and approximately 0.21%. The net change in investment rates was translated to the downward year end net adjustment of the fair value of investment securities.

(8) Includes approximately \$6.948 million adjustment to Fund Balance.

(9) Primarily comprised of the proportional allocation of the City’s Net Pension Liability. See “THE DEPARTMENT OF AIRPORTS – Retirement Plan.”

Source: Department of Airports of the City of Los Angeles.

See also APPENDIX B – “ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015.”

Management Discussion of Fiscal Year 2016

Total operating revenue at LAX for Fiscal Year 2016 was approximately \$1.21 billion, an increase of approximately \$160.1 million, or approximately 15.4%, from Fiscal Year 2015. The increase was comprised primarily of an increase in building rental revenue of approximately \$97.4 million, or approximately 26.7%, from Fiscal Year 2015, and an increase in concession revenues of approximately \$44.6 million, or approximately 12.6%, from Fiscal Year 2015.

Landing fee revenue at LAX for Fiscal Year 2016 was approximately \$238.5 million, an increase of approximately \$11.0 million, or approximately 4.8%, from Fiscal Year 2015. Building rental revenue at LAX for Fiscal Year 2016 was approximately \$462.7 million, an increase of approximately \$97.4 million, or approximately 26.7%, from Fiscal Year 2015. The increases in building rental revenue were primarily due to recovery of higher terminal operating costs and capital costs that are hitting the rate base after new projects have gone into service. Concession revenue at LAX for Fiscal Year 2016 was approximately \$398.7 million, an increase of approximately \$44.6 million, or approximately 12.6%, from Fiscal Year 2015. The increases in concession revenue were due to a combination of increased passenger levels and new or redeveloped concession spaces being put into service. Other operating revenue at LAX, including airport sales and services and other aviation and operating revenue, for Fiscal Year 2016 was approximately \$106.8 million, an increase of approximately \$7.9 million, or approximately 7.9%, from Fiscal Year 2015.

Operating expenses before depreciation and amortization at LAX for Fiscal Year 2016 were approximately \$663.9 million, an increase of approximately \$18.5 million, or approximately 2.9%, from Fiscal Year 2015. The increase was primarily comprised of an increase in salaries and benefits expenses of approximately \$13.6 million, or approximately 3.6%, from Fiscal Year 2015, and an increase in contractual services expenses of approximately \$7.9 million, or approximately 4.5%, from Fiscal Year 2015. Salaries and benefit expenses at LAX for Fiscal Year 2016 were approximately \$387.6 million, an increase of approximately \$13.6 million, or approximately 3.6%, from Fiscal Year 2015. The increases in salaries and benefit expenses were primarily due to supplemental hiring, cost of living adjustments, increases in pension contributions and increases in allowances for workers compensation claims. Contractual services expenses at LAX for Fiscal Year 2016 were approximately \$182.7 million, an increase of approximately \$7.9 million, or approximately 4.5%, from Fiscal Year 2015. The increases in contractual services expenses were primarily due to increases in landside busing costs. Materials and supplies expenses at LAX for Fiscal Year 2016 were approximately \$46.1 million, a decrease of approximately \$0.04 million, or approximately 0.1%, from Fiscal Year 2015. Other operating expenses at LAX, including administrative expenses, utilities, advertising and public relations and other operating expense, for Fiscal Year 2016 were approximately \$47.6 million, a decrease of approximately \$3.0 million, or approximately 5.9%, from Fiscal Year 2015.

For Fiscal Year 2016, the change in net assets of the Department with respect to LAX reflected an increase of approximately \$125.2 million. The net position of the Department with respect to LAX for Fiscal Year 2016 was approximately \$4.5 billion, an increase of approximately \$401.5 million, or approximately 9.9%, from Fiscal Year 2015.

For Fiscal Year 2016, pursuant to GASB 68, a proportional allocation of the City’s Net Pension Liability, together with other pension liability adjustments, in the aggregate amount of approximately \$642.4 million were allocated to the Department with respect to LAX. GASB 68 addresses the disclosure of pension liability only and does not impose any funding requirements. The Department expects that its contributions to LACERS will continue to increase, in amounts that may be significant.

Top Revenue Providers and Sources

The following table sets forth the top ten revenue providers at LAX for Fiscal Year 2016.

TABLE 15
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS
FISCAL YEAR 2016
(DOLLARS IN THOUSANDS)^{(1) (2)}

1.	American Airlines ^{(3)‡}	\$ 134,242
2.	United Air Lines [†]	131,925
3.	Delta Air Lines*	114,263
4.	DFS Group	61,622
5.	Southwest Airlines	60,470
6.	Tom Bradley Int'l Terminal Equipment	43,069
7.	Westfield	42,515
8.	Alaska Airlines ⁽⁴⁾	31,574
9.	Qantas Airways	26,695
10.	The Hertz Corporation ⁽⁵⁾	26,548

* Member of Sky Team Alliance.

† Member of Star Alliance.

‡ Member of One World Alliance.

(1) Excludes revenue from the federal government. The amounts in this table reflect those amounts billed by the Department to the applicable revenue providers as of June 30, 2016. Excludes rental credits, if any.

(2) For airlines that (i) were party to a completed merger or acquisition, (ii) have received a single FAA certificate and (iii) have completed operational integration, only the surviving entity is presented and the activities for the airlines that are now a part of the surviving airline are included in the information presented.

(3) Includes US Airways and Envoy Air.

(4) On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement which was completed on December 14, 2016. Virgin America and Alaska Air Group will continue to operate as separate airlines until a single operating certificate is issued by the FAA and operational integration is complete. See "CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel, Aviation Activity and Related Matters" and "—Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies." Does not include Virgin America.

(5) Includes approximately \$6.7 million of Customer Facility Charges. Customer Facility Charges are not included in Pledged Revenues.

Source: Department of Airports of the City of Los Angeles.

The following table sets forth top ten revenue sources at LAX for Fiscal Year 2016.

TABLE 16
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE SOURCES
FISCAL YEAR 2016⁽¹⁾
(DOLLARS IN THOUSANDS)

1.	Terminal Rentals	\$ 403,597
2.	Landing Fees	238,491
3.	Land Rentals ⁽²⁾	96,167
4.	Auto Parking	94,086
5.	Rental Cars ⁽³⁾	83,300
6.	Food, Beverage, Gift, News and Terminal Commercial Managers	76,522
7.	Duty Free Sales	66,287
8.	Other Building Rentals ⁽⁴⁾	59,070
9.	Advertising	26,438
10.	Bus, Limousine and Taxi	13,394

⁽¹⁾ The amounts in this table reflect those amounts received by the Department from the applicable revenue sources as of June 30, 2016.

⁽²⁾ Consists primarily of rental revenue derived from the ancillary land facilities at LAX.

⁽³⁾ Excludes Customer Facility Charges for Fiscal Year 2016 which are not included in Pledged Revenues.

⁽⁴⁾ Consists primarily of rental revenue derived from cargo, maintenance and other building facilities at LAX.

Source: Department of Airports of the City of Los Angeles.

Budgeting Process

Each year the Department’s proposed budget is submitted to the Mayor by the Chief Executive Officer, and for information purposes only, the Mayor includes the Department’s proposed budget as a part of the overall City budget. The final budget is adopted by the Board prior to the beginning of the fiscal year. Neither the Mayor nor the City Council may amend or otherwise change the adopted budget; however, see “THE DEPARTMENT OF AIRPORTS – Oversight.”

Fiscal Year 2017 Budget

Department management developed the Fiscal Year 2017 LAX Operating Budget after considering a number of factors including recent years’ operating revenue and expense trends, LAX passenger traffic projections, the Department’s capital projects, including the issuance of additional debt to finance the Department’s capital projects, and other Departmental goals. Staff from each of LAX’s divisions prepared and submitted their preliminary budgets within the constraints defined by budget staff and submitted additional requests for review in January 2016. Budget hearings were conducted in February and March 2016 with Operating Budget staff and the Department’s deputy executive directors to discuss past trends and changes in future needs. The Department’s executive management reviewed the resulting budget and additional requests and made adjustments based on expenditure priority and operational need. The Board formally adopted the Fiscal Year 2017 Operating Budget in June 2016.

The Fiscal Year 2017 LAX Operating Budget projects operating revenues of approximately \$1.3 billion, approximately 12.5% higher than budgeted in the Fiscal Year 2016 LAX Operating Budget. The Department projects LAX aviation revenues of approximately \$884.8 million, approximately 11.7% higher than budgeted in the Fiscal Year 2016 LAX Operating Budget. The Department has projected that LAX aviation revenues will increase due primarily to increased cost recovery from airline passenger terminal tenants at LAX. The Fiscal Year 2017 LAX Operating Budget projects non-aviation operating revenues of approximately \$428.2 million, approximately 14.1% higher than budgeted in the Fiscal Year 2016 LAX Operating Budget, as redeveloped terminal concessions and increased levels of passenger traffic contribute to greater terminal concession and ground transportation revenues. The Fiscal Year 2017 LAX Operating Budget projects operating expenses of approximately \$745.0 million, approximately 4.8% higher than the Fiscal Year 2016 LAX Operating Budget. The Fiscal Year 2017 LAX Operating Budget does not include appropriations for the Capital Program or other capital improvement projects. See “AIRPORT AND CAPITAL PLANNING.” Under the Fiscal Year 2017 LAX Operating Budget, the

Department has budgeted approximately \$424.4 million for salaries, benefits and other payroll expenses for the Department’s employees at LAX (representing an increase of approximately 7.2% from the Fiscal Year 2016 LAX Operating Budget) and approximately \$61.4 million for payments to the City for fire service, supplemental police assistance and other support services and personnel costs at LAX. Amounts budgeted for these expenses represent approximately 65.2% of the Department’s operating budget at LAX for Fiscal Year 2017. Contractual services, including payments for services provided by the City, as discussed above, are budgeted in the Fiscal Year 2017 LAX Operating Budget at approximately \$209.0 million (representing an increase of approximately 4.5% from the Fiscal Year 2016 LAX Operating Budget). See also “THE DEPARTMENT OF AIRPORTS – Employees and Labor Relations” and “—Retirement Plan.”

The following table sets forth a summary of the operating budget at LAX for Fiscal Year 2017.

TABLE 17
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
SUMMARY OF OPERATING BUDGET
FISCAL YEAR 2017⁽¹⁾
(DOLLARS IN MILLIONS)

Operating revenues:	
Aviation revenue	
Landing fees	\$ 267.0
Building rentals	512.6
Land rentals	97.3
Other aviation revenue	7.9
Concession revenue	424.9
Airport sales and services	2.7
Miscellaneous revenue	0.6
Total operating revenue	\$ 1,313.0
Operating expenses:	
Salaries and benefits	\$ 424.4
Contractual services	208.9
Materials and supplies	50.0
Utilities	45.7
Advertising and public relations	4.0
Other operating expenses	11.9
Total operating expenses	\$ 744.9
Income from operations before depreciation and amortization	\$ 568.1

⁽¹⁾ Totals may not add due to rounding.
Source: Department of Airports of the City of Los Angeles.

Debt Service Coverage

The following table shows historical debt service coverage on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes for Fiscal Years 2012 through 2016.

TABLE 18
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 2012-2016⁽¹⁾
(DOLLARS IN THOUSANDS)

	2012	2013	2014	2015	2016
Pledged Revenues ⁽²⁾					
Total Operating Revenues ⁽³⁾	\$ 822,090	\$ 865,473	\$ 961,729	\$ 1,045,800	\$ 1,206,612
Interest Income ⁽⁴⁾	20,042	1,400	10,189	9,700	18,313
Build America Bonds Subsidy ⁽⁵⁾	8,328	7,965	7,728	7,719	7,761
Non- Operating TSA Revenue ⁽³⁾	4,876	1,253	5,012	2,895	2,139
Total Pledged Revenues	<u>\$ 855,336</u>	<u>\$ 876,091</u>	<u>\$ 984,658</u>	<u>\$ 1,066,114</u>	<u>\$ 1,234,825</u>
LAX Maintenance and Operations Expenses ⁽⁶⁾	<u>(578,099)</u>	<u>(587,948)</u>	<u>(608,722)</u>	<u>(645,091)</u>	<u>(660,656)</u>
Net Pledged Revenues ⁽⁷⁾	<u>\$ 277,237</u>	<u>\$ 288,143</u>	<u>\$ 375,936</u>	<u>\$ 421,023</u>	<u>\$ 574,169</u>
Senior Bond Aggregate Annual Debt Service ⁽⁸⁾	\$ 60,577	\$ 45,486	\$ 62,560	\$ 110,237	\$ 92,210
Senior Bond Debt Service Coverage Ratio	4.58x	6.33x	6.01x	3.82x	6.23x
Subordinate Bond Debt Service ⁽⁹⁾	\$ 45,508	\$ 49,904	\$ 52,067	\$ 55,439	\$ 62,305
Subordinate Bond Debt Service Coverage Ratio	4.76x	4.86x	6.02x	5.61x	7.74x
Total Debt Service Coverage Ratio	2.61x	3.02x	3.28x	2.54x	3.72x

⁽¹⁾ Derived from unaudited financial statements.

⁽²⁾ As defined in the Senior Indenture.

⁽³⁾ TSA Revenue – Law Enforcement Officers and Canine reclassified from Operating Revenue to Non-Operating Revenue.

⁽⁴⁾ Interest income excludes passenger facility charges, Customer Facility Charges and construction funds.

⁽⁵⁾ Represents cash subsidy payments from the United States Treasury received in connection with the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds. See “CERTAIN INVESTMENT CONSIDERATIONS – Federal Funding; Impact of Federal Sequestration.”

⁽⁶⁾ As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.

⁽⁷⁾ As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.

⁽⁸⁾ Net of approximately \$25.2 million, \$34.4 million, \$96.5 million, \$91.0 and \$124.0 million at PFC revenues used in Fiscal Years 2012, 2013, 2014, 2015 and 2016, respectively to pay debt service on Senior Bonds. Presentations of the use of PFC revenues to pay debt service on Senior Bonds in this table differ from those in the audited financial statements of the Department due to differences in accounting practices.

⁽⁹⁾ Also includes actual debt service with respect to the Subordinate Commercial Paper Notes.

Source: Department of Airports of the City of Los Angeles.

Investment Practices of the City Treasurer

All moneys held in the Airport Revenue Fund are currently invested by the City Treasurer in investments authorized by State law. The City Treasurer invests temporarily idle cash for the City, including that of the Department, as part of a pooled investment program (the “Pool”) which combines general receipts with special funds for investment purposes and allocates interest earnings on a pro rata basis when the interest is earned and distributes interest receipts based on the previously established allocations. Below is a summary of assets of the Pool as of June 30, 2016:

TABLE 19
CITY OF LOS ANGELES POOLED INVESTMENT FUND⁽¹⁾
ASSETS AS OF JUNE 30, 2016
(Dollars in Millions)

Description	Market Value ⁽²⁾	% of Total	Department Market Value ⁽³⁾	LAX Market Value ⁽⁴⁾
Bank Deposits	\$ 72	0.8%	\$ 16	\$ 15
CDARS	10	0.1	2	2
Commercial Paper	1,415	16.3	306	279
Corporate Notes	135	1.6	29	27
U.S. Federal Agencies/Munic/Supras	362	4.2	78	71
U.S. Treasuries	207	2.4	45	41
Total Short-Term Core Portfolio:	\$ 2,201	25.4	\$ 476	\$ 435
Corporate Notes	1,186	13.7	257	234
U.S. Federal Agencies/Munic/Supras	674	7.8	146	133
U.S. Treasuries	4,615	53.2	998	912
Total Long-Term Reserve Portfolio	\$ 6,475	74.6	\$ 1,401	\$ 1,279
Total Cash & Pooled Investments	\$ 8,676	100.0%	\$ 1,877	\$ 1,714

⁽¹⁾ Derived from unaudited financial statements; based on General Portfolio Asset Holdings provided by the Office of Finance.

⁽²⁾ Total amount held by the City in the Pool, including the funds of other departments.

⁽³⁾ The Department's share of the Pool, including restricted assets; allocated by Financial Reporting Division of the Department.

⁽⁴⁾ Inclusive of restricted cash; fund not segregated from other funds in the Pool; allocated by Financial Reporting Division of the Department.

Source: Office of Finance, City of Los Angeles and Department of Airports of the City of Los Angeles, California.

The average life of the investment portfolio in the Pool as of June 30, 2016 was approximately 2.0 years.

The City's treasury operations are managed in compliance with the California State Government Code and a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The City Treasurer indicates that the City does not invest in structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments and mortgage-derived interest or principal-only strips. See also Note 3 – APPENDIX B – “ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015.”

Risk Management and Insurance

The Senior Indenture requires that the Department maintain insurance or qualified self-insurance against such risks at LAX as are usually insured at other major airports, to the extent available at reasonable rates and upon reasonable terms and conditions. The Department is not required under the Senior Indenture to carry insurance against losses due to seismic activity and has obtained a waiver of insurance from FEMA and the State Department of Insurance, which means that the Department would be eligible for reimbursement as and if available from FEMA in the event of earthquake losses. The Department has purchased insurance to cover catastrophic property, flood, wind and earthquake losses up to \$25 million. The deductible for this coverage is 5% per insured structure. The Department is self-insured for these catastrophic losses in excess of \$25 million.

The Department carries commercial aviation general liability insurance with coverage limits of \$1.3 billion for losses arising out of liability for airport operations. The deductible on the commercial aviation liability coverage is \$10,000 per occurrence with an annual \$500,000 aggregate deductible. This aviation liability coverage incorporates a foundation of comprehensive in-house claims management program, incremental claims analysts and adjusters and both outside and inside defense counsel. The liability coverage has endorsements of coverage for all third-party claims and suits, on premises automobile coverage, employment personal injury coverage, errors and omissions coverage and hangar and aircraft owner's liability coverage.

The Department carries general all-risk property insurance with coverage limits of \$2.5 billion for all Department properties. The deductible on this coverage is \$100,000 per occurrence, no aggregate. The Department's insurance also incorporates a property insurance special endorsement that provides coverage for property losses resulting from acts of terrorism for declared foreign acts of terrorism. Coverage under this endorsement parallels the general all-risk limits of \$2.5 billion. The Department's insurance coverage also incorporates a property insurance special endorsement that provides for coverage for "boiler and machinery" losses up to a covered limit of \$250 million and property insurance special endorsement that provides coverage for "business interruption" losses to the Airport System resulting from a covered property peril. Coverage for business interruption is included with full policy limits of \$525 million and the deductible is 6 hours from initial declared interruption.

The Department has also purchased a war and allied perils (also referred to as terrorism insurance) endorsement with coverage of up to \$1.0 billion with a deductible of \$10,000 per occurrence and an annual \$500,000 aggregate deductible. War and allied perils coverage extends to both foreign acts of terrorism and domestic acts of terrorism. Coverage under the War and Allied Perils endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two or more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force.

The Department maintains an insurance reserve fund, pursuant to Board policy. This fund has been established to fund uninsured or under-insured losses or where insurance capacity is unavailable or excessive in cost relative to coverage. This reserve fund would provide primary funding for catastrophic losses with respect to all four airports in the Airport System. As of June 30, 2016, there was approximately \$107.9 million in this fund.

Pursuant to the State Labor Code, the State Department of Industrial Relations has provided the City a Certificate of Consent to Self-Insure in connection with its workers' compensation liability. See Note 10 to APPENDIX B - "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015." Additionally, the Department employs an active loss prevention program for both general liability and property/casualty perils. This on-going program seeks to identify, eliminate or mitigate the loss or peril before it becomes a loss or claim.

AIRPORT AND CAPITAL PLANNING

The Department is undertaking a multi-billion dollar capital development program at LAX. The following is a discussion of the Department's capital development program (see "—Capital Development") and certain sources of financing (see "—Financing the Capital Program").

Capital Development

The Department reviews and assesses capital needs biennially on a formal basis, and continuously on an informal basis, taking into account improved information regarding the condition and/or requirements of new and existing facilities, updated cost estimates for contemplated projects, new opportunities for investments or acquisitions that arise from time to time, current and forecast traffic levels, and changes within the industry that may influence the cost of the Department's capital development projects.

The Department manages its capital development planning with a variety of tools, including a multi-year comprehensive planning tool (the "Capital Improvement Program"), which, among other things, is a list of capital development projects compiled based on prioritized needs and affordability, is used to inform decision makers and stakeholders of proposed capital expenditures and opportunity costs, and is designed to assist with the development of long term funding plans. The Capital Improvement Program is designed to be updated periodically as capital projects are programmed for implementation. The Board's periodic review of the Capital Improvement Program does not constitute project or program approval of appropriations for their funding. Capital development projects require specific Board action and may require environmental review.

The Department's capital development projects include various terminal projects, airfield and apron projects, landside projects and other projects, to, among other things, modernize terminals, make long-term

improvements to passenger access, and accommodate contemporary and future aircraft designs, all to address forecast passenger growth.

The Report of the Airport Consultant organizes the Department's capital development projects and plans into the following categories

- “Capital Program” which includes (1) projects already underway but not yet completed at LAX, and (2) future projects forecast to be completed during the forecast period contained in the Report of the Airport Consultant (through Fiscal Year 2023). The Capital Program includes those projects that are certain enough in terms of their scope, cost, approval, funding sources and/or other commercial arrangements, if any, to be included in the forecast of the Airport Consultant. Certain Capital Program projects have not received all necessary planning, environmental, Board or other required approvals. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information regarding the projects included in the Capital Program and the financing thereof.

The Department plans to undertake certain Capital Program projects, or portions thereof, if demand at LAX warrants and such projects meet Department financial benchmarks, which may include the availability of moneys from expected funding sources, market conditions, proposed capital structures for design-build-finance-operate-maintain arrangements, airline costs per enplaned passenger, debt service coverage considerations and such other matters and may be determined from time to time.

- “Other Projects” includes projects that are being considered by the Department to enhance the operations of LAX, but the specific scopes, costs, approvals, funding sources, and/or commercial arrangements are insufficiently certain as of the date of this Official Statement. The largest components of the Other Projects are the CONRAC, Intermodal Transportation Facilities, the Automated People Mover System, and certain parking projects to support these potential projects. See “—Other Projects” below.

The Department is in the process of defining and/or undertaking environmental review of the Other Projects. In September 2016, the Department released a Draft Environmental Impact Report for the LAX Landside Access Modernization Program, which includes the Other Projects. While the Other Projects proceeded through various stages of definition, each of the Other Projects remains subject to substantial changes including in scope, timing of implementation, cost, funding and approvals. Accordingly, the Other Projects have not advanced sufficiently to permit the Department to fully estimate the costs, funding plans and commercial arrangements for purposes of the financial forecasts contained in the Report of the Airport Consultant. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information regarding the Other Projects and the potential financing sources thereof.

The “Capital Program” for the purposes of this Official Statement and in the Report of the Airport Consultant does not include any Other Projects.

Financing the Capital Program

Capital Program Costs

The projects in the Capital Program (which exclude Other Projects) are expected to cost approximately \$6.8 billion in the aggregate.

Cost estimates include design, engineering, construction, escalation for inflation and contingency amounts. The Capital Program is expected to be financed with a combination of grants, passenger facility charges, Department and other funds, the proceeds of the Series 2016B Subordinate Bonds, Existing Senior Bonds and Existing Subordinate Obligations and Additional Senior Bonds and/or Additional Subordinate Obligations. Some or all of the funding sources for certain projects of the Capital Program have already been secured, although certain TSA and AIP grants and approvals for passenger facility charge collections have not yet been realized. The estimated costs of, and the projected schedule for, the Capital Program are subject to a number of uncertainties. In addition, it is possible that the Department may pursue projects not incorporated in the Capital Program. The Department may ultimately decide not to proceed with the projects described above or may proceed with them on a different schedule, resulting in different results than those included in the forecasts. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness” and “PLAN OF FINANCE.” See also “USE OF AIRPORT FACILITIES – Airport Terminal Tariff.”

Grants

A portion of the Capital Program is expected to be financed with federal and other grants. Projects included in the Capital Program are expected to be financed from AIP and TSA grants in the amount of approximately \$194.0 million. See “CERTAIN FUNDING SOURCES – Grants.”

Passenger Facility Charges

A portion of the Capital Program is expected to be financed with PFC revenues on a pay-as-you-go basis in the amount of approximately \$390.2 million. See “CERTAIN FUNDING SOURCES – Passenger Facility Charges” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues” for additional information about the Department’s expected use of PFC revenues.

Department and Other Funds

A portion of the Capital Program is expected to be financed with Department funds, funds deposited in the TRIF pursuant to the Rate Agreements, grants other than AIP and TSA grants, airline tenant contributions and passenger facility charge collections reallocated from LA/ONT to LAX. Projects included in the Capital Program are expected to be financed from Department funds and other funds including grants other than AIP and TSA grants in the amount of approximately \$2.8 billion. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX,” “USE OF AIRPORT FACILITIES – Rate Agreement”, “CERTAIN FUNDING SOURCES – Passenger Facility Charges,” and “THE DEPARTMENT OF AIRPORTS – General Description.”

Debt Financing

A portion of the Capital Program is expected to be financed with approximately \$3.4 billion of proceeds of Senior Bonds and Subordinate Obligations (including the Series 2016B Subordinate Bonds), as described below, approximately:

- \$460.0 million of proceeds of the Series 2016B Subordinate Bonds;
- \$714.1 million of proceeds of previously issued Senior Bonds and Subordinate Obligations; and
- \$1.9 billion of proceeds of Additional Senior Bonds; and
- \$327.1 million of proceeds of Additional Subordinate Obligations.

See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings” regarding the Department’s future financing plans. See also APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information regarding the projects included in the Capital Program and the financing thereof.

Other Projects

The largest component of the Other Projects (and thus not part of the Capital Program described in this Official Statement and the Report of the Airport Consultant) is comprised of proposed landside projects at LAX including the CONRAC; Intermodal Transportation Facilities (the “Intermodal Transportation Facilities”), which may include pick-up and drop-off locations for commercial vehicles that currently access the Central Terminal Area on adjacent roadways and parking facilities for passengers and employees; the Automated People Mover System, and certain parking projects to support these potential projects.

The Department’s initial estimates of total costs of the Other Projects, if undertaken, are in the range of \$4.5 billion to \$5.5 billion, in future dollars, comprised of the following:

- An Automated People Mover System that, if undertaken by the Department, is initially estimated by the Department to cost between approximately \$2.5 billion and \$3.1 billion, in future dollars. Subject to obtaining the required environmental approvals, awards of related contracts and other approvals, the Department estimates that the Automated People Mover System will be operational in 2024.
- A CONRAC that, if undertaken by the Department, is initially estimated by the Department to cost between approximately \$1.0 billion and \$1.1 billion, in future dollars. Subject to obtaining the required environmental approvals, awards of related contracts and other approvals, the Department estimates that the CONRAC will be operational in 2023.

- Intermodal Transportation Facilities that, if undertaken by the Department, are initially estimated by the Department to cost between approximately \$700 million and \$900 million, in future dollars. Subject to obtaining the required environmental approvals, awards of related contracts and other approvals, the Department estimates that the Intermodal Transportation Facilities may be phased in over several years following completion of the Automated People Mover System.
- Other Related Projects that, if undertaken by the Department, are initially estimated by the Department to cost between approximately \$300 million and \$400 million, in future dollars. Subject to obtaining the required environmental approvals, awards of related contracts and other approvals, the Department estimates that the roadway and access improvements included in Other Related Projects will open in phases as the CONRAC, Automated People Mover System and Intermodal Transportation Facilities become operational.

Potential sources of funding for Other Projects may include some or all of the following: (i) Federal funds, (ii) PFC revenues (for any portion of the Other Projects that may become an Approved PFC Project), (iii) Customer Facility Charges or debt supported by Customer Facility Charges (see “USE OF AIRPORT FACILITIES – Concession and Parking Agreements – Rental Cars and Customer Facility Charges” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS – Flow of Funds”), (iv) net proceeds of LAX Special Facility Obligations, (v) net proceeds of Additional Senior Bonds and/or Additional Subordinate Obligations, (vi) Department funds, (vii) funds from developers and/or derived from a design-build-finance-operate-maintain arrangement or variant thereof, (viii) funds derived from concession agreements with developers, under which the developer concessionaires may pay rent plus a percentage of revenues derived from the applicable facility, and/or (ix) other sources.

See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information regarding the Other Projects and the potential financing sources thereof.

AIRPORT SYSTEM ENVIRONMENTAL MATTERS

Several significant environmental matters have direct and indirect impacts on the Department and LAX, some of which are described below. These include mitigation of aircraft noise impacts and wildlife hazards, hazardous substance cleanup and clean air requirements. In accordance with Department policy, generally the Department’s tenant leases and/or applicable laws provide that tenants are responsible for the costs of remediation of hazardous or other regulated material from Department property and for compliance with applicable laws. However, if a tenant does not comply with these lease requirements and/or applicable laws, and under certain circumstances, the Department could ultimately become responsible for the costs of compliance and/or required environmental cleanup. The timing and aggregate costs of such cleanups cannot be determined at this time, but could be material.

Aircraft Noise Impacts

In the State, commercial airports operate under operating permits issued by the California Department of Transportation (“Caltrans”). Airports within the State are regulated under the State of California Aeronautics Act. The State does not regulate noise generation from aircraft. However, State regulations, commonly known as Title 21, require an airport proprietor that operates an airport with a noise impact area that exceeds specified airport noise standards to apply for and receive a variance. In order to obtain a variance, among other requirements, the airport proprietor must submit a plan showing how the airport expects to work toward compliance with the noise standards.

Compliance measures include sound insulation of certain incompatible structures to reduce the interior noise levels to acceptable levels, acquisition of incompatible properties located within the noise impact areas and the purchase of noise easements from affected property owners. LAX was granted a three-year noise variance effective February 13, 2011. Since the Department timely submitted an application for a new variance, it continues to operate under the existing variance until Caltrans acts on the Department’s application.

In support of a Noise Mitigation Program, the Department provides funding for land acquisition, residential sound insulation programs, and school sound insulation programs. The goal of these programs is to reduce the number of residences in areas impacted by noise from airport operations through voluntary acquisition of properties and relocation assistance for certain residential neighbors near LAX and acoustic treatment and air conditioning or positive ventilation system improvements to certain other residential dwelling units and targeted school districts. Acoustic treatment generally includes replacing doors and windows, caulking, weather-stripping and installing

continuous positive ventilation systems or air conditioning so that the windows can be kept closed (only if the structure does not already have an existing ventilation system).

The FAA has approved the collection and use of PFC revenues in the amount of approximately \$785 million for the residential Noise Mitigation Program, in the amount of approximately \$30.9 million for reimbursement of eligible expenditures related to the Lennox Schools and in the amount of approximately \$44.4 million for Inglewood Unified School District's sound insulation programs. As of June 30, 2015, the Department has expended approximately \$665 million of PFC revenues in connection with the residential Noise Mitigation Program and for funding of eligible expenditures related to the Lennox Schools' sound mitigation program. See "CERTAIN FUNDING SOURCES – Passenger Facility Charges" and "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program."

The Department maintains a Noise Management Section within the Environmental Programs Group which operates the Department's noise monitoring system and prepares and submits periodic reports to Caltrans as required under applicable law.

Hazardous Substances

Airport operations involve the storage and use of a number of materials that are defined as hazardous under various federal, state, and local regulations. Petroleum products, predominantly jet fuel, comprise the majority of hazardous materials used at Department facilities. The majority of these materials are used by the Department's tenants in the normal course of their operations. However, the Department's own operations also include the storage and use of certain hazardous substances. Federal, State and local agencies also exercise responsibility related to the accidental discharge of hazardous materials.

The Department has an Environmental Programs Group tasked with performing soil and groundwater investigations, site remediation monitoring, storm water pollution prevention, Endangered Species Act compliance, wildlife hazard mitigation programs, air quality compliance and managing other environmental compliance programs and projects. The Environmental Programs Group also monitors underground and above-ground storage tanks and hazardous substances, and performs the mandated regulatory reporting on these programs. In the course of such investigations and monitoring, the Department may discover previously unknown contamination. No assurance can be given that the remediation costs for any such contamination will not be material.

The Department conducts annual inspections of tenant and Department operations, regarding compliance with the Department's National Pollutant Discharge Elimination System Storm Water Permit for Industrial Facilities (the "Storm Water Discharge Permit"), issued by the State Water Resources Control Board ("SWRCB"), Los Angeles Regional Water Quality Control Board ("LARWQCB") at LAX. These inspections seek to confirm compliance with the Storm Water Discharge Permit. The Department is also subject to regulation under the Construction Storm Water Permit, the General Industrial Storm Water Permit, the City's Municipal Separate Storm Sewer System (MS4) Permit, storm water City ordinances, the City's Municipal Wastewater Permit, and Industrial Waste Permits for certain sewer discharges. The Department maintains records of all known areas where hazardous materials have been accidentally discharged. The Department works cooperatively with the relevant regulatory agencies to confirm that the responsible tenants are remediating contamination caused by their operations. There are, currently, two major remediation programs in place at LAX. One program involves the release of jet fuel to ground water underlying LAX. The tenant at the time of the release, Continental Airlines (now merged with and into United Airlines), has accepted responsibility for the remediation and active remediation systems are in place at the direction of the LARWQCB. Other ongoing investigations and assessments are being performed by the Department related to, among other things, fueling assets acquired from bankruptcy of tenants or other means where petroleum may have been released. Smaller scale clean-ups are conducted when hazardous substances are released.

The Department owns and operates underground storage tanks ("USTs") at LAX and VNY to provide for the Department owned vehicle and aircraft fueling, emergency generator fueling, waste oil storage, and fuel for the LAX aircraft fire drill site.

The Park One Property is also environmentally impacted and the subject of the second major remediation project. From approximately 1941 to 1988, the Park One Property was used for aerospace manufacturing, and included the use of chlorinated solvents. As a result, the soil and groundwater were impacted, including with volatile organic compounds and 1,4-dioxane. The LARWQCB is currently providing regulatory oversight of investigation and remediation of this contamination. In or about 1991, soil remediation activities were conducted on most of the Park One Property. In 1993, the LARWQCB issued a letter stating that contaminated soils in all areas

covered by site investigations except the northwest quadrant had been adequately addressed. Currently, the remediation plan for the remaining portion, approximately the northwest quadrant, is being reconsidered by the LARWQCB. As part of the acquisition transaction for the Park One Property, the Department became the assignee under an Indemnity Agreement entered into by Allied-Signal, Inc. (now known as Honeywell International, Inc. (“Honeywell”)) which covers, among other things, certain indemnification for soil and groundwater contamination. Honeywell has been investigating the groundwater contamination beneath and offsite from the Park One Property. The Department expects Honeywell to continue its remediation of the soil contamination and investigation of the groundwater contamination and to design and implement requisite groundwater clean-up work. Currently, and from time to time, there are smaller remediation projects in place at LAX.

The Department is in a dispute with the Los Angeles County Sanitation District No. 20 (“LACSD 20”) regarding a nitrate plume in the groundwater underlying the Department’s and LACSD 20’s property in Palmdale, which contamination allegedly was caused by the discharge of effluent from the LACSD 20’s Palmdale Water Reclamation Plant (“Palmdale WRP”). The Lahontan Regional Water Quality Control Board (“LRWQCB”) has issued a Cleanup and Abatement Order in 2003 and subsequently in 2012 issued an Investigative Order to LACSD 20 and the Department. Required reporting to the LRWQCB include technical reports for discharge from the Palmdale WRP and other reports including, among other items, a report addressing feasibility and costs to remove nitrate from water to more stringent levels of 3 mg/l or less, which if required could substantially increase the overall remediation costs. The full extent of the remediation actions that the LACSD 20 and the Department may have to take with respect to the groundwater and the costs that may be incurred or contributions that will ultimately need to be made by the Department, however, cannot be determined at this time. No assurance can be given that such costs will not be material.

Emission Standards

Air emissions associated with airport activities are governed by a number of federal, State and local regulations. Most notable of these are federal Clean Air Act (the “CAA”) and the California Clean Air Act (the “CCAA”), AB 32, and various SCAQMD rules and regulations. LAX-owned stationary equipment that produces or controls emissions currently operate under a Title V operating permit issued by the SCAQMD.

The Department is subject to various mitigation measures designed to reduce emissions from airport operations at LAX, including, among other measures: provisions for all airline and tenant ground service equipment to meet zero or extremely low emission goals; providing electricity and preconditioned air at all passenger loading gates, allowing aircraft to shut off their auxiliary power units; installing ground power at all cargo operations areas, allowing cargo and maintenance operations to shut off their auxiliary power units; electrification of LAX hangars; conversion of all airport shuttles and vans to alternative fuel vehicles and reducing construction emissions through the use of low polluting construction equipment and exhaust emission controls.

The Department has conducted an extensive air quality analysis and adopted numerous mitigation measures designed to reduce the air quality impacts associated with implementation of the Department’s Capital Program. For each project undertaken, the Department must disclose project level air quality environmental impacts under a project specific CEQA study.

AB 32 specifically regulates the release of certain GHG emissions from stationary sources within the State. The Mandatory Reporting requirement under AB 32 requires facilities that generate greater than 10,000 MtCO₂e per year to report their GHG emissions. The Department owns and operates a cogeneration plant at LAX along with other stationary sources in the facility (e.g., natural gas boilers and heaters). This facility complies in all material respects with all requirements under AB 32. In addition to the AB 32 Mandatory Reporting requirement, the Department must also report its GHG emissions to the United States Environmental Protection Agency. Since 2011, the Department has reported its GHG emissions from these sources in substantial compliance with applicable requirements. The State Attorney General’s Office has been using CEQA aggressively to apply the provisions of AB 32 to local and regional plans as well as to projects. Project level CEQA analysis prepared projects at LAX must include an analysis of the project’s potential GHG emissions and impacts. Since January 2013, facilities such as LAX that are subject to the Mandatory Reporting requirement under AB 32 are required to comply with the California Cap-and-Trade Program applicable to certain sources of GHG emissions in the State such as refineries, power plants, industrial facilities and transportation fuels. The California Cap-and-Trade Program includes an enforceable GHG cap that will decline over time. Under the California Cap-and-Trade Program, CARB distributes GHG allowances, which are tradable permits, equal to the emission allowed under the cap. The Department is required to obtain emission allowances for annual emissions at LAX. These emission allowances can be obtained

by way of free allocation from CARB, through purchase from the secondary market and CARB auction, and reserve sale. The cost to the Department of obtaining required emissions allowances is dependent on the actual emissions generated at LAX and the price fluctuations through the course of the program, and are expected to be recouped through landing fees at LAX and or LAX terminal rates and charges, as applicable. The impact and consequences of not meeting an annual compliance obligation can include enforcement actions and penalties equivalent to four times the facilities' excess emissions. Various industries throughout the State may seek to purchase emission allowances in order to comply with the Cap-and-Trade Program, which may cause the price of allowances to increase. The emission allowance price has averaged approximately \$15 per MtCO₂e since January 2013. LAX emits on average approximately 47,000 MtCO₂e annually. The Department's purchase of allowances may vary and no assurance can be given that such costs will not be material.

The SCAQMD imposes rules and regulations specifically targeted to various air pollutants and types of operations such as hydrant fueling, private vehicle fueling, power generators, boilers and the use of various volatile organic chemical containing materials. The LAX Central Utilities Plant is a co-generation plant providing electricity and cooling/heating to the Central Terminal Area. As a power generating plant, the SCAQMD requires continuous emissions monitoring and stringent environmental oversight. The Department Environmental Programs Group includes an Air Quality Section with four full-time professional staff assigned to maintain compliance with the various rules and regulations.

See also "CERTAIN INVESTMENT CONSIDERATIONS – Regulations and Restrictions Affecting LAX" and "LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT."

LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT

General

From time to time, the Department is a party to litigation and is subject to claims arising out of its normal course of business and operations. At this time, there is no pending litigation relating to the Airport System or the Department's operations or business pertaining thereto that would reasonably be expected to have a material impact on Net Pledged Revenues or the operation of LAX, except as described under "THE DEPARTMENT OF AIRPORTS – Subsidization within the Airport System," "USE OF AIRPORT FACILITIES," "AIRPORT AND CAPITAL PLANNING," "AIRPORT SYSTEM ENVIRONMENTAL MATTERS" and below.

Runway 25L Construction Litigation

On October 10, 2013, the Department filed a complaint in the Superior Court of California, County of Los Angeles, against Tutor-Saliba Corporation/O&G Industries, Inc., JV, a California joint venture enterprise; R&L Brosamer; HNTB Corporation; and CH2M Hill, Inc. for, among other things, breach of contract, negligence and breach of warranties related to recently constructed portions of Runway 25L, the centerline taxiway and other airfield improvements. The complaint alleges that, among other things, certain of the defendants were negligent in their construction methods and have caused and will cause the Department property damage and economic losses. The amount of Department damages is estimated to be between approximately \$150 million to \$200 million. The cost of required temporary repairs which were completed in March 2015 was approximately \$4.0 million. The Board has approved a \$5 million settlement with HNTB Corporation which the court has approved. The Department cannot predict the outcome of this lawsuit.

LITIGATION REGARDING THE SERIES 2016B SUBORDINATE BONDS

There is no litigation now pending or, to the best of the Department's knowledge, threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2016B Subordinate Bonds or in any way contests the validity of the Series 2016B Subordinate Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2016B Subordinate Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2016B Subordinate Bonds.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016B Subordinate Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2016B Subordinate Bond for any period during which

such Series 2016B Subordinate Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2016B Subordinate Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is further of the opinion that interest on the Series 2016B Subordinate Bonds is a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the Department with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2016B Subordinate Bonds. Failure to comply with such requirements could cause interest on the Series 2016B Subordinate Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016B Subordinate Bonds. The Department will covenant to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2016B Subordinate Bonds.

Bond Counsel is further of the opinion that interest on the Series 2016B Subordinate Bonds is exempt from present State of California personal income taxes.

Special Considerations

The accrual or receipt of interest on the Series 2016B Subordinate Bonds may otherwise affect the federal income tax liability of the owners of the Series 2016B Subordinate Bonds. The extent of these other tax consequences will depend upon such owner’s particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2016B Subordinate Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2016B Subordinate Bonds.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2016B Subordinate Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2016B Subordinate Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Series 2016B Subordinate Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment.

In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2016B Subordinate Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2016B Subordinate Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2016B Subordinate Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2016B Subordinate Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Premium

The Series 2016B Subordinate Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Series 2016B Subordinate Bond over its stated redemption price at maturity constitutes premium on such Series 2016B Subordinate Bond. An initial purchaser of a Series 2016B Subordinate Bond must amortize any premium over such Series 2016B Subordinate Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Series 2016B Subordinate Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Series 2016B Subordinate Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2016B Subordinate Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Series 2016B Subordinate Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Series 2016B Subordinate Bond.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch"), have assigned ratings of "AA-," "A1," and "AA-," respectively, to the Series 2016B Subordinate Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings, including any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, 38th Floor, New York, New York 10041; Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. The Department furnished the rating agencies with certain information and materials concerning the Series 2016B Subordinate Bonds and the Department, some of which is not included in this Official Statement. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2016B Subordinate Bonds.

LEGAL MATTERS

The validity of the Series 2016B Subordinate Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Bond Counsel to the Department. A complete copy of the proposed form of Bond Counsel's opinion is contained in APPENDIX E to this Official Statement. Polsinelli LLP serves as Disclosure Counsel to the Department. Bond Counsel and Disclosure Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain matters will be passed upon for the Department and the City by Michael N. Feuer, Esq., City Attorney. Certain matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

FINANCIAL ADVISORS

The Department has retained the services of Public Resources Advisory Group of Los Angeles, California, and Public Financial Management, Inc. of San Francisco, California, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2016B Subordinate Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Co-Financial Advisors perform other services for the Department.

AIRPORT CONSULTANT

The Report of the Airport Consultant prepared by WJ Advisors LLC has been included as APPENDIX A to this Official Statement with the consent of such consultant. The Report of the Airport Consultant was prepared in conjunction with the issuance of the Series 2016B Subordinate Bonds. The Department has relied upon the analyses and conclusions contained in the Report of the Airport Consultant, as of its date, in preparing this Official Statement. The financial forecasts in the Report of the Airport Consultant are based upon certain information and assumptions

that were provided by, or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the financial forecasts set forth in the Report of the Airport Consultant. WJ Advisors LLC performs other services for the Department, including with respect to the calculation of rates and charges.

FINANCIAL STATEMENTS

The audited financial statements of the Department for Fiscal Years 2016 and 2015 are included as part of APPENDIX B attached hereto. The financial statements referred to in the preceding sentence have been audited by Macias, Gini & O'Connell LLP, independent auditors, as stated in its Independent Auditor's Report included in APPENDIX B. Macias, Gini & O'Connell LLP was not requested to consent to the inclusion of its report in APPENDIX B and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement (including the Report of the Airport Consultant), and no opinion is expressed by Macias, Gini and O'Connell LLP with respect to any event subsequent to the date of its report.

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2016B Subordinate Bonds, the Department will covenant to provide, or cause to be provided, to the MSRB certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain listed events for purposes of Rule 15c2-12 adopted by the SEC. See APPENDIX G – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." The Department has agreed to provide the foregoing information to MSRB through the Electronic Municipal Market Access (EMMA) website.

UNDERWRITING

The Series 2016B Subordinate Bonds are being purchased from the Department by RBC Capital Markets, LLC, on its own behalf and on behalf of Citigroup Global Markets Inc. ("Citigroup") and Samuel A. Ramirez & Co., Inc., the underwriters of the Series 2016B Subordinate Bonds (collectively, the "Underwriters"), at a price of \$501,339,849.67 (consisting of the aggregate principal amount of \$451,170,000.00, plus an original issue premium of \$51,141,924.25 and less an underwriters' discount of \$972,074.58) all subject to the terms of a Bond Purchase Agreement between the Department and the Underwriters (the "Series 2016B Subordinate Bond Purchase Agreement").

The Series 2016B Subordinate Bond Purchase Agreement provides that the Underwriters shall purchase all of the Series 2016B Subordinate Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Series 2016B Subordinate Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The Underwriters may change the initial public offering yields set forth on the inside front cover of this Official Statement. The Underwriters may offer and sell the Series 2016B Subordinate Bonds to certain dealers (including dealers depositing the applicable Series 2016B Subordinate Bonds into investment trusts) at prices lower than the public offering prices or at yields higher than the yields stated on the inside front cover of this Official Statement.

The following two paragraphs have been provided by the Underwriters for inclusion in this Official Statement and the Department does not make any representation as to their accuracy or completeness.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which for certain of the Underwriters may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Department, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the

Department. The market activities of the Underwriters and other market participants may impact the value of the Series 2016B Subordinate Bonds.

The following paragraph has been provided by Citigroup for inclusion in this Official Statement and the Department does not make any representation as to its accuracy or completeness.

Citigroup, one of the Underwriters of the Series 2016B Subordinate Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. (“TMC”) and UBS Financial Services Inc. (“UBSFS”). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Series 2016B Subordinate Bonds.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not representations of fact. No representation is made that any of such opinions or estimates will be realized.

All references to the Charter, the Senior Indenture, the Subordinate Indenture, the agreements with any other parties and laws and regulations herein and in the Appendices hereto are made subject to the detailed provisions of such documents, and reference is made to such documents and agreements for full and complete statements of the contents thereof. Copies of such documents are available for review at the offices of the Department which are located at One World Way, Los Angeles, California. This Official Statement is not to be construed as a contract or agreement between the City or the Department and the owners of any of the Series 2016B Subordinate Bonds.

AUTHORIZATION

The Board has authorized the distribution of this Official Statement. This Official Statement has been duly executed and delivered by the Chief Executive Officer on behalf of the Department.

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: /s/ Deborah Flint
Chief Executive Officer

APPENDIX A
REPORT OF THE AIRPORT CONSULTANT

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W J A D V I S O R S
A V I A T I O N M A N A G E M E N T
C O N S U L T A N T S

Appendix A

Report of the Airport Consultant

on the proposed issuance of

Los Angeles International Airport
Subordinate Revenue Bonds
2016 Series B

November 2, 2016



Prepared for

Department of Airports of the City of Los Angeles | Los Angeles, California

Prepared by

WJ Advisors LLC | Denver, Colorado

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November 2, 2016

Mr. Sean O. Burton, President
Board of Airport Commissioners
Los Angeles World Airports
1 World Way
Los Angeles, California 90045

Re: Report of the Airport Consultant on the Proposed Issuance of Los Angeles International Airport Subordinate Revenue Bonds, 2016 Series B, Alternative Minimum Tax

Dear Mr. Burton:

WJ Advisors LLC is pleased to submit this Report of the Airport Consultant (Report) on the proposed issuance of Los Angeles International Airport Subordinate Revenue Bonds, 2016 Series B, Alternative Minimum Tax (the Series 2016B Subordinate Bonds), by the Department of Airports (the Department) of the City of Los Angeles (the City). The Series 2016B Subordinate Bonds are to be issued pursuant to the Department's Master Subordinate Trust Indenture, as amended, and the Twelfth Supplemental Subordinate Trust Indenture (referred to collectively as the Subordinate Indenture). The City owns and, through the Department, operates Los Angeles International Airport (the Airport or LAX).

This Report was prepared to determine if forecast Subordinate Pledged Revenues plus any Transfer would be sufficient to meet the requirements of the Rate Covenant of the Subordinate Indenture for Fiscal Year¹ (FY) 2017 through FY 2023 (referred to in this Report as the Forecast Period), taking into account (1) the proposed issuance of the Series 2016B Subordinate Bonds and (2) other Senior and Subordinate Revenue Bonds expected to be issued by the Department during the Forecast Period, which are referred to as Future Bonds.

In preparing this Report, we assisted Department management in identifying key factors affecting the future financial results of the Airport and in formulating assumptions about those factors. The results and key findings of our analyses are summarized in this letter and described more fully in the following three sections of this Report: "Airline Traffic and Economic Analyses," "Airport Facilities and Capital Program," and "Financial Performance." The Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

Capitalized terms in this Report are used as defined in the Master Indenture (as amended and supplemented and collectively referred to as the Senior Indenture), the Subordinate Indenture, the Air Carrier Operating Permit for the use of Landing and Apron Facilities at the Airport (the Operating Permit), and/or the Department's agreements with the airlines operating at the Airport for the use and lease of terminal facilities (the Terminal Rate Agreements).

¹ The City's Fiscal Year ends June 30.

Mr. Sean O. Burton
November 2, 2016

AIRLINE TRAFFIC

Los Angeles International Airport has an important role in the international, national, State of California, regional, and local air transportation systems and is the busiest origin and destination (O&D) airport in the world, and the third busiest airport in the United States, in terms of total passengers (enplaned plus deplaned)². O&D passengers begin and end their journeys at the Airport, while connecting passengers transfer on flights at the Airport to another destination. In FY 2016, approximately 39.0 million passengers were enplaned at the Airport, including an estimated 30.8 million originating passengers and 8.2 million connecting passengers.

From FY 2011 through FY 2016, the number of enplaned passengers at the Airport increased at a rate of approximately 5.2% per year, reflecting strong average rates of growth in both domestic enplaned passengers (4.9% per year) and international enplaned passengers (6.0% per year). In comparison, the total number of passengers in the United States increased an average of 2.6% per year in calendar years 2010 through 2015 (the latest available data) based on information from the U.S. Department of Transportation, Bureau of Transportation Statistics.

From FY 2016 through FY 2023, the number of enplaned passengers at the Airport is forecast to increase an average of 2.6% per year, as discussed in the section of this Report titled "*Airline Traffic Forecasts*."

AIRPORT CAPITAL PROGRAM

Department management periodically develops and updates a Capital Program for the redevelopment, improvement, and expansion of Airport facilities. The Capital Program is developed based on anticipated facility needs, current and forecast airline traffic, available funding sources, and project priorities.

Exhibit A, provided at the end of this Report along with all financial exhibits, presents the anticipated funding sources for the approximate \$6.8 billion Capital Program, including approximately \$460.0 million from the net proceeds of the Series 2016B Subordinate Bonds. Approximately \$2.3 billion of the Capital Program is expected to be funded from the net proceeds of Future Bonds. The Capital Program is expected to be completed by the end of FY 2022.

The financial forecasts included in this Report reflect changes in Pledged Revenues, LAX Maintenance and Operation (M&O) Expenses, and Debt Service associated with the financing, construction, and completion of the Capital Program. This Report does not reflect debt service savings, if any, from the Department refunding any Senior and/or Subordinate Obligations during the Forecast Period.

² Airports Council International, passenger traffic in 2015.

Mr. Sean O. Burton
November 2, 2016

The Department is also considering longer-term future projects at the Airport that are not included in the financial forecasts in this Report (referred to as Other Projects). The largest components of the Other Projects consist of a consolidated rental car facility (ConRAC), an automated people mover (APM) system, and two Intermodal Transportation Facilities (ITFs). The Department currently expects that the ConRAC and APM system may ultimately be designed, built, financed, operated, and maintained by third-party operators (referred to herein as the DBFOM approach); these two projects and certain other projects, are currently estimated to be completed by mid-FY 2024. Current cost estimates for the Other Projects range from approximately \$4.5 billion to \$5.5 billion in future dollars, assuming a traditional delivery and financing approach.

As discussed in the later section of this Report titled “Other Projects”, Department management is developing and evaluating alternative financing plans and commercial arrangements for the Other Projects. The Other Projects, and their cost estimates, will continue to be revised and refined to reflect any changes related to the environmental permitting process, project design, or the procurement process.

PROPOSED SERIES 2016B SUBORDINATE BONDS

The Department intends to issue the Series 2016B Subordinate Bonds to:

- Finance a portion of the Capital Program, as discussed below.
- Make a deposit to the Subordinate Debt Service Reserve Fund.
- Fund capitalized interest on the Series 2016B Subordinate Bonds.
- Pay issuance and financing costs associated with the Series 2016B Subordinate Bonds.

Projects expected to be funded from the net proceeds of the Series 2016B Bonds include:

- **Midfield Satellite Concourse – North Project:** This project consists of the development of a new 12-gate, 800,000-square-foot concourse west of the Tom Bradley International Terminal (TBIT)/Bradley West terminal complex that would serve domestic and international airline operations. This project is estimated to cost \$1.5 billion; approximately \$200.0 million of this cost is planned to be funded with the net proceeds from the sale of the Series 2016B Subordinate Bonds.
- **Terminal 1 Improvement Project.** This project consists of the phased reconstruction of substantially all of Terminal 1 and is estimated to cost \$536.5 million; approximately \$150.0 million of this cost is planned to be funded with the net proceeds from the sale of the Series 2016B Subordinate Bonds.
- **Terminals 6/7/8 Improvement Project.** This project consists of the phased redevelopment of portions of Terminals 6, 7, and 8 and is estimated to cost \$548.8 million; approximately \$110.0 million of this cost is planned to be funded with the net proceeds from the sale of the Series 2016B Subordinate Bonds.

Mr. Sean O. Burton
November 2, 2016

FINANCIAL PERFORMANCE

The Department accounts for the Airport's financial performance according to generally accepted accounting principles for governmental entities and the requirements of the Senior Indenture and Subordinate Indenture (collectively, the Indentures). Department management makes business and financial decisions in the context of its obligations under the Indentures, among other factors.

Pledged Revenues

Under the Senior Indenture, Pledged Revenues include substantially all rentals, fees, and charges associated with the Airport, but do not include passenger facility charge (PFC) revenues, customer facility charge (CFC) revenues, and certain other revenues. Sources of Pledged Revenues in FY 2016 are shown on Figure 1. Airline revenues from terminal rentals, landing fees, and apron fees accounted for 50.5% of Pledged Revenues in FY 2016; the second largest source of Pledged Revenues was concession revenues, followed by aviation revenues (other than airline revenues), miscellaneous revenues, investment earnings, and Airport sales and services revenues.

Airline terminal rentals, landing fees, and apron fees are calculated on the basis of: (1) the number of gates and square footage used or leased by the airlines serving the Airport, as well as their number of enplaned passengers and amount of landed weight and (2) the rentals, rates, fees, and charges in effect each year, as calculated by the Department pursuant to the Operating Permits, Passenger Terminal Tariffs, and Terminal Rate Agreements.

Concession revenues include, but are not limited to, public parking fees, rental car privilege fees, and terminal concessions, and are a function of the business strategies and practices developed and implemented by Department management, the terms and conditions of agreements with the entities providing those services, and the number of passengers enplaned at the Airport each year.

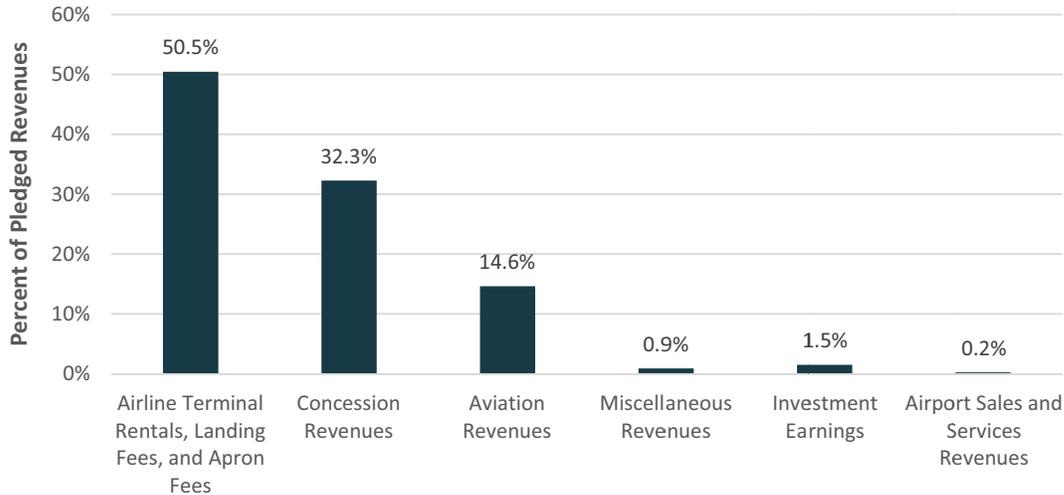
Aviation revenues include land rentals, aircraft parking fees, fuel flowage fees, and other related revenues.

All other sources of Pledged Revenues shown on Figure 1 include (1) miscellaneous revenues, (2) investment earnings generated by the Department based on its policy regarding the investment of unencumbered funds, and (3) revenues earned from the sale of services to Airport customers. A further description of these revenue categories is provided later in this Report.

Pledged Revenues totaled approximately \$1.2 billion in FY 2016, and are forecast to increase to approximately \$1.9 billion in FY 2023, an average increase of 6.6% per year.

Mr. Sean O. Burton
November 2, 2016

Figure 1
SOURCES OF PLEDGED REVENUES IN FY 2016
Los Angeles International Airport



Source: Department records.

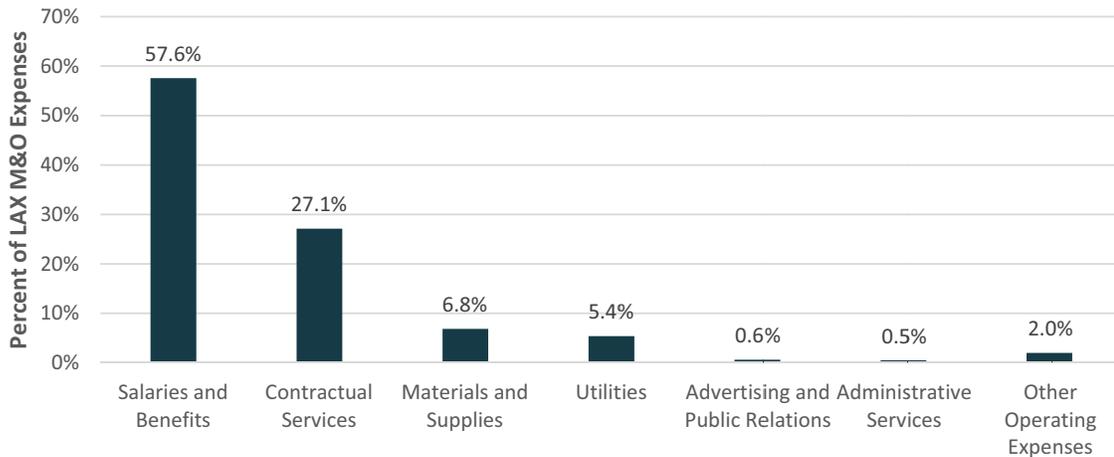
LAX Maintenance and Operation Expenses

Under the Indentures, LAX M&O Expenses are defined as substantially all of the day-to-day expenses of operating LAX under generally accepted accounting principles, excluding depreciation and expenses paid from sources other than Pledged Revenues. Categories of LAX M&O Expenses in FY 2016 are shown on Figure 2. Approximately 91.5% of FY 2016 LAX M&O Expenses was for salaries and benefits, contractual services, and materials and supplies. The remaining 8.5% of LAX M&O Expenses in FY 2016 was for utilities, advertising and public relations, administrative services, and other operating expenses.

LAX M&O Expenses totaled approximately \$660.7 million in FY 2016, after subtracting administrative costs allocated to other airports and certain M&O Expenses paid with grants, which are not included in the definition of LAX M&O Expenses. LAX M&O Expenses are forecast to increase from approximately \$660.7 million in FY 2016 to approximately \$1.0 billion in FY 2023, an average of 6.4% per year.

Mr. Sean O. Burton
November 2, 2016

Figure 2
CATEGORIES OF LAX M&O EXPENSES IN FY 2016
Los Angeles International Airport



Note: Prior to adjustments to exclude M&O Expenses associated with administrative expenses allocated to other airports and M&O Expenses paid from grants.

Source: Department records.

Debt Service

In FY 2016, total debt service on Senior Bonds (net of capitalized interest) issued for the Airport was approximately \$216.2 million. The Department used approximately \$124.0 million of PFC revenues to pay Senior Debt Service in FY 2016, resulting in Senior Aggregate Annual Debt Service of approximately \$92.2 million. Under the Senior Indenture, principal of and interest on Senior Bonds paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service for purposes of calculating the Senior Rate Covenant. Therefore, the use of PFC revenues to pay Senior Debt Service reduces the amount of debt service that would otherwise be paid from Net Pledged Revenues.

In FY 2016, Subordinate Aggregate Annual Debt Service (including debt service on the Subordinate Bonds and the Subordinate Commercial Paper Notes) was approximately \$62.3 million.

Estimated debt service for the Series 2016B Subordinate Bonds and Future Bonds was provided by Public Resources Advisory Group (the Department's co-financial advisor). Subordinate Aggregate Annual Debt Service (net of capitalized interest) is estimated to increase from \$62.3 million in FY 2016 to \$148.6 million in FY 2023, in order to fund the Department's Capital Program. The forecast of Subordinate Aggregate Annual Debt Service assumes that no PFC revenues are used to pay debt service on Subordinate Obligations during the Forecast Period.

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November 2, 2016

Senior Aggregate Annual Debt Service is estimated to increase from \$92.2 million in FY 2016 to \$218.2 million in FY 2023. Increases in Senior Debt Service and Subordinate Debt Service are attributable to (1) the overall structure of outstanding Senior Bonds and Subordinate Obligations and (2) the additional debt service associated with the Series 2016B Subordinate Bonds and Future Bonds. The forecast of Senior Aggregate Annual Debt Service assumes that between \$118.0 million and \$200.4 million of annual PFC revenues will be used each Fiscal Year to pay Senior Bond debt service. The actual amount of PFC revenues the Department uses to pay debt service during the Forecast Period may vary from year-to-year.

DEBT SERVICE COVERAGE

Senior Bonds are secured by a pledge of Net Pledged Revenues and by certain funds and accounts held by the Senior Trustee. As defined in the Senior Indenture, Net Pledged Revenues equal Pledged Revenues less LAX M&O Expenses.

Subordinate Obligations are secured by a pledge of Subordinate Pledged Revenues and certain other funds and accounts held by the Subordinate Trustee. Under the Subordinate Indenture, Subordinate Pledged Revenues are defined as Pledged Revenues less LAX M&O Expenses less Senior Aggregate Annual Debt Service less any deposits to the senior debt service reserve fund(s). Under the Subordinate Indenture, the Department has covenanted (the Subordinate Rate Covenant) to establish, fix, prescribe, and collect rates, tolls, fees, rentals, and charges for use of the Airport so that, in each Fiscal Year:

- Subordinate Pledged Revenues are at least equal to the amount of required deposits to various funds and accounts during such Fiscal Year, and
- Subordinate Pledged Revenues, together with any Transfer, are equal to at least 115% of the Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations.

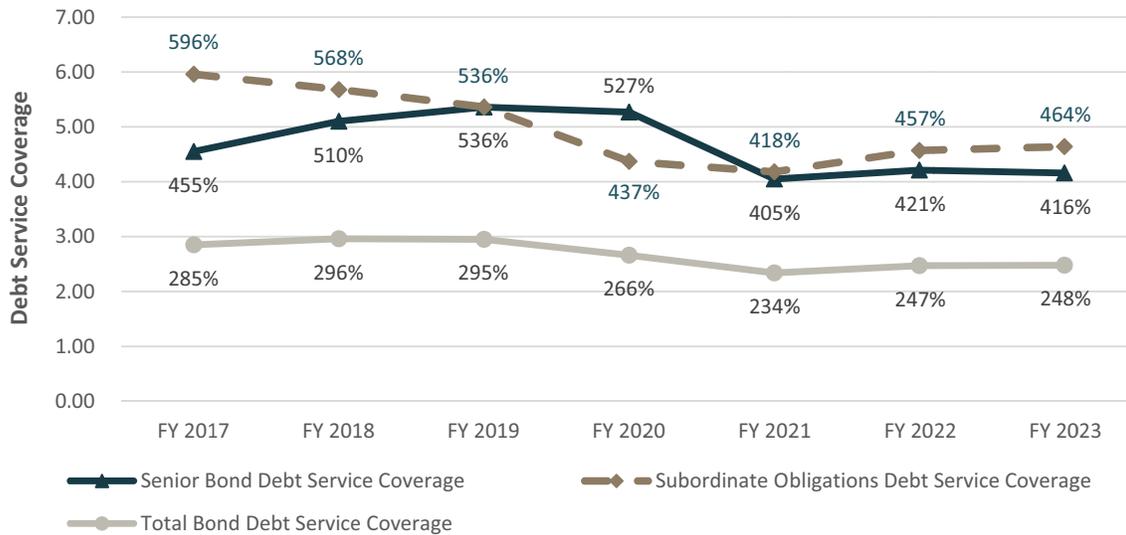
As stated in the Subordinate Indenture, any "Transfer" from the LAX Revenue Account to the Subordinate Debt Service Fund for purposes of meeting the Subordinate Rate Covenant shall not exceed 15% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations. No Transfer was assumed in the Report for the purposes of calculating debt service coverage ratios.

As shown on Figure 3, debt service coverage on Subordinate Obligations in each Fiscal Year of the Forecast Period demonstrates compliance with the Subordinate Rate Covenant of 115% of Subordinate Aggregate Annual Debt Service, including the Series 2016B Subordinate Bonds and Future Bonds.

In addition to its Subordinate Obligations, the Department has issued Senior Bonds under the Senior Indenture. The Senior Indenture requires a 125% coverage ratio on senior obligations. As shown on Figure 3, debt service coverage on Senior Bonds in each Fiscal Year of the Forecast Period exceeds the 125% coverage requirement.

Mr. Sean O. Burton
November 2, 2016

Figure 3
FORECAST DEBT SERVICE COVERAGE
Los Angeles International Airport



Notes: Includes debt service on Senior Bonds, existing Subordinate Obligations, including the Series C Subordinate Commercial Paper Notes, and estimated debt service on the Series 2016B Subordinate Bonds and Future Bonds. Debt service is net of capitalized interest, if any. Debt service coverage on Subordinate Obligations is higher than debt service coverage on Senior Bonds as a result of, among other reasons, significantly lower Subordinate Obligation debt service compared with Senior Bond debt service.

Source of Debt Service: Public Resources Advisory Group.

ASSUMPTIONS UNDERLYING THE FINANCIAL FORECASTS

The financial forecasts presented in this Report are based on information and assumptions provided by, or reviewed with and agreed to by, Department management. The forecasts reflect management’s expected course of action during the Forecast Period and, in management’s judgment, present fairly the expected financial results of the Airport. Those key factors and assumptions that are significant to the forecasts are set forth in the attachment, “Background, Assumptions, and Rationale for the Financial Forecasts.” The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts.

However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences could be material. Neither WJ Advisors LLC nor any person acting on our behalf makes any warranty, express or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions

Mr. Sean O. Burton
November 2, 2016

disclosed in this Report. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

We appreciate the opportunity to serve as the Department's Airport Consultant in connection with this proposed financing.

Respectfully submitted,

WJ Advisors LLC

WJ Advisors LLC

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**BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS**

City of Los Angeles, Department of Airports

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AIRLINE TRAFFIC AND ECONOMIC ANALYSES

OVERVIEW OF AIRPORT ROLE

Los Angeles International Airport has an important role in the international, national, State of California, and regional and local air transportation systems and was the third busiest airport in the United States in terms of total (enplaned and deplaned) passengers in 2015. The Airport is one of six commercial service airports in the greater Los Angeles area and has the most international airline service and the greatest number of connecting passengers in the area.

Large Origin-Destination Passenger Base

The Airport's large O&D passenger base is related to the population of the area served by the Airport, the strength of the local economy, and the attractiveness of the Los Angeles Combined Statistical Area (CSA, defined below), the primary geographic area served by the Airport, as a tourist destination. Through March 2016 (the third quarter of FY 2016, the latest available data), an estimated 19.9 million domestic originating passengers enplaned at the Airport, making Los Angeles International Airport the busiest O&D passenger market in the United States (U.S.).

The Los Angeles CSA includes Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties. As shown in Table 1, the population of the Los Angeles CSA was approximately 18.7 million in 2015, accounting for approximately 48% of California's total population in that year. Los Angeles County includes the City of Los Angeles and accounted for about 54.3% of the population of the Los Angeles CSA in 2015.

Because economic activity and growth in the Los Angeles CSA stimulate a significant portion of passenger demand at the Airport, statistics for the Los Angeles CSA were used to evaluate airline traffic trends at the Airport.

Primary Commercial Service Airport in the Los Angeles CSA

As shown on Figure 4, the Los Angeles CSA is served by six airports with scheduled airline service, including the Airport, which is defined as a large-hub airport¹. The Airport accounts for the majority of short-haul domestic airline service in the CSA, dominates medium- and long-haul domestic service, and is the primary international transportation gateway in Southern California. In FY 2016, the number of enplaned passengers at the Airport accounted for approximately 77.0% of all enplaned passengers at the six airports in the Los Angeles CSA. The airports in Orange County and Ontario are considered medium-hub airports; the airports in Burbank, Long Beach, Palm Springs are considered small-hub airports.

¹ The Federal Aviation Administration definition of large-, medium-, and small hub airports are available at the following link: http://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/categories/.

Table 1
POPULATION OF SOUTHERN CALIFORNIA IN 2015

Area	Population	Percent of Southern California population	Percent of Los Angeles CSA or Surrounding Counties
Los Angeles CSA			
Los Angeles	10,170,759	42.8%	54.3%
Orange	3,176,626	13.4	17.0
Riverside	2,371,664	10.0	12.7
San Bernardino	2,143,179	9.0	11.5
Ventura	854,593	3.6	4.6
Subtotal—Los Angeles CSA	18,716,821	78.7%	100.0%
Surrounding Counties			
San Diego	3,274,961	13.8%	64.7%
Kern	882,992	3.7	17.4
Santa Barbara	443,393	1.9	8.8
San Luis Obispo	284,035	1.2	5.6
Imperial	180,046	0.8	3.6
Subtotal—Surrounding Counties	5,065,427	21.3%	100.0%
Total Southern California	23,782,248	100.0%	

Source: Woods & Poole Economics, Inc., April 2016.

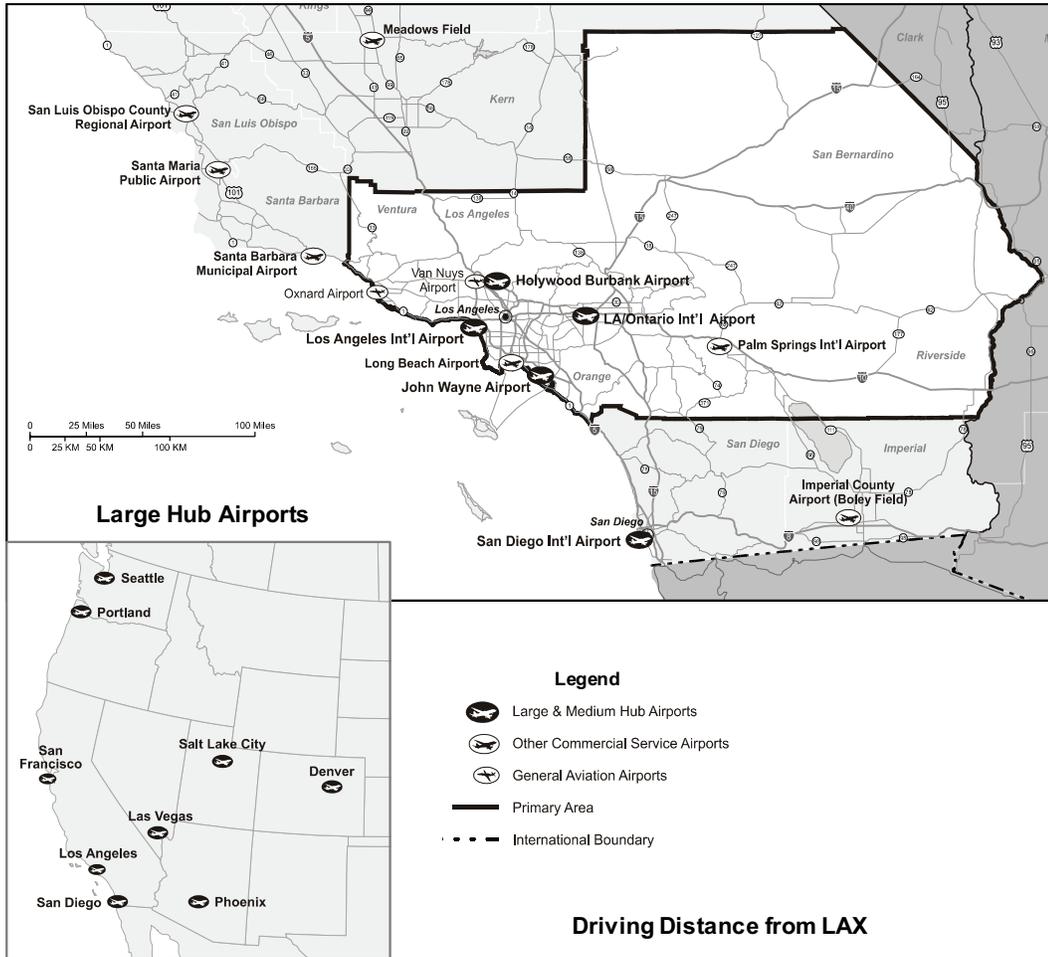
Note: Columns may not add to totals shown because of rounding.

Each airport provides short- and medium-haul domestic airline service and draws passengers largely from its closest surrounding geographical area. Los Angeles International Airport primarily provides longer haul domestic service and international service and draws passengers from the Los Angeles CSA and Southern California.

Van Nuys Airport is the second busiest general aviation (GA) airport in California in terms of the number of aircraft operations, with approximately 211,837 aircraft operations in FY 2016. Van Nuys Airport is part of the airport system operated by the Department. The City has transferred, assigned, and delivered to the Ontario International Airport Authority the City's right, title, and interest in and to certain of the assets, properties, rights and interests solely used or solely held for use in connection with the Department's operation of LA/Ontario International Airport.

Los Angeles International Airport also serves a large secondary area consisting of the counties surrounding the Los Angeles CSA. The secondary area, shown lightly shaded on Figure 4, is served by seven airports with scheduled airline service, including San Diego International Airport, a large-hub airport with considerable domestic airline service and limited international service. Other airports in the secondary service area, including airports in San Luis Obispo, Santa Barbara, Santa Maria, and Imperial Counties, provide limited scheduled domestic service, including service to the Airport.

Figure 4
AIRPORT SERVICE REGION



Note: Hub designation based on FAA's Enplanements at All Commercial Service Airports (by rank), CY 2015.

Note: "Drive time" is reported above with no traffic. Times will likely vary based on current traffic flows.

Source: Google Maps

International Gateway

For the 12-month period ended February 2016 (the latest available data), in terms of international enplaned passengers, the Airport was the third busiest international gateway in the United States and the busiest international gateway on the West Coast, with approximately 10.0 million international revenue enplaned passengers. John F. Kennedy International Airport, which had 14.9 million international revenue enplaned passengers during the same period, was the busiest international gateway in the United States, followed by Miami International Airport, which had 10.4 million international revenue enplaned passengers. San Francisco International Airport is the only other international gateway airport that is ranked among the 10 busiest international gateways on the West Coast, with approximately 5.5 million international revenue enplaned passengers during the same 12-month period.

After the Airport, other international gateway airports ranked in the top 10 by numbers of international revenue enplaned passengers during the same period were Chicago O'Hare International Airport (5.8 million), Newark Liberty International Airport (5.8 million), San Francisco International Airport (5.5 million), Hartsfield-Jackson Atlanta International Airport (5.5 million), Bush Intercontinental Airport/Houston (5.2 million), Dallas-Fort Worth International Airport (3.8 million), and Washington Dulles International Airport (3.5 million). As can be seen by the numbers above, the Airport (ranked third) was more than 70.0% busier than the fourth busiest international gateway airport (Chicago O'Hare) in the United States for the 12-month period ended February 2016.

The international markets for the Airport in the 12-month period ended February 2016, as measured by the number of international revenue enplaned passengers, were as follows: Asia (28.2%), Europe (19.1%), Mexico (17.2%), the Pacific (13.0%), Canada (10.6%), Latin American and the Caribbean (8.0%), and Africa/Middle East (3.9%). Of the 10 busiest international gateway U.S. airports during the same period, Los Angeles International Airport served the largest number of international revenue enplaned passengers to Asia and Mexico, served the second largest number of international revenue enplaned passengers to Canada, and served larger total numbers of international revenue enplaned passengers to the markets listed above as compared with San Francisco International Airport.

Many of the airlines serving the Airport have alliances with foreign-flag airlines that provide, among other benefits, seamless service for passengers to markets that may not have otherwise been served by the same domestic airline. Alliances also provide airlines with strategic, marketing, and operational benefits in terms of coordinated flight schedules, the transfer of baggage between airlines, and use of single terminal buildings and passenger ticketing check-in facilities.

The importance of the Airport as an international gateway can be measured by the number of domestic and foreign-flag airlines serving the Airport, as well as the numbers and market shares of enplaned passengers on the airline alliances. A comparison of FY 2016 enplaned passenger market shares by individual airlines (including regional affiliates) and by airline alliance is shown on Table 2. The airlines that are members of each alliance are named on their respective corporate websites.

Table 2
COMPARISON OF ENPLANED PASSENGER MARKET SHARE IN FY 2016
 Los Angeles International Airport

	Airline and regional affiliate		Airline, regional affiliate, and alliance partners		
	Number of enplaned passengers	Percent of total	Alliance Name	Number of enplaned passengers	Percent of total
American Airlines	7,613,660	19.5%	oneworld	9,213,662	23.7%
United Airlines	6,020,563	15.5	Star Alliance	8,909,794	22.9
Delta Air Lines	6,550,711	16.8	SkyTeam	8,471,711	21.8
Subtotal	20,184,934	51.8%		26,595,167	68.3%
All other airlines	18,767,433	48.2		12,357,200	31.7
Total	38,952,367	100.0%		38,952,367	100.0%

Note: Columns may not add to totals shown because of rounding.
 Source: Department records.

Currently, American Airlines, United Airlines, and Delta Air Lines operate at individual terminal buildings at the Airport. For American Airlines, which operates at Terminal 4, a passenger connector to the TBIT was recently completed that will provide a seamless experience for passengers connecting to or arriving on flights of oneworld alliance partners. In August 2016, the Los Angeles City Council approved a new lease and license agreement with Delta Air Lines that will enable the airline to relocate from Terminals 5 and 6 to Terminals 2 and 3. The approximately \$1.9 billion modernization of these terminals, which will also provide a secure connector to the north side of the TBIT, will allow Delta Air Lines and its alliance partners to operate seamlessly when the modernization program is expected to be completed by 2018. Airlines currently operating in Terminals 2 and 3 will be relocated to other LAX terminals.

ECONOMIC BASIS FOR AIRLINE TRAFFIC

The economy of an airport service region is a major factor affecting long-term airline traffic at the airport(s) serving the region. Generally, regions with large populations, an extensive employment base, and increasing levels of per capita personal income will generate strong demand for airline travel. The demographics and economy of the region—as measured by changes in population, nonagricultural employment, and per capita personal income—as well as airline service and airfares, are typically the most important factors affecting O&D passenger demand at airport(s) serving the region.

Historical Population, Nonagricultural Employment, and Per Capita Personal Income

This section provides an overview of the Los Angeles regional economy, including current conditions and trends, and presents data that indicate that the Airport's service region has an economic base capable of supporting increased demand for airline travel at the Airport during the Forecast Period (through FY 2023).

As stated earlier, the primary geographical region served by the Airport is the Los Angeles CSA, which includes Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties.

As shown in Table 3, the Los Angeles CSA, with approximately 18.7 million residents in 2015, is the second largest of the 166 CSAs in the United States. Only the New York-Newark CSA, with approximately 23.7 million residents, represents a larger market for airline travel.

Table 3
10 LARGEST COMBINED STATISTICAL AREAS IN THE UNITED STATES
2015

Rank	Combined Statistical Area	Estimated population
1	New York-Newark	23,731,842
2	Los Angeles	18,716,821
3	Chicago-Naperville	9,975,982
4	Washington-Baltimore-Arlington	9,662,263
5	San Jose-San Francisco-Oakland	8,674,691
6	Boston-Worcester-Providence	8,138,522
7	Dallas-Fort Worth	7,476,875
8	Philadelphia-Reading-Camden	7,194,906
9	Houston-The Woodlands	6,802,525
10	Miami-Fort Lauderdale-Port St. Lucie	6,643,862

Source: Woods & Poole Economics, Inc., April 2016.

Table 4 presents historical and projected population, nonagricultural employment, and per capita personal income for the Los Angeles CSA, the State of California, and the United States in 1990, 1995, 2000, and 2005 through 2015, and projected socioeconomic data for 2023.

According to the data shown in Table 4 in 2015, the Los Angeles CSA accounted for 47.8% of California's population and 47.9% of the State's nonagricultural employment.

Table 4
HISTORICAL AND PROJECTED SOCIOECONOMIC DATA
 Los Angeles CSA, State of California, and United States

Year	Population (thousands)			Nonagricultural employment (thousands)			Per capita personal income (in 2015 dollars)		
	Los Angeles CSA	State of California	United States	Los Angeles CSA	State of California	United States	Los Angeles CSA	State of California	United States
Historical									
1990	14,598	29,960	249,623	8,170	16,572	135,178	\$34,868	\$34,876	\$31,788
1995	15,346	31,697	266,278	7,960	16,655	144,808	33,997	35,247	33,775
2000	16,426	33,988	282,162	8,943	18,954	162,254	39,958	43,953	40,282
2005	17,396	35,828	295,517	9,618	20,012	169,902	43,939	46,311	42,584
2006	17,455	36,021	298,380	9,831	20,422	173,545	45,909	48,161	44,061
2007	17,499	36,250	301,231	9,999	20,805	177,222	46,227	48,661	44,875
2008	17,613	36,604	304,094	9,843	20,596	177,012	45,754	47,881	44,924
2009	17,750	36,961	306,772	9,446	19,811	171,611	43,546	45,508	43,087
2010	17,915	37,336	309,347	9,336	19,571	170,399	43,524	45,653	43,356
2011	18,088	37,702	311,722	9,546	19,944	173,640	44,546	47,124	44,604
2012	18,249	38,063	314,112	9,886	20,628	176,459	46,233	49,096	45,644
2013	18,407	38,431	316,498	10,193	21,266	179,744	45,655	48,953	45,203
2014	18,550	38,803	318,857	10,437	21,797	183,156	46,683	50,131	46,185
2015	18,717	39,156	321,545	10,621	22,173	186,211	47,473	50,943	46,974
Projected									
2023	20,220	42,345	346,140	12,047	25,067	209,265	53,530	57,172	53,078
Annual percent increase (decrease)									
2005-2006	0.3%	0.5%	1.0%	2.2%	2.1%	2.1%	4.5%	4.0%	3.5%
2006-2007	0.3	0.6	1.0	1.7	1.9	2.1	0.7	1.0	1.8
2007-2008	0.6	1.0	1.0	(1.6)	(1.0)	(0.1)	(1.0)	(1.6)	0.1
2008-2009	0.8	1.0	0.9	(4.0)	(3.8)	(3.1)	(4.8)	(5.0)	(4.1)
2009-2010	0.9	1.0	0.8	(1.2)	(1.2)	(0.7)	(0.1)	0.3	0.6
2010-2011	1.0	1.0	0.8	2.3	1.9	1.9	2.3	3.2	2.9
2011-2012	0.9	1.0	0.8	3.6	3.4	1.6	3.8	4.2	2.3
2012-2013	0.9	1.0	0.8	3.1	3.1	1.9	(1.2)	(0.3)	(1.0)
2013-2014	0.8	1.0	0.7	2.4	2.5	1.9	2.3	2.4	2.2
2014-2015	0.9	0.9	0.8	1.8	1.7	1.7	1.7	1.6	1.7
Average annual percent increase (decrease)									
Historical									
1990-2000	1.2%	1.3%	1.2%	0.9%	1.4%	1.8%	1.4%	2.3%	2.4%
2000-2015	0.9	0.9	0.9	1.2	1.1	0.9	1.2	1.0	1.0
Projected									
2015-2023	1.0	1.0	0.9	1.6	1.5	1.5	1.5	1.5	1.5

Note: The Los Angeles Combined Statistical Area (CSA) consists of Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties.
 Source: Woods & Poole Economics, Inc., April 2016.

Population. As shown in Table 4, the average annual growth rate for population in the Los Angeles CSA has historically been comparable to the population growth rates in California and the United States. Population in the Los Angeles CSA increased an average of 1.2% per year between 1990 and 2000, and an average of 0.9% per year between 2000 and 2015. Projected population growth in the Los Angeles CSA for 2015 through 2023 reflects an average annual increase of 1.0%, which is slightly higher than the projected increase in the United States as a whole (0.9%).

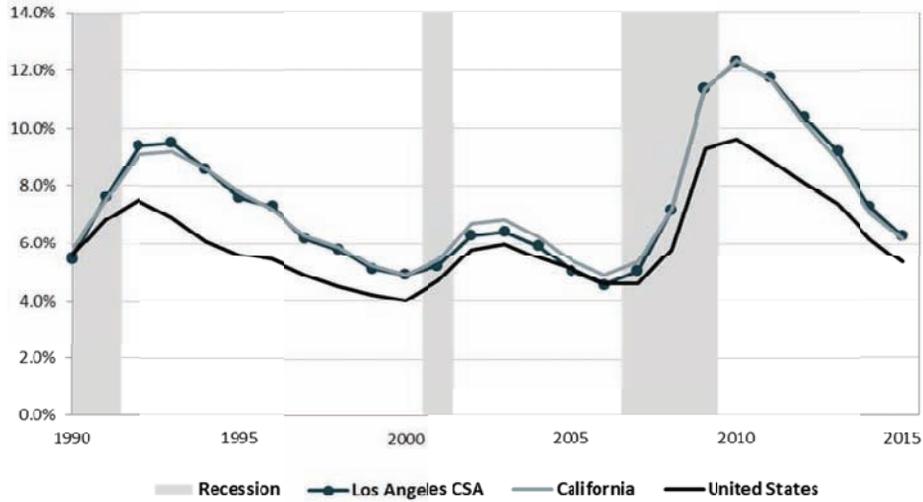
The projected increase in new residents in the Los Angeles CSA (approximately 1,503,000 between 2015 and 2023) is expected to generate additional demand for airline service at the Airport. The U.S. Department of Commerce, Bureau of the Census estimates that net in-migration to the Los Angeles CSA averages approximately 108,000 new residents each year². Continued positive net in-migration to the Los Angeles CSA is expected to contribute to population growth between 2015 and 2023.

Unemployment Rate. The annual unemployment rate in the Los Angeles CSA exceeded that in the United States as a whole in each of the past 25 years, except 1990, 2005, and 2006, when the two unemployment rates were generally equal (see Figure 5).

Since 2007, the unemployment rate in the Los Angeles CSA has been higher than that in the United States as a result of labor force growth and lagging job growth in particular industries. The labor force growth rate in the Los Angeles CSA has been higher than the national rate since 2007, and the growth rate in employment has been lower in the Los Angeles CSA than in the nation. Specifically, the jobs growth rates in construction, manufacturing, retail trade, utilities, management services, and government have been lower in the Los Angeles CSA than in the United States since 2007.

² The U.S. Department of Commerce, Bureau of the Census estimates that the Los Angeles CSA had prior levels of in-migration totaling 489,000 annually and out-migration totaling 381,000 annually, resulting in net annual in-migration of 108,000 new residents; see American Community Survey, <http://www.census.gov/acs/www>, accessed August 2016. These results were based on average annual migration in 2009 through 2013.

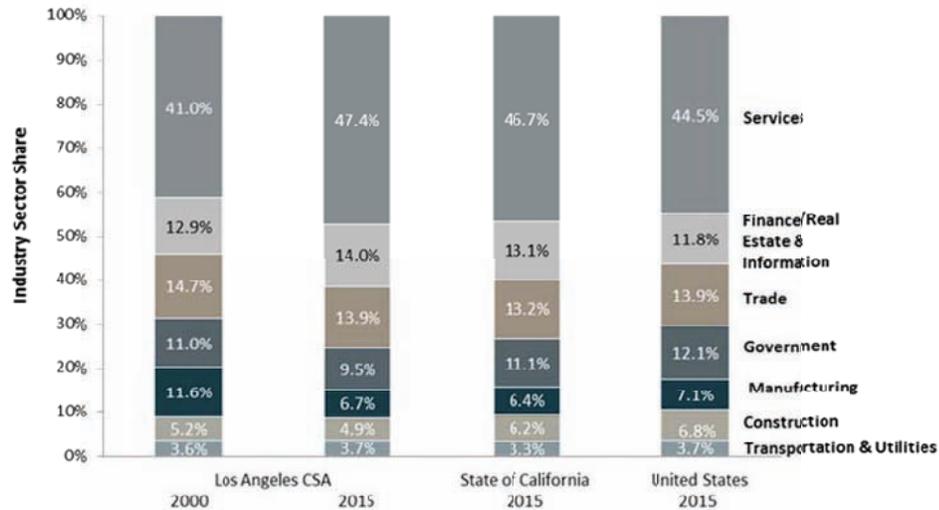
Figure 5
UNEMPLOYMENT RATES
 Los Angeles CSA, State of California, and United States



Sources: State of California Employment Development Department, *Labor Market Information*; U.S. Department of Labor, Bureau of Labor Statistics, August 2016.

Nonagricultural Employment by Industry Sector. Figure 6 shows the comparative distribution of nonagricultural employment by industry sector in the Los Angeles CSA in 2000 and 2015, and in California and the United States in 2015. Employment in services (47.4%)—including health, education, professional, business, and other services—and finance/real estate and information (14.0%) accounted for a combined 61.4% of total nonagricultural employment in the Los Angeles CSA in 2015.

Figure 6
COMPARATIVE DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT BY INDUSTRY SECTOR
 Los Angeles CSA, State of California, and United States



Notes: Columns may not total 100% because of rounding.
 Source: Woods & Poole Economics, Inc., April 2016.

Major Employers. Table 5 lists the 25 largest private employers in the Los Angeles CSA in 2015. The table reflects the diversity of the companies and industries in the area.

The Los Angeles CSA is the location of headquarters for 18 companies on the list of Fortune 500 firms, which are ranked by annual revenue³. These companies operate globally and their activities extend to a network of more than 1,665 overseas offices, manufacturing plants and other facilities⁴. The reliance on face-to-face meetings and conferences of major employers in Fortune 500 headquarters and their suppliers, customers, and partners suggests that the Los Angeles CSA will continue to be a significant source of demand for airline business travel.

Per Capita Personal Income. Historically, per capita personal income (in 2015 dollars) has been consistently lower in the Los Angeles CSA than in California, as shown earlier in Table 4. However, per capita income in the Los Angeles CSA generally equaled that in the United States as a whole from 1990 through 2015.

³ "America's Largest Corporations," *Fortune*, June 15, 2015.

⁴ Uniworld Online, www.uniworldbp.com, accessed August 2016.

Table 5
25 LARGEST PRIVATE EMPLOYERS
 Los Angeles CSA

Rank	Company	Industry	Location	Local employees
1	Walt Disney	Entertainment	Anaheim/Burbank	29,000
2	Northrop Grumman	Aerospace	Redondo Beach	17,000
3	Bank of America	Finance	Irvine/Los Angeles	13,000
4	AT&T	Telecommunications	Los Angeles/Tustin	11,700
5	United Parcel Service	Freight and logistics	Anaheim/Los Angeles/Ontario	10,800
6	Boeing	Aerospace	El Segundo/Seal Beach	10,500
7	Wells Fargo Bank	Finance	Irvine/Los Angeles	10,000
8	ABM Industries	Facility services	Commerce	8,500
9	FedEx	Freight and logistics	Irvine/Los Angeles/Ontario	7,700
10	Warner Bros. Entertainment	Entertainment	Burbank	7,400
11	Universal Services of America	Security services	Santa Ana	5,500
12	Raytheon	Aerospace	El Segundo	5,400
13	Amgen	Pharmaceuticals	Thousand Oaks	5,100
14	NBCUniversal	Entertainment	Burbank	5,000
15	Paramount Pictures	Entertainment	Hollywood	5,000
16	JP Morgan Chase	Finance	Irvine/Los Angeles	4,900
17	Verizon	Telecommunications	Irvine/Los Angeles	3,900
18	Time Warner Cable	Telecommunications	El Segundo	3,700
19	Irvine Company	Real estate development	Newport Beach	3,600
20	Edwards Lifesciences	Medical equipment	Irvine	3,400
21	Sony Pictures Entertainment	Entertainment	Culver City	3,200
22	Lockheed Martin	Aerospace	Palmdale	2,700
23	Broadcom	Semiconductors	Irvine	2,400
24	Allergan	Pharmaceuticals	Irvine	2,200
25	Western Digital	Computer equipment	Irvine	1,900

Note: Excludes retail companies, hospitals, utilities, nonprofits, and government organizations.

Sources: "Largest Private-Sector Employers," *Los Angeles Business Journal*, August 31, 2015; "Employers," *Orange County Business Journal*, November 19, 2015, www.ocbj.com/oclists, accessed August 2016.

Real wage and salary income decreased in the Los Angeles CSA during the 2008-2009 recession, decreasing 1.4% between 2007-2008, and decreasing 4.3% between 2008-2009. In contrast, population in the Los Angeles CSA increased nearly 1.0% per year during the recession. Certain factors, including decreasing wage and salary income and increasing population, contributed to the decline in per capita personal income in the Los Angeles CSA between 2007 and 2010.

Data in Table 4 show that, by 2013, per capita personal income in the Los Angeles CSA had nearly reached its pre-recession level of \$46,227. Projections of per capita personal income in the Los Angeles CSA in 2023 are based on an average annual growth rate of 1.5% between 2015 and 2023. The 2015-2023 growth in total personal income is projected to be partially driven by the growth in earnings for workers in the construction, information, finance, professional and technical services, educational services, and health services industries.

Visitor Activity

Table 6 summarizes visitor data for Los Angeles County in 2014 and 2015, as published by the Los Angeles Tourism & Convention Board. Nearly 67% of visitors to Los Angeles County in 2014 and 2015 were overnight visitors. Data in Table 6 show that the majority of overnight visitors to Los Angeles are leisure travelers. However, international business travelers accounted for the highest growth rate in overnight visitors.

Leisure Travel. Leisure travelers to Los Angeles County accounted for most of the overnight trips (approximately 78.1% in 2015). The Los Angeles CSA offers visitors numerous entertainment attractions, cultural institutions, shopping districts, dining selections, recreational options, professional sporting events, and scenic parks and vistas. World famous attractions in the Los Angeles CSA include Disneyland, Universal Studios, the Hollywood Walk of Fame, the Getty Center, and many others.

Business Travel. In 2015, business travelers to Los Angeles County accounted for approximately 21.9% of all overnight trips. Approximately 18% of the 6.6 million business travelers to Los Angeles County in 2015 (1.2 million) were international business travelers. The number of international business travelers to Los Angeles County increased 9.1% between 2014 and 2015, accounting for the highest annual growth rate among overnight visitors to Los Angeles County.

Convention Business. Many business travelers visit the Los Angeles CSA in order to attend conventions and other events. The Los Angeles Convention Center (LACC) is located in downtown Los Angeles and hosts 315 events with 2.5 million visitors annually. The LACC currently has 720,000 square feet of exhibit hall space and 150,000 square feet of meeting room space, for a total of 870,000 square feet. Planned LACC expansion will increase the size of the facility to 1.2 million square feet of exhibit and meeting space. A new 1,000-room hotel to be constructed adjacent to the LACC is also planned. With these improvements, the LACC will be able to attract larger conventions and accommodate multiple, large-scale events.

International Travel. In 2015, Los Angeles County attracted approximately 6.7 million overnight international business and leisure visitors. Of these, 36.8% were from Mexico and Canada, while the majority of international visitors (63.2%) were from overseas. China was home to the most visitors (779,000) from a single country. Viewed on a regional basis, visitors from Australia, Japan, and South Korea—the top three countries in the Asia-Pacific region (excluding China) —accounted for a total of 1,023,000 visitors to Los Angeles County. Similarly, Europe was the second largest regional market, with the top three countries (United Kingdom, France, and Germany) generating 862,000 visitors to Los Angeles County in 2015.

Table 6
2014 AND 2015 VISITOR ACTIVITY
 Los Angeles County

	2014	Percent of total	2015	Percent of total	Percent increase/ (decrease) 2014-2015
Overnight visitors	29,500,000	66.7%	30,200,000	66.4%	2.4%
Day visitors	14,700,000	33.3	15,300,000	33.6	4.1
Total visitors	44,202,000	100.0%	45,502,000	100.0%	2.9%
Overnight visitors					
Domestic leisure	17,700,000	60.0%	18,100,000	59.9%	2.3%
International leisure	5,400,000	18.3	5,500,000	18.2	1.9
Domestic business	5,300,000	18.0	5,400,000	17.9	1.9
International business	1,100,000	3.7	1,200,000	4.0	9.1
Total overnight visitors	29,500,000	100.0%	30,200,000	100.0%	2.4%
International visitors					
Mexico	1,683,000	25.8%	1,732,000	25.8%	2.9%
China (excludes Hong Kong)	686,000	10.6	779,000	11.6	13.6
Canada	767,000	11.8	736,000	11.0	(4.0)
Australia	401,000	6.2	424,000	6.3	5.7
United Kingdom (a)	328,000	5.0	342,000	5.1	4.3
Japan	310,000	4.8	319,000	4.8	2.9
France	281,000	4.3	282,000	4.2	0.4
South Korea	252,000	3.9	280,000	4.2	11.1
Germany	234,000	3.6	238,000	3.6	1.7
Brazil	128,000	2.0	127,000	1.9	(0.8)
Other overseas	1,430,000	22.0	1,441,000	21.5	0.8
Total international visitors	6,500,000	100.0%	6,700,000	100.0%	2.9%

(a) Includes England, Wales, Scotland, and Northern Ireland.

Source: Los Angeles Tourism & Convention Board, www.discoverlosangeles.com, accessed August 2016.

Economic Outlook

Economic growth in the United States, the State of California, and the Los Angeles CSA influences the demand for passenger and cargo services at the Airport. In addition, growth in airline traffic at the Airport is influenced by the Los Angeles CSA's economy and global economies. Consequently, economic assumptions that underlie the forecasts of enplaned passengers prepared for this Report were based on a review of global, national, State, and regional economic projections, as well as analyses of historical socioeconomic trends and airline traffic trends.

Global Economy. The number of international visitors to the Los Angeles CSA, the outlook for world gross domestic product (GDP) growth, and economic growth within global sub-regions provide insight into the future demand for international leisure and business travel at the Airport. Data in Table 7 show that real global GDP is projected to increase from an annual average rate of 2.9% between 2010 and 2015 to an annual average rate of 3.1% in 2016 through 2023. Although China contributed strongly to global economic growth between 2010 and 2015, an economic slowdown is expected in China in 2016 through 2023 as the country adjusts its economy towards domestic consumption and an expanding services sector. The projection for weak growth in Latin America is mainly a result of falling commodity prices, fiscal deficits, and ongoing recessions in Brazil and Venezuela. Projected growth in Africa, the Middle East, and the United States in 2016 through 2023 is expected to partially offset slower economic growth in other markets. As global economic growth continues in 2016 through 2023, demand for business and leisure travel, including airline travel to the Los Angeles CSA, is expected to increase.

Table 7

HISTORICAL AND PROJECTED GLOBAL GROSS DOMESTIC PRODUCT GROWTH RATES

Region/Country	Average annual real GDP growth	
	Historical 2010-2015	Projected 2016-2023
China	8.2%	5.4%
Asia (excluding China)	3.6	3.8
Africa	3.7	4.6
Middle East	3.6	4.0
Latin America	2.8	2.5
Canada	2.3	2.3
United States	2.2	2.5
Former Soviet Union	2.1	2.4
Europe	1.1	1.8
World	2.9	3.1

Source for historical and projected: U.S Department of Agriculture, Economic Research Service, *International Macroeconomic Data, Projected Real GDP Values*, updated December 19, 2015.

National Economy. Based on recent moderate gains in real disposable personal income⁵ and household net worth, consumer spending is expected to support projected GDP growth in the U.S. during the Forecast Period⁶. A reduction in the U.S. labor force participation rate,⁷ low productivity growth⁸, and weak business investment have not been significant contributors to recent GDP growth⁹. In addition, the appreciation of the U.S. dollar¹⁰, sluggish international growth, and weak demand for U.S. exports¹¹ also present challenges to economic activity. The most recently published forecast by business economists from the National Association for Business Economics (NABE) indicates consensus for annual real U.S. GDP growth of 1.8% in 2016 and 2.3% in 2017. The NABE forecast is based on estimated average annual U.S. unemployment rates of 4.8% in 2016 and 4.6% in 2017¹².

Figure 7 presents trends in U.S. GDP (in 2015 dollars) and numbers of enplaned passengers at the Airport and in the nation in 1988 through 2015 (using 1988 as the index year). Trends in passenger traffic in the United States and at the Airport since 1988 have closely correlated with trends in GDP, including decreases during the 1990-1991 and 2008-2009 recessions. From 1988 through 2015, GDP increased an average of 2.5% per year, while the number of enplaned passengers increased at averages of 1.7% per year in the nation and 2.8% per year at the Airport.

During the most recent national recession (2008-2009), the number of passengers enplaned at the Airport decreased 9.0%. In comparison, the number of enplaned passengers in the United States decreased 5.3% between 2008 and 2009. As the economy recovered, the number of passengers enplaned at the Airport increased 24.5% between 2010 and 2015. National passenger data indicate that the number of enplaned passengers on the scheduled mainline flights of U.S. airlines increased 10.6% between 2010 and 2015.

⁵ After tax income, adjusted for inflation, U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/faq/index.cfm?faq_id=106, accessed September 2016.

⁶ Minutes of the Federal Open Market Committee meeting on July 26-27, 2016, Board of Governors of the Federal Reserve System, <http://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>, accessed August 2016.

⁷ Revisiting GDP Growth Projections, Federal Reserve Bank of St. Louis Economic Synopses, March 4, 2016, <https://research.stlouisfed.org/publications/economic-synopses/2016/03/04/revisiting-gdp-growth-projections>, accessed August 2016.

⁸ Fed Views, July 14, 2016, Federal Reserve Bank of San Francisco, www.frbsf.org/economic-research/publications/fedviews/2016/july/july-14-2016, accessed August 2016.

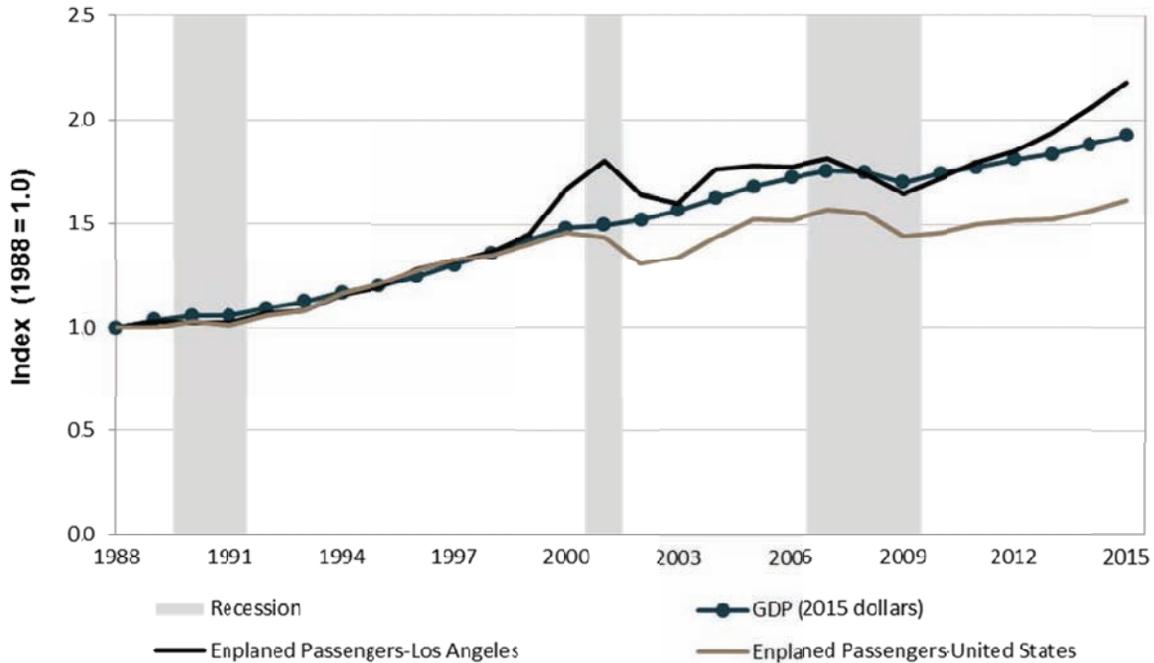
⁹ Monetary Policy Report, Board of Governors of the Federal Reserve System, June 21, 2016, http://www.federalreserve.gov/monetarypolicy/mpr_default.htm, accessed August 2016.

¹⁰ Key Secular Trends and Implications for Monetary Policy, speech by Robert S. Kaplan, President and CEO, Federal Reserve Bank of Dallas, August 2, 2016, <http://dallasfed.org/news/speeches/kaplan/2016/rsk160802.cfm>, accessed August 2016.

¹¹ The U.S. Economic Outlook and the Implications for Monetary Policy, speech by William C. Dudley, President and CEO, Federal Reserve Bank of New York, July 31, 2016, <https://www.newyorkfed.org/newsevents/speeches/2016/dud160731a>, accessed August 2016.

¹² National Association for Business Economics, *NABE Outlook*, September 2016.

Figure 7
TRENDS IN U.S. GROSS DOMESTIC PRODUCT AND ENPLANED PASSENGERS



Sources: U.S. GDP—U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed August 2016.

Los Angeles (LAX) enplaned passengers—Department management records.

U.S. enplaned passengers—U.S. Department of Transportation, Federal Aviation Administration, www.faa.gov, accessed August 2016.

California Economy. California has a diverse and vibrant economy that accounts for 13% of U.S. GDP and ranks as the seventh largest economy globally (between those of France and India)¹³. Economic growth in California exceeded U.S. GDP growth in 2015 (3.9% vs. 2.4%). In addition, unemployment in California decreased from a peak of 12.4% in 2010 (following the 2008-2009 recession) to 6.2% in 2015, compared with 9.6% and 5.3%, respectively, in the United States as a whole. Between 2014 and 2015, California experienced job gains in major industry sectors, such as professional, scientific, and technical services (74,100 jobs); leisure and hospitality (70,700 jobs); health care and social assistance (63,600 jobs); and administrative, support and waste services (48,700 jobs). Combined, these four sectors

¹³ World Bank, International Comparison Program database, http://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?year_high_desc=true, accessed August 2016.

accounted for 55% of employment gains in California between 2014 and 2015. Continued job growth in these sectors is projected for 2016 and 2017¹⁴.

Los Angeles CSA Economy. A recent forecast report published by the Los Angeles Economic Development Corporation (LAEDC) shows employment gains in the Los Angeles CSA economy in 2016 and 2017. The LAEDC forecasts employment growth in professional and business services, health care, retail trade, and leisure and hospitality¹⁵.

Economic Growth Factors. Factors expected to contribute to continued economic growth in the Los Angeles CSA and associated increases in airline travel at the Airport include (1) a diverse economic base that is less vulnerable to a downturn in any particular industry sector than if the economic base were more concentrated, (2) a large population base with growing income, (3) continued growth in the leisure and hospitality industry sector, and (4) continued public and private sector investment to support tourism, conventions, and general business development.

PASSENGER TRAFFIC AND AIRLINE SERVICE TRENDS

Trends in the number of enplaned passengers and airline service at the Airport are discussed in this section. The airlines serving the Airport, airline shares of enplaned passengers, top O&D markets for the Airport, and airline fares and yields are also discussed.

Airlines Serving the Airport

Table 8 lists the passenger airlines serving the Airport as of September 2016. A total of 20 U.S. flag airlines provided scheduled passenger service, including 5 network airlines, 7 regional airlines, and 8 low cost airlines. Scheduled international passenger service was provided by 51 foreign-flag airlines, including 13 Asian airlines, 16 European airlines, 7 Middle Eastern/African airlines, 5 South Pacific airlines, 5 Latin American/Caribbean airlines, 3 Mexican airlines, and 2 Canadian airlines. In addition, 21 airlines provided scheduled all-cargo service, as of September 2016.

Enplaned Passenger Trends

Table 9 shows domestic and international enplaned passengers as well as originating and connecting passengers at the Airport in FY 2000 through FY 2016.

Growth in the number of enplaned passengers at the Airport has been strong in recent years. Over the past 5 years (FY 2011 through FY 2016), growth in the total number of enplaned passengers at the Airport resumed following the events of September 11, 2001 and the 2008-

¹⁴ California Employment Development Department, Labor Market Information Division; estimates and forecasts by Los Angeles Economic Development Corporation. *LAEDC 2016-2017 Economic Forecast and Industry Outlook*, February 2016.

¹⁵ Los Angeles Economic Development Corporation. *LAEDC 2016-2017 Economic Forecast and Industry Outlook*, February 2016.

2009 national economic and financial crises, increasing an average of 5.2% per year. During the same period, the number of enplaned passengers in the nation as a whole increased an average of 2.4% per year¹⁶.

In FY 2016, 39.0 million passengers enplaned at the Airport, representing an increase of 7.8% over the number of passengers enplaned in FY 2015 and a historical peak for the Airport. The number of domestic and international passengers enplaned at the Airport increased at averages of 2.5% and 2.3% per year, respectively, between FY 2006 and FY 2016. In FY 2016, domestic passengers accounted for 72.1% (28.1 million) of total enplaned passengers at the Airport, while international passengers accounted for 27.9% (10.9 million) of total enplaned passengers at the Airport.

The growth in enplaned passengers in FY 2016 was partially the result of strong growth in new airline service and additional seat capacity introduced by airlines at the Airport in recent years. From FY 2011 through FY 2016, the number of scheduled seats at the Airport increased by an average of 4.7% per year, which is four times the average for the U.S. as a whole (1.2% for the same period¹⁷). Between FY 2015 and FY 2016, the number of scheduled seats at the Airport increased 6.3%. In addition, advance airline flight schedules show that total the total number of domestic seats at the Airport is scheduled to increase by 4.6% in FY 2017. Factors contributing to the expansion of airline capacity at the Airport include growing competition among domestic airlines that have been competing for market shares at the Airport, as well as the entry of several new foreign-flag airlines and new service on a number of international routes.

The number of connecting passengers at the Airport has remained stable over the past 15 years (FY 2000 through FY 2016), accounting for between 20.5% and 24.2% of total enplaned passengers at the Airport. Through the third quarter of FY 2016, connecting passengers at the Airport accounted for 21.0% (8.2 million) of total enplaned passengers, while originating passengers accounted for 79.0% (30.8 million) of total enplaned passengers.

¹⁶ Source: U.S. Department of Transportation, T100 Database; represents average annual growth in the total number of U.S. enplaned passengers from the 12-months ended June 2011 through the 12-months ended February 2016.

¹⁷ Source: Innovata; represents average annual growth in the number of scheduled airline seats at U.S. airports in FY 2011 through FY 2016.

Table 8
PASSENGER AIRLINES SERVING LOS ANGELES INTERNATIONAL AIRPORT
 September 2016

U.S.-flag airlines	Foreign-flag airlines		
Network Airlines	Asia	Middle East/Africa	Latin America
Alaska Airlines (a)	Air China	El Al Israel Airlines	Avianca/Taca International Airlines
American Airlines (b)	ANA	Emirates	Copa
Delta Air Lines	Asiana Airlines	Ethiopian Airlines	LACSA
Hawaiian Airlines	Cathay Pacific Airlines	Etihad Airways	LAN Peru
United Airlines	China Airlines	Qatar Airways	LATAM Airlines Group
	China Eastern	Saudi Arabian Airlines	
Regional Airlines	China Southern Airlines	Turkish Airlines	Mexico
Boutique Air	Eva Airways		ABC Aerolineas
Compass (c)	Hainan Airlines	Europe	Aeromexico
Envoy (d)	Japan Airlines	Aeroflot	Volaris
Great Lakes Airlines	Korean Air	Aer Lingus	
Mesa (e)	Philippine Airlines	Air Berlin	Canada
Mokulele Airlines	Singapore Airlines	Air France	Air Canada
SkyWest (f)		Alitalia	WestJet Airlines
	South Pacific	British Airways	
Low Cost Airlines	Air New Zealand	Iberia Airlines of Spain	
Allegiant Air	Air Pacific (Fiji Airways)	KLM Royal Dutch Airlines	
Dynamic International Airways	Air Tahiti Nui	Lufthansa German	
Frontier Airlines	Qantas Airways	Norwegian Air Shuttle	
JetBlue Airways	Virgin Australia Airlines	Scandinavian Airlines	
Southwest Airlines (g)		Swiss International Air Lines	
Spirit Airlines		Thomas Cook Airlines	
Sun Country Airlines		Virgin Atlantic Airways	
Virgin America (a)		WOW air	
		XL Airways France	

Note: Airlines providing scheduled service are shown.

(a) In April 2016, Alaska Airlines and Virgin America reported that they had entered into a merger agreement, subject to certain conditions, including required approvals from the FAA and the U.S. Department of Transportation.

(b) Includes US Airways.

(c) Compass Airlines flies for American and Delta.

(d) Envoy Air flies for American.

(e) Mesa Airlines flies for American.

(f) SkyWest Airlines flies for American, Delta and United.

(g) Includes AirTran Airways.

Source: Department records.

Table 9

HISTORICAL ENPLANED PASSENGERS AND ORIGINATING AND CONNECTING PASSENGERS

Fiscal Year	Enplaned passengers			Annual percent change			Enplaned passengers		Percent of total	
	Domestic	Int'l	Total	Domestic	Int'l	Total	Originating	Connecting	Originating	Connecting
2000	24,880,727	8,350,995	33,231,722	-%	-%	-%	25,409,525	7,822,197	76.5%	23.5%
2001	24,958,416	8,834,557	33,792,973	0.3	5.8	1.7	25,608,254	8,184,719	75.8	24.2
2002	20,781,210	7,350,566	28,131,776	(16.7)	(16.8)	(16.8)	21,464,737	6,667,039	76.3	23.7
2003	20,441,104	7,269,224	27,710,328	(1.6)	(1.1)	(1.5)	21,391,576	6,318,752	77.2	22.8
2004	21,241,860	7,837,987	29,079,847	3.9	7.8	4.9	22,854,946	6,224,901	78.6	21.4
2005	22,143,442	8,404,809	30,548,251	4.2	7.2	5.0	24,339,886	6,208,365	79.7	20.3
2006	22,030,697	8,624,449	30,655,146	(0.5)	2.6	0.3	24,253,196	6,401,950	79.1	20.9
2007	22,374,333	8,429,137	30,803,470	1.6	(2.3)	0.5	24,149,520	6,653,950	78.4	21.6
2008	22,427,379	8,714,960	31,142,339	0.2	3.4	1.1	24,633,456	6,508,883	79.1	20.9
2009	20,662,591	7,666,428	28,329,019	(7.9)	(12.0)	(9.0)	22,530,522	5,798,497	79.5	20.5
2010	21,127,610	7,875,532	29,003,142	2.3	2.7	2.4	22,736,952	6,266,190	78.4	21.6
2011	22,151,724	8,128,847	30,280,571	4.8	3.2	4.4	23,304,564	6,976,007	77.0	23.0
2012	23,019,627	8,497,290	31,516,917	3.9	4.5	4.1	24,063,472	7,453,445	76.4	23.6
2013	23,855,876	8,668,302	32,524,178	3.6	2.0	3.2	24,983,829	7,540,349	76.8	23.2
2014	25,016,409	9,316,116	34,332,525	4.9	7.5	5.6	26,213,331	8,119,194	76.4	23.6
2015	26,237,839	9,883,929	36,121,768	4.9	6.1	5.2	27,957,630	8,164,138	77.4	22.6
2016*	28,076,459	10,875,908	38,952,367	7.0	10.0	7.8	30,766,322	8,186,045	79.0	21.0
	Average annual percent increase (decrease)									
2000-2005	(2.3%)	0.1%	(1.7%)				(0.9%)	(4.5%)		
2005-2010	(0.9)	(1.3)	(1.0)				(1.4)	0.2		
2010-2016*	4.9	5.5	5.0				5.2	4.6		
2006-2016*	2.5	2.3	2.4				2.4	2.5		

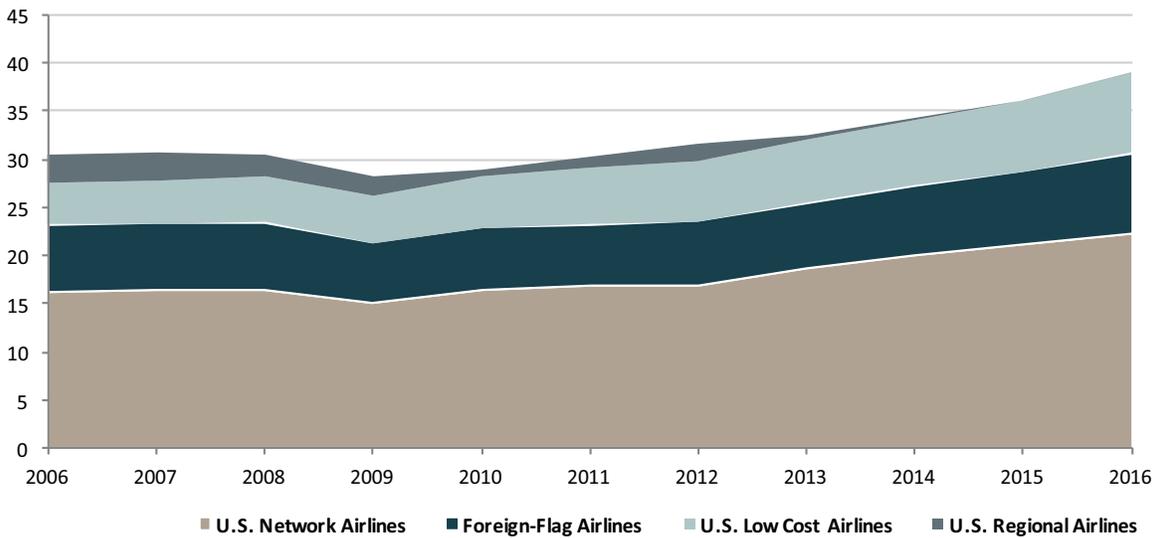
Note: For Fiscal Years ended June 30.

* U.S. Department of Transportation Origin-Destination data is currently available through the first quarter of 2016 only; FY 2016 O&D and connecting enplanements were estimated using O&D and connecting data through the third quarter of FY 2016.

Sources: Department records; U.S. Department of Transportation O&D Data accessed via Database Products, Inc., accessed August 2016.

Enplaned passenger traffic at the Airport by airline type in FY 2006 through FY 2016 is shown on Figure 8. The U.S. network airlines continue to account for the largest share of enplaned passengers at the Airport. In FY 2016, the U.S. network airlines accounted for 57.5% of total enplaned passengers, while the foreign-flag airlines and U.S. low-cost airlines accounted for 21.4% and 21.1% of total enplaned passengers at the Airport, respectively. In comparison, the U.S. network airlines, foreign-flag airlines, and U.S. low-cost airlines accounted for 53.1%, 23.1%, and 14.5% of total enplaned passengers at the Airport, respectively, in FY 2006. Between FY 2006 and FY 2016, the U.S. regional airlines' share of enplaned passengers at the Airport has decreased from approximately 9.3% to less than 1.0%. This decrease reflects a decreased reliance by the U.S. network airlines on their regional affiliates that provide service for the network airlines using smaller regional aircraft.

Figure 8
HISTORICAL ENPLANED PASSENGERS BY AIRLINE TYPE
 Los Angeles International Airport



Notes: For Fiscal Years ended June 30; excludes nonscheduled airlines.

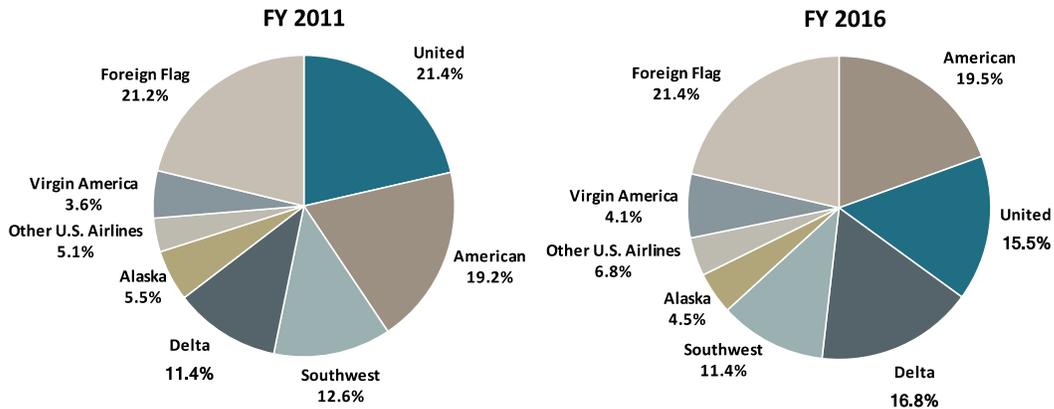
Sources: Department records.

Enplaned Passenger Market Shares

Airline service at the Airport is diverse and highly competitive, with no single airline currently accounting for more than 20% of total enplaned passengers in FY 2016. Table 10 presents a comparison of FY 2011 and FY 2016 enplaned passengers at the Airport by airline. Since FY 2011, American Airlines has surpassed United Airlines to become the busiest airline at the Airport in terms of number of enplaned passengers. Delta Air Lines has also expanded rapidly at the Airport in recent years with enplaned passengers increasing from 3.4 million in FY 2011 to 6.6 million in FY 2016. As shown on Figure 9, American (including legacy airline US Airways and all regional affiliates of both airlines) accounted for 19.5% of total enplaned passengers at

the Airport in FY 2016. Delta and United followed closely behind, accounting for 16.8% and 15.5%, respectively, of total enplaned passengers at the Airport in FY 2016. U.S. low cost airline Southwest Airlines (including legacy airline AirTran Airways) is the fourth busiest airline at the Airport, accounting for 11.4% of total enplaned passengers in FY 2016. U.S. airlines that increased their market share of enplaned passengers at the Airport between FY 2011 and FY 2016 include Alaska Airlines, American Airlines, Delta Air Lines, JetBlue Airways, Spirit Airlines, and Virgin America. Compared with other U.S. large-hub airports, the Airport has a relatively small amount of airline concentration, reflecting a competitive air service market.

Figure 9
AIRLINE MARKET SHARES OF ENPLANED PASSENGERS
 Los Angeles International Airport



Notes: For Fiscal Years ended June 30. U.S. network airlines include associated regional affiliates. Totals may not add to 100% because of rounding.

Source: Department records.

Domestic Origin-Destination Market

Through the third quarter of FY 2016 (March 2016, the latest available data), the top 20 domestic passenger markets accounted for 70.8% of domestic O&D passengers at the Airport, as shown in Table 11. New York and San Francisco were the top two destination markets for O&D passengers accounting for 10.9% and 9.3%, respectively, of domestic O&D passengers at the Airport. Other major markets at the Airport include Chicago, Washington D.C., Dallas-Fort Worth, and Seattle-Tacoma. Each of the top 20 domestic markets was served nonstop from the Airport in September 2016, with service provided by four or more airlines to 17 of the top 20 markets.

Table 10
ENPLANED PASSENGERS BY AIRLINE
 Los Angeles International Airport

	Enplaned passengers		Percent of total	
	FY 2011	FY 2016	FY 2011	FY 2016
U.S.-FLAG AIRLINES				
Network and regional airlines				
American <i>(a)</i>	5,822,556	7,613,660	19.2%	19.5%
Delta	3,441,646	6,550,711	11.4	16.8
United <i>(b)</i>	6,478,039	6,020,563	21.4	15.5
Alaska	1,656,428	1,763,171	5.5	4.5
Hawaiian	240,006	441,634	0.8	1.1
All other	400,290	10,765	1.3	0.0
Subtotal – network and regionals	18,038,965	22,400,504	59.6%	57.5%
Low cost airlines				
Southwest <i>(c)</i>	3,811,130	4,446,133	12.6%	11.4%
Virgin America	1,085,506	1,607,495	3.6	4.1
Spirit	139,504	956,783	0.5	2.5
JetBlue	264,531	675,589	0.9	1.7
All other	534,420	549,427	1.8	1.4
Subtotal – low-cost carriers	5,835,091	8,235,427	19.3%	21.1%
Total – U.S.-flag airlines	23,874,056	30,635,931	78.8%	78.6%
FOREIGN-FLAG AIRLINES				
Air Canada	438,868	660,642	1.4%	1.7%
Qantas	571,004	596,257	1.9	1.5
Aeroméxico	269,479	436,396	0.9	1.1
Cathay Pacific	254,191	339,240	0.8	0.9
Air New Zealand	340,567	335,133	1.1	0.9
Air France	254,579	305,948	0.8	0.8
Lufthansa	237,723	295,623	0.8	0.8
British Airways	274,372	277,131	0.9	0.7
Korean	332,593	279,760	1.1	0.7
EVA	203,575	288,719	0.7	0.7
All other	3,229,564	4,501,587	10.7	11.6
Total – foreign-flag airlines	6,406,515	8,316,436	21.2%	21.4%
Airport total	30,280,571	38,952,367	100.0%	100.0%

Notes: For Fiscal Years ended June 30. The U.S. network airlines include associated regional affiliates. Columns may not add to totals shown because of rounding.

(a) Includes enplaned passengers on US Airways, which merged with American Airlines in 2014.

(b) Includes enplaned passengers on Continental Airlines, which merged with United Airlines in October 2010 (FY 2011).

(c) Includes enplaned passengers on AirTran Airways, which merged with Southwest Airlines in May 2011.

Source: Department records.

International Origin-Destination Markets

Through the third quarter of FY 2016 (March 2016, the latest available data), the top 20 international passenger markets at the Airport accounted for 50.8% of total international O&D passengers at the Airport, as shown in Table 12. London was the busiest O&D market accounting for 4.9% of total international O&D passengers, followed by Tokyo (4.0%), Guadalajara (3.6%), Mexico City (3.5%) and Taipei (3.5%). Each of the top 20 international markets was served nonstop from the Airport in September 2016, with service provided by two or more airlines to 17 of the top 20 markets.

Airfares

Table 13 provides a comparison of average domestic one-way airfares¹⁸ paid by passengers using the Airport through the third quarter of FY 2016 (the latest available data) with the airfares at the four other air carrier airports in the Los Angeles CSA. While the Airport's overall domestic airfare for all cities on a weighted average basis is the highest among the Los Angeles CSA airports, this higher average fare is primarily driven by the high fares and large traffic volume in the premium Los Angeles–New York O&D passenger market. When comparing fares in other top domestic passenger markets, the Airport's airfares are competitive. The Airport had the highest airfare among Los Angeles CSA airports for only one of its top 20 domestic passenger markets—New York. The Airport's airfares were lowest among Los Angeles CSA airports to a number of markets, including Chicago, Dallas-Fort Worth, Denver, Houston, Miami, Atlanta, and Minneapolis St. Paul.

The Airport accounted for 75% or more of Los Angeles CSA domestic O&D passengers in 10 of its top 11 long-haul markets (1,500 miles or more) through the third quarter of FY 2016 (the latest available data). This reflects the Airport's role in the Los Angeles CSA providing service on longer haul domestic trips. The Airport accounted for 49% to 76% of Los Angeles CSA domestic O&D passengers in the top medium-haul markets. In short-haul markets, the Airport accounted for a 29% to 66% share of Los Angeles CSA domestic O&D passengers.

Scheduled Airline Service

In September 2016, the airlines serving the Airport provided scheduled service to 82 domestic destinations and 74 international destinations. On average, 853 daily aircraft departures were scheduled, including 689 daily domestic departures and 164 daily international departures.

¹⁸ The airfares that airlines report to the U.S. Department of Transportation are exclusive of many ancillary charges (fees for checked baggage and preferred aircraft seating, for example) and may understate the passenger's actual cost of airline travel given the increased implementation of such fees beginning in 2008.

Table 11
DOMESTIC ORIGIN-DESTINATION PATTERNS AND AIRLINE SERVICE
(except as noted)
Los Angeles International Airport

Rank	Market	Airport code	O&D passengers	Percent of domestic O&D passengers	Air Miles from LAX	Average daily scheduled nonstop departures (Sept. 2016)	Number of airlines providing nonstop service (Sept. 2016)
1	New York <i>(a)</i>	NYC	4,274,480	10.9%	2,466	51	6
2	San Francisco <i>(b)</i>	SFO	3,674,160	9.3%	327	58	5
3	Chicago <i>(c)</i>	CHI	2,068,850	5.3%	1,748	32	6
4	Washington D.C. <i>(d)</i>	WAS	1,802,630	4.6%	2,309	14	4
5	Dallas-Fort Worth <i>(e)</i>	DFW	1,598,850	4.1%	1,241	33	6
6	Seattle-Tacoma	SEA	1,462,460	3.7%	954	28	6
7	Las Vegas	LAS	1,414,950	3.6%	236	34	6
8	Denver	DEN	1,256,710	3.2%	862	15	5
9	Miami <i>(f)</i>	MIA	1,184,540	3.0%	2,342	28	6
10	Boston	BOS	1,138,060	2.9%	2,611	13	5
11	Atlanta	ATL	1,108,790	2.8%	1,946	7	1
12	Honolulu	HNL	1,089,970	2.8%	2,556	17	5
13	Houston <i>(g)</i>	HOU	1,015,150	2.6%	1,385	20	4
14	Portland (Oregon)	PDX	812,570	2.1%	1,739	24	4
15	Orlando	ORL	738,090	1.9%	2,217	16	5
16	Salt Lake City	SLC	680,870	1.7%	590	13	5
17	Phoenix	PHX	674,810	1.7%	370	17	5
18	Minneapolis St. Paul	MSP	621,580	1.6%	1,536	7	5
19	Sacramento	SAC	620,050	1.6%	373	6	2
20	Philadelphia	PHL	593,330	1.5%	2,401	7	2
	Cities listed		27,830,900	70.8%		440	
	Other cities		11,481,260	29.2%		249	
	All cities		39,312,160	100.0%		689	

Notes: Data through March 2016, the third quarter of FY 2016 (the latest available data), except as noted. Columns may not add to totals shown because of rounding.

(a) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.

(b) San Francisco, Oakland, and Mineta San Jose international airports.

(c) Chicago O'Hare and Chicago Midway international airports.

(d) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.

(e) Dallas-Fort Worth International Airport and Love Field.

(f) Miami and Fort Lauderdale Hollywood international airports.

(g) Bush Intercontinental Airport/Houston and William P. Hobby Airport.

Sources: U.S. Department of Transportation, O&D Survey; Official Airline Guides schedules.

Table 12
INTERNATIONAL ORIGIN-DESTINATION PATTERNS AND AIRLINE SERVICE
(except as noted)
Los Angeles International Airport

Rank	Market	Airport code	O&D passengers	Percent of international O&D passengers	Air miles from LAX	Average daily scheduled nonstop departures (Sept. 2016)	Number of airlines providing nonstop service (Sept. 2016)
1	London <i>(a)</i>	LON	934,033	4.9%	4,901	9	6
2	Tokyo <i>(b)</i>	TYO	758,464	4.0%	5,470	9	6
3	Guadalajara	GDL	682,292	3.6%	1,307	4	2
4	Mexico City <i>(c)</i>	MEX	670,546	3.5%	1,543	9	5
5	Taipei <i>(d)</i>	TPE	655,483	3.5%	6,786	5	2
6	Shanghai <i>(e)</i>	SHA	614,987	3.3%	6,494	11	4
7	Vancouver	YVR	614,214	3.3%	1,080	11	5
8	Seoul <i>(f)</i>	SEL	588,681	3.1%	5,988	5	4
9	Toronto	YTO	474,814	2.5%	2,174	8	3
10	Beijing	BJS	420,076	2.2%	6,251	4	2
11	Paris <i>(g)</i>	PAR	418,210	2.2%	5,988	4	4
12	Hong Kong	HKG	405,328	2.1%	7,259	5	5
13	Cancun	CUN	387,860	2.1%	2,119	3	1
14	Sydney	SYD	377,838	2.0%	5,310	4	2
15	Manila	MNL	342,315	1.8%	7,305	5	5
16	San Jose Del Cabo	SJD	284,321	1.5%	911	1	1
17	San Salvador	SAL	282,534	1.5%	2,513	3	2
18	Melbourne	MEL	268,622	1.4%	7,918	2	2
19	Guangzhou	CAN	216,337	1.1%	7,243	2	1
20	Puerto Vallarta	PVR	204,055	1.1%	1,217	2	2
	Cities listed		9,601,010	50.8%		106	
	Other cities		9,294,797	49.2%		58	
	All cities		18,895,807	100.0%		164	

Notes: Data through March 2016, the third quarter of FY 2016 (the latest available data), except as noted. Data are for international O&D passengers. Columns may not add to totals shown because of rounding.

(a) Heathrow, Gatwick, Stanstead, and London City airports.

(b) Tokyo International Airport/Haneda and Tokyo Narita International Airports.

(c) Abraham Gonzalez (Juarez) and Toluca international airports.

(d) Taoyuan International and Sungshan airports.

(e) Pudong and Hongqiao international airports.

(f) Incheon and Gimpo international airports.

(g) Charles de Gaulle and Orly international airports.

Sources: International Air Transport Association; Official Airline Guides schedules.

Table 13
COMPARISON OF AIRFARES IN LOS ANGELES' TOP 20 DOMESTIC O&D MARKETS
 Los Angeles CSA Air Carrier Airports

Rank	Market	Airport code	LAX O&D passengers	Air miles from LAX	Length of haul	LAX Share of Los Angeles Market	Average one-way domestic airfare paid				
							LAX	John Wayne	LA/Ontario	Burbank	Long Beach
1	New York <i>(a)</i>	NYC	4,274,480	2,466	Long	87%	\$311	\$290	\$223	\$206	\$214
2	San Francisco <i>(b)</i>	SFO	3,674,160	327	Short	66%	\$115	\$121	\$131	\$159	\$90
3	Chicago <i>(c)</i>	CHI	2,068,850	1,748	Long	78%	\$172	\$211	\$193	\$191	\$202
4	Washington <i>(d)</i>	WAS	1,802,630	2,309	Long	88%	\$254	\$268	\$264	\$244	\$204
5	Dallas-Fort Worth <i>(e)</i>	DFW	1,598,850	1,241	Medium	74%	\$128	\$196	\$216	\$197	\$209
6	Seattle-Tacoma	SEA	1,462,460	954	Medium	49%	\$130	\$130	\$135	\$138	\$113
7	Las Vegas	LAS	1,414,950	236	Short	55%	\$85	\$136	\$116	\$116	\$70
8	Denver	DEN	1,256,710	862	Medium	58%	\$115	\$125	\$147	\$139	\$153
9	Miami <i>(f)</i>	MIA	1,184,540	2,342	Long	96%	\$242	\$293	\$299	\$383	\$248
10	Boston	BOS	1,138,060	2,611	Long	86%	\$243	\$253	\$245	\$228	\$222
11	Atlanta	ATL	1,108,790	1,946	Long	83%	\$207	\$256	\$235	\$217	\$233
12	Honolulu	HNL	1,089,970	2,556	Long	99%	\$268	\$315	\$336	\$257	\$418
13	Houston <i>(g)</i>	HOU	1,015,150	1,385	Medium	76%	\$159	\$197	\$227	\$206	\$177
14	Portland (Oregon)	PDX	812,570	1,739	Long	47%	\$123	\$121	\$134	\$136	\$104
15	Orlando	ORL	738,090	2,217	Long	82%	\$209	\$230	\$220	\$230	\$180
16	Salt Lake City	SLC	680,870	590	Medium	52%	\$117	\$161	\$156	\$168	\$107
17	Phoenix	PHX	674,810	370	Short	37%	\$121	\$128	\$130	\$120	\$123
18	Minneapolis St. Paul	MSP	621,580	1,536	Long	77%	\$192	\$249	\$219	\$209	\$213
19	Sacramento	SAC	620,050	373	Short	29%	\$105	\$120	\$119	\$118	\$81
20	Philadelphia	PHL	593,330	2,401	Long	81%	\$265	\$265	\$257	\$254	\$246
	Cities listed		27,830,900			68%	\$190	\$163	\$157	\$138	\$116
	Other cities		11,481,260			66%	\$202	\$192	\$187	\$147	\$136
	All cities		39,312,160			67%	\$194	\$174	\$171	\$142	\$120

Notes: For purposes of this Report, short-haul flights are 500 miles or less, medium-haul flights are 501 to 1,500 miles, and long haul flights are more than 1,500 miles. Except as noted, data are through the third quarter of FY 2016.

(a) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.

(b) San Francisco, Oakland, and Mineta San Jose international airports.

(c) Chicago O'Hare and Chicago Midway International airports.

(d) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.

(e) Dallas-Fort Worth International Airport and Love Field.

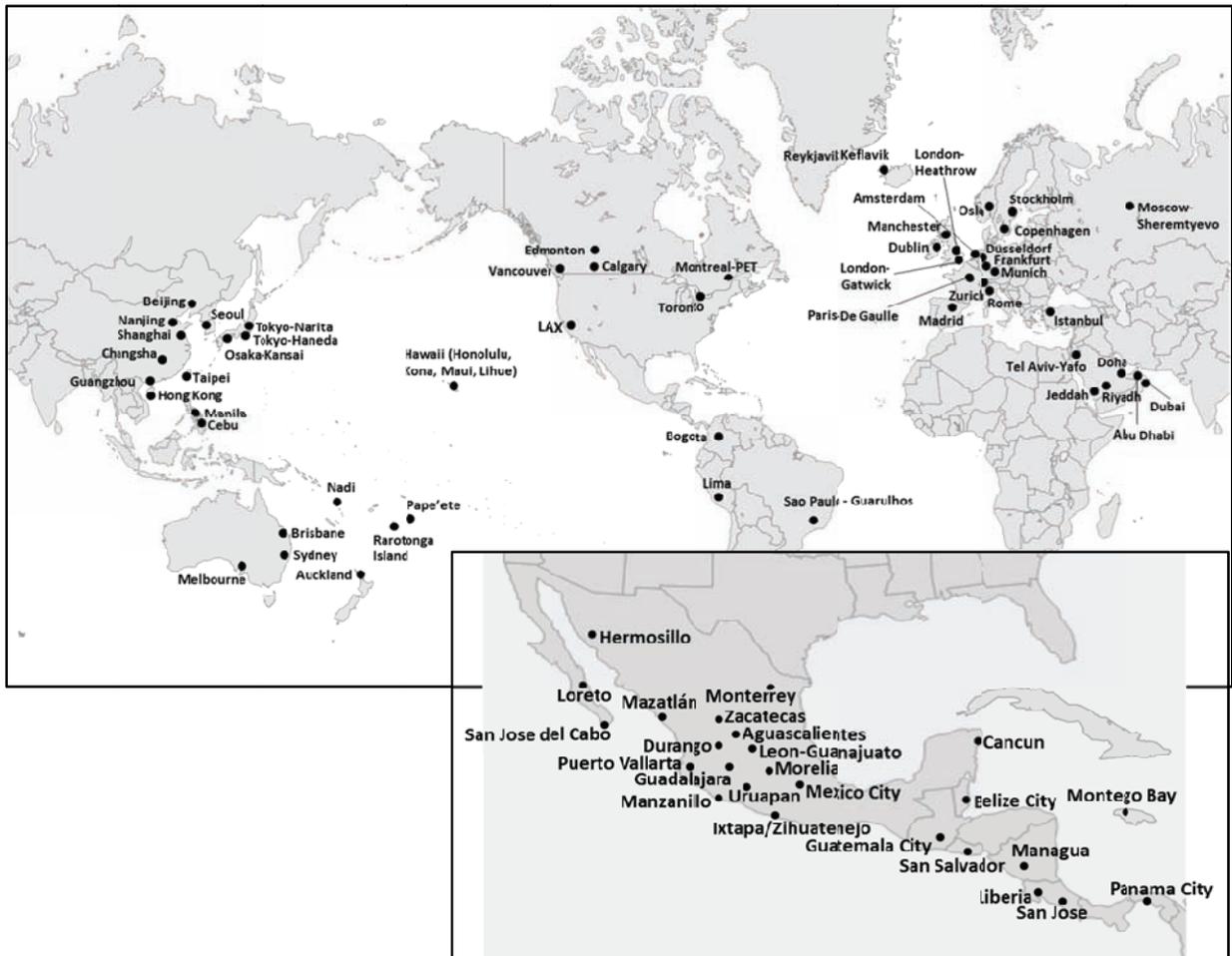
(f) Miami and Fort Lauderdale-Hollywood international airports.

(g) Bush Intercontinental Airport/Houston and William P. Hobby Airport.

Sources: U.S. Department of Transportation, O&D Survey; Official Airline Guides schedules.

International service was provided to seven international regions—Europe, the Middle East, Asia, the South Pacific, Canada, Mexico and Latin America/the Caribbean—as shown on Figure 10. New international service from the Airport includes, but is not limited to: American Airlines service to Auckland, Hong Kong, and Montego Bay; Aer Lingus service to Dublin; Qatar Airways service to Doha; Hainan Airlines service to Changsha; Philippine Airlines service to Mactan; XL Airways France service to Paris (Charles de Gaulle Airport), Thomas Cook Airlines service to Manchester, England; and European low-cost airline WOW air service to Reykjavik.

Figure 10
SCHEDULED INTERNATIONAL AIRLINE SERVICE IN SEPTEMBER 2016
 Los Angeles international Airport

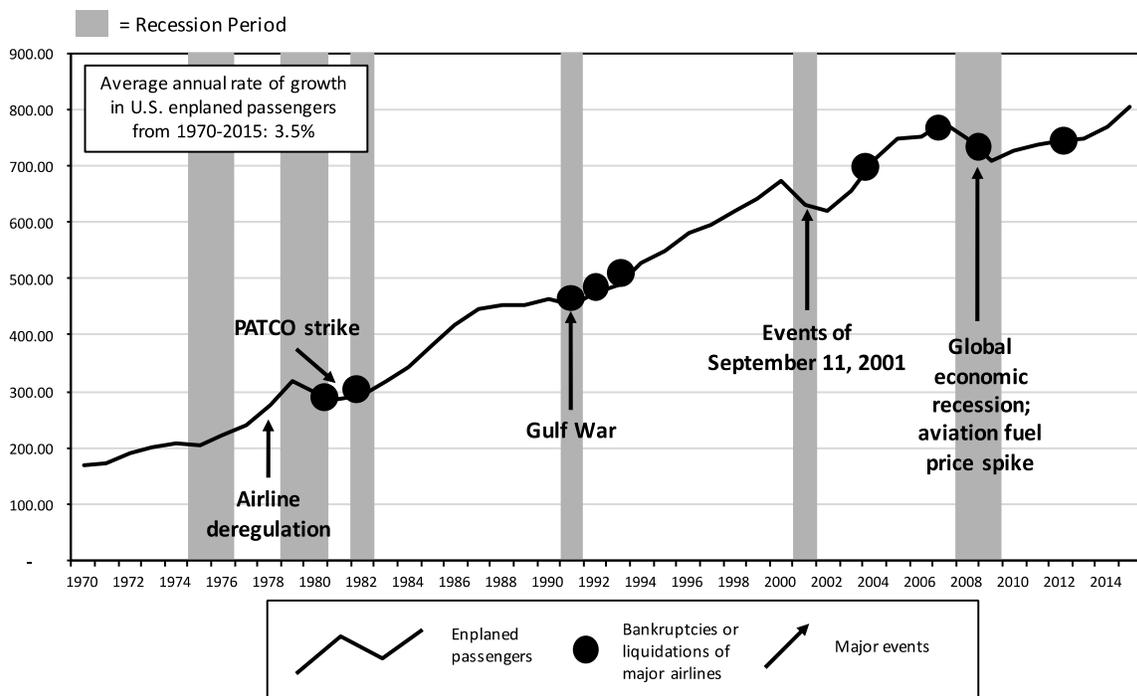


Source: Official Airline Guides schedules.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated on Figure 11, recessions in the U.S. economy in 2001 and 2008–2009 contributed to a reduction in airline travel in those years, likely as a result of high unemployment and reduced discretionary income. However, the aviation industry has recovered from prior recessions and passenger traffic has increased. From 1970 through 2015, the total numbers of domestic and international enplaned passengers in the United States increased an average of 3.5% per year.

Figure 11
TOTAL U.S. ENPLANED PASSENGERS



PATCO = Professional Air Traffic Controllers Organization.

Source: Airlines for America (formerly Air Transport Association of America) through 1997; thereafter, U.S. Department of Transportation Bureau of Transportation Statistics.

The Airport has consistently rebounded from external events and periods of weak demand in aviation activity. After the events of September 11, 2001, similar to other airports across the United States, the Airport was affected by significant seat capacity reductions associated with airline bankruptcy reorganizations and sharply rising fuel prices. The global recession in 2008 and 2009 also resulted in declining airline travel demand and reduced traffic. The number of enplaned passengers at the Airport in each year FY 2012 through 2016 exceeded the number of enplaned passengers at the Airport during the recession in 2008 and 2009, in part as a result of

a strong O&D market and continued growth in numbers of domestic and international passengers.

The major factors that continue to affect the airline industry and that are expected to influence airline service and traffic levels at the Airport during the Forecast Period are discussed below.

Airline Consolidation

The events of September 11, 2001, and the difficult operating conditions caused by high fuel prices and global recession led to a number of airline bankruptcies and mergers over the past decade and a half. Between 2002 and 2011, all of the major U.S. network airlines (US Airways, United Airlines, Northwest Airlines, Delta Air Lines, and American Airlines) filed for Chapter 11 bankruptcy protection to reorganize and lower operating costs.

The U.S. airline industry has been moving toward consolidation, with many high profile mergers and acquisitions. Mergers among the U.S. network airlines have included: Delta and Northwest Airlines (October 2008), United and Continental Airlines (August 2010), and American and US Airways (December 2013). Other mergers included low-cost airline Frontier Airlines and regional airline Midwest Airlines in April 2010, and Southwest and AirTran in April 2011. In April 2016, Alaska Airlines and Virgin America reported that they had entered into a merger agreement, which is subject to certain conditions, including any required approvals from the FAA and the U.S Department of Transportation. Assuming that the merger occurs, the combined market share of enplaned passengers at the Airport for both airlines would be 8.7%, making it the fifth busiest airline serving the Airport in FY 2016.

Airline consolidation has also progressed through the creation of global alliances and joint ventures. Airlines worldwide have increasingly sought to increase revenues, share costs, and expand the reach of their networks by developing international partnerships through multilateral alliances or joint ventures. Three major global alliances were created between 1997 and 2000: Star Alliance, SkyTeam, and oneworld. As shown in Table 2 of this Report, these three airline alliances accounted for more than 68.3% of total enplaned passengers at the Airport in FY 2016. In recent years, antitrust immunity has been granted to a number of joint ventures within the global alliances, allowing airlines to more closely coordinate operations, including pricing, and increase cost savings in international markets.

As a result of airline mergers, seat capacity has become more concentrated among fewer airlines. The three largest U.S. network airlines, as measured by numbers of enplaned passengers (American, Delta, and United), currently have a strong presence at the Airport, as shown in Table 10, and as indicated in FY 2106: American Airlines (19.5%), Delta Air Lines (16.8%), and United Airlines (15.5%). Given the Airport's diverse air service market and strong O&D markets, any future U.S. airline consolidation caused by bankruptcies or mergers is not anticipated to have a detrimental long-term effect on airline service at the Airport.

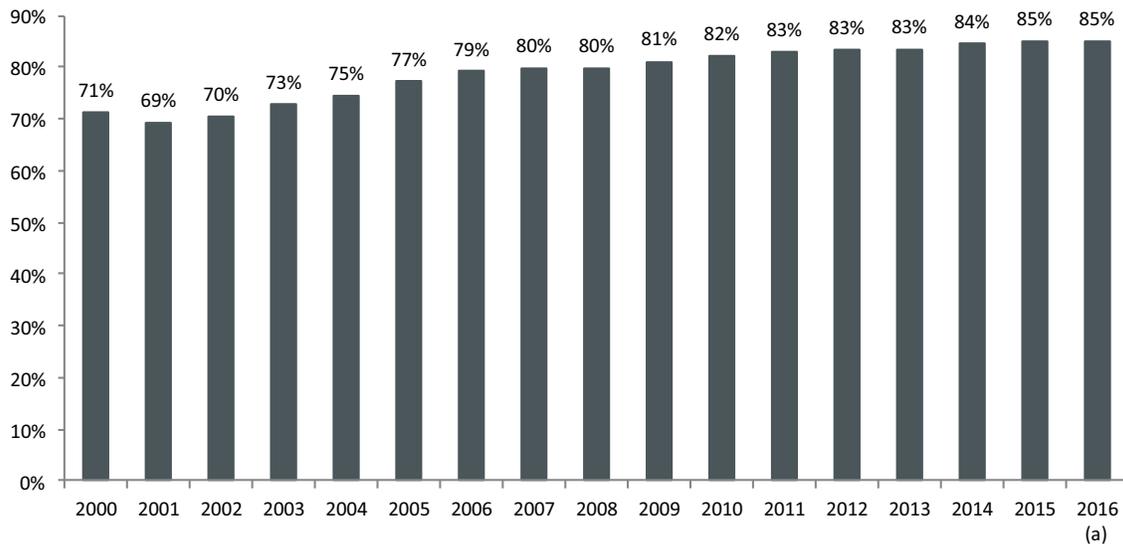
Airline Capacity Discipline

A new focus on capacity discipline among U.S. airlines emerged from the 2008-2009 national economic and financial crises. Nationally, the network airlines and the low-cost airlines have substantially reduced seat capacity, withdrawing service from less profitable and low passenger demand markets. Many regional markets across the United States have lost commercial service as a result. Airline emphasis has shifted from increasing market share to managing supply-and-demand on specific routes. Airlines are expected to maintain capacity discipline in the near term, emphasizing slower capacity growth and the use of right-sized aircraft to serve their markets.

Seat capacity reductions in the U.S. in 2008 and 2009, as well as the current airlines' emphasis on seat capacity control, have resulted in an all-time high in passenger load factors. Figure 12 shows the continuing upward trend in U.S. domestic airline aircraft load factors since 2000. The average domestic airline aircraft load factor was approximately 71% in 2000. The decline in the average load factor in 2001 occurred as passenger traffic decreased faster than the airlines could adjust to the effects of September 11, 2001, by reducing capacity. Following 2001, load factors rose steadily to approximately 85% in FY 2016 (through the third quarter of that year, the latest available data). From FY 2012 through FY 2016, the average domestic load factors at the Airport were slightly higher than the national averages for the same years.

Continued rising load factors reflect reduced capacity and better revenue management by the part of the airlines.

Figure 12
HISTORICAL U.S. DOMESTIC AIRLINE SERVICE AIRCRAFT LOAD FACTORS



Note: Includes scheduled airline service only.

(a) Data through March 2016, the third quarter of FY 2016.

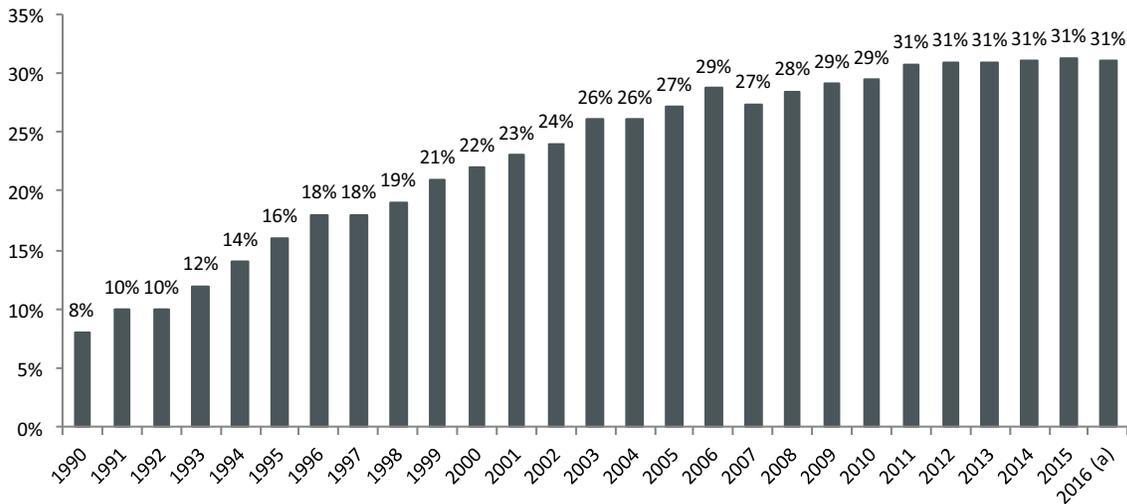
Sources: U.S. Department of Transportation, T100 Onboard Data.

Low Cost Airline Growth

In the early 2000s, the U.S.-flag low cost airlines expanded rapidly and increased their market share of passenger traffic in the U.S. The low cost airlines, including AirTran Airways, Frontier Airlines, JetBlue Airways, and Southwest Airlines popularized the no frills, low cost business model.

As shown on Figure 13, the low-cost airlines provided approximately 8% of U.S. domestic seat capacity in 1990. Through the third quarter of FY 2016, the low-cost airlines accounted for approximately 31% percent of overall U.S. domestic seat capacity. While rising fuel prices and the economic downturn forced network airlines to reduce domestic seat capacity and focus on more profitable international routes, the low-cost airlines increased their domestic market shares of passengers. Between 2003 and 2009, the low-cost airlines (including AirTran Airlines, Allegiant Air, Frontier Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines, and Virgin America) added approximately 84 billion domestic seat miles to their route systems. In comparison, American (including US Airways), Delta/Northwest, and United experienced a 20% average reduction in mainline domestic seat capacity over the same period, for a combined reduction of 85 billion domestic seat miles.

Figure 13
LOW-COST AIRLINE SHARES OF TOTAL U.S. DOMESTIC AIRLINE AIRCRAFT SEATS



(a) Data through March 2016, the third quarter of FY 2016.

Sources: Official Airline Guides schedules; Innovata.

The rapid growth of the low-cost airlines over the past decade was helped by the lower unit cost advantage they maintained over the network airlines, as a result of differences in network structure, overhead cost, and crew seniority. In more recent years, there have been fewer distinctions between the low-cost airlines and the network airlines. The lowering of the network airline cost structures and consolidation of airline networks has allowed the network airlines to compete more effectively with the low-cost airlines.

The low-cost airlines have also begun to actively analyze international expansion possibilities. JetBlue has built a strong presence in the Caribbean and Latin America, adding service to 31 markets. With the acquisition of AirTran, Southwest is now serving AirTran's Caribbean and Mexican routes, becoming positioned for further international expansion.

The market share of enplaned passengers on low-cost airlines at the Airport continues to increase, from approximately 19.3% in FY 2011 to 21.1% in FY 2016 (see Table 10). In FY 2016, the low-cost airlines currently account for approximately 26% of domestic seats and 29% of domestic enplaned passengers at the Airport. In recent years, Southwest, Virgin America, and JetBlue have all continued to expand domestic service at the Airport. It is expected that the low-cost airlines will continue to increase domestic service at the Airport and also enter international markets in the coming years. Southwest, for example, initiated nonstop service between the Airport and Liberia, Costa Rica, in April 2016.

Fuel Cost Impacts

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Figure 14 shows the historical fluctuation in fuel prices since 2000. Beginning in 2003, fuel prices rapidly increased as a result of political unrest in Iraq and other oil-producing countries, as well as other factors influencing the demand for and supply of oil. In 2008, a spike in crude oil prices drove up jet fuel prices to an unprecedented high, forcing many airlines to introduce fuel surcharges. Fuel prices fell sharply in the second half of 2008, but rose again in 2011. The price of fuel increased to such high levels that fuel represented the largest operating expense for airlines, accounting for between 30% and 40% of expenses for most airlines in 2011 through 2014.

Since mid-2014, the average price of aviation fuel has decreased more than 50%, reflecting continued growth in U.S. oil production, strong global supply, and weakening outlooks for growth in the global economy and oil demand. Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. Continued low fuel prices could result in dramatic changes in the aviation industry, such as lower airline operating costs potentially resulting in lower passenger ticket prices, which would likely result in increased travel demand. Higher profits and the ability to keep older, less fuel efficient aircraft in service may also contribute to increased aircraft seat capacity at a slightly greater rate than currently experienced. Nevertheless, there is widespread agreement that fuel prices will continue to be volatile and are likely to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies. As of September 2016, jet fuel price remained below 2011 levels.

Figure 14
HISTORICAL AVIATION FUEL PRICES



Sources: U.S. Department of Transportation, Bureau of Transportation Statistics, Airline Fuel Cost and Consumption (U.S. Carriers - Scheduled), January 2000 - June 2016, www.transtats.btv.gov.

Aircraft Trends

Between 2001 and 2007, many airlines transferred a number of less profitable routes to their regional airline partners in order to reduce costs. Trends at the Airport mirrored the national trend, with an increase in the number of regional aircraft operations.

Beginning with the fuel price spike in 2008, airlines began to reduce the number of 50-seat regional jets in their fleets, which aircraft had been widely used as feeder aircraft for the network airlines. Airlines such as Delta, United, and American are expected to ground or sell hundreds of these small regional jets in the coming years. In the face of volatile fuel prices, airlines continued to move toward the use of larger, more fuel efficient aircraft. Over the next decade, the network airlines will continue to upgrade their fleets with new, fuel-efficient aircraft, potentially reducing the fuel efficiency advantage of the low-cost airlines.

The introduction of aircraft with new technology will likely result in new nonstop service around the world. Aircraft such as the next-generation Boeing 777s, the Boeing 787, and the Airbus A350 incorporate new airframe, engine, and wing designs for significant improvements in aircraft range and fuel efficiency. Entering commercial service in 2011, the Boeing 787 “Dreamliner” was the first commercial service aircraft made of lightweight composite carbon

fiber material rather than aluminum, allowing for fuel savings of approximately 20% compared with jets of similar size. Despite delays in production and various initial in-service problems, the Boeing 787 has had incredible success and, according to Boeing, became the fastest-selling aircraft since its launch. The Airbus A350, a long-range twin-engine jetliner made primarily of composite materials, is a rival to the Boeing 787 that entered commercial service in January 2015. These new fuel-efficient aircraft are allowing airlines to profitably serve long-haul routes that were previously uneconomical using the Boeing 777, Boeing 747, Airbus A340 and other older long-range aircraft.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at the Airport will depend on the capacity of the Airport itself. The LAX Specific Plan Amendment study process identified the use of no more than 153 gates at the Airport through the end of 2015 (as of the date of this Report, 138 gates are in use at the Airport). In the Southern California Association of Governments' *Regional Transportation Plan*, the overall practical capacity of the Airport was defined as a range of 78.9 million to 96.6 million annual passengers. The forecasts in this Report are based on the assumption that, during the Forecast Period, neither available airfield nor terminal capacity, nor demand management initiatives will constrain traffic growth at the Airport.

AIRLINE TRAFFIC FORECASTS

Forecasts of enplaned passengers and landed weight at the Airport are discussed in this section. The forecasts are based on analyses of historical trends in airline service and traffic at the Airport, historical and projected socioeconomic growth in the Los Angeles CSA, forecast GDP growth in the United States and other world regions, and expected future trends in airline traffic, as discussed in earlier sections. With Los Angeles continuing to grow as a major economic center, the Airport is expected to maintain its role as a leading O&D passenger airport and international gateway, attracting additional domestic and international airline service and passenger traffic.

It was assumed that the continued development of airline service at the Airport will not be constrained by the availability of aviation fuel, long-term limitations in airline aircraft fleet capacity, limitations in the capacity of the air traffic control system or the Airport, or government policies or actions that restrict growth.

Underlying Assumptions

Forecasts of annual enplaned passengers and landed weight were developed for FY 2017 through FY 2023 (the Forecast Period), using the following data and assumptions:

- The U.S. economy will experience sustained GDP growth averaging between 1.7% and 2.4% per year.
- The Los Angeles CSA will continue to be a major destination market for U.S. leisure and business travelers and a top global destination for tourism, meetings, and conventions.
- Competition among the airlines serving the Airport will ensure the continued availability of competitive airfares, with no significant increase in airline concentration.
- The mix of airlines serving the Airport will continue to be diverse and sufficient to accommodate O&D passenger demand at the Airport and in the Los Angeles CSA.
- The percentage of passengers connecting at the Airport will not change materially.
- Industry trends reflecting increased aircraft load factors and the use of larger aircraft will continue.
- The strong growth in domestic seat capacity at the Airport in recent years will be lower during the Forecast Period.
 - Advanced domestic airline flight schedules show a 4.6% increase in the number of scheduled aircraft seats at the Airport between FY 2016 and FY 2017, likely resulting from growth in airline service to existing and new markets from the Airport and increasing competition among the airlines serving the Airport.
 - From FY 2018 through FY 2020, competitive reactions among the domestic airlines serving the Airport will be more limited, resulting in moderate growth, if any, in the numbers of enplaned passengers.
 - From FY 2021 through FY 2023, the number of scheduled domestic aircraft seats and domestic enplaned passengers will increase at a rate similar to the projected rate of growth in the number of enplaned passengers in the nation as a whole¹⁹.
- The higher growth in numbers of international enplaned passengers (as compared with the rate of growth forecast for domestic enplaned passengers) will continue through FY 2017 as a result of:
 - Recent increases in airline service to Europe resulting from the addition of new airlines serving the Airport, including Norwegian Air Shuttle, Scandinavian Airlines, WOW air, Aer Lingus, Thomas Cook Airlines, and XL Airways France.
 - Expanded service at the Airport by Volaris and other airlines as result of changes in the U.S.-Mexico bilateral agreement, which will eliminate restrictions on the number of airlines that can fly between Mexico and the United States.

¹⁹ The 2016 FAA Aerospace Forecasts show the number of domestic enplaned passengers increasing an average 2.0% per year through FY 2036.

- Continued development of air service by American Airlines from the Airport to Asia, as well as growth in service by foreign-flag airlines also serving Asia.

Growth in the number of international enplaned passengers at the Airport will moderate from FY 2018 through FY 2023, and will resemble GDP growth in each world region.

- There will be no major disruption of airline service or passenger travel behavior as a result of airline bankruptcies or liquidations, international hostilities, terrorist acts or threats, or public health crises.
- Downward pressure on aviation fuel prices will continue in FY 2017, with fuel prices returning thereafter to historical levels, but lower than the record prices reached in mid-2008.

Enplaned Passengers

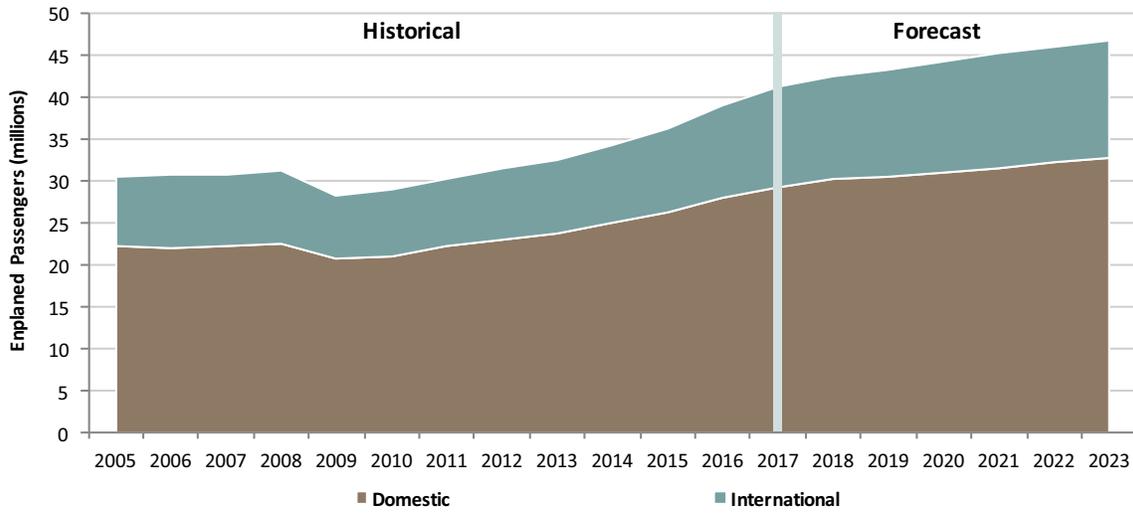
From FY 2016 through FY 2023, the total number of enplaned passengers at the Airport is forecast to increase an average of 2.6% per year, from approximately 39.0 million to approximately 46.8 million, as shown on Figure 15 and in Table 14. The number of domestic enplaned passengers is forecast to increase an average of 2.2% per year, from approximately 28.1 million in FY 2016 to 32.6 million in FY 2023. The number of international enplaned passengers is forecast to increase an average of 3.8% per year, from approximately 10.9 million in FY 2016 to approximately 14.1 million in FY 2023.

In comparison, the FAA forecasts an average increase of 2.1% per year in the number of enplaned passengers over the same period in its most recent *Terminal Area Forecast* for the Airport (published January 2016).

Landed Weight

From FY 2016 through FY 2023, aircraft landed weight at the Airport is forecast to increase at an average of 2.2% per year, from approximately 59.2 thousand 1,000-pounds units to approximately 68.9 thousand 1,000-pound units in FY 2023, as shown in Table 14. The forecast rate of growth in landed weight is lower than the forecast rate of growth in numbers of enplaned passengers, reflecting an assumed gradual increase in the enplaned passenger load factors and average aircraft size, in terms of seats, in use at the Airport.

Figure 15
HISTORICAL AND FORECAST ENPLANED PASSENGERS
 Los Angeles International Airport



Note: For Fiscal Years ending June 30.
 Sources: Historical, Department records; Forecasts, ICF International.

Table 14
AIRLINE TRAFFIC FORECASTS
Los Angeles International Airport

	Historical		Forecast							Average annual growth FY 2016- FY 2023
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	
ENPLANED PASSENGERS										
Domestic										
Network airlines and regional affiliates	18,977,491	19,872,105	20,615,488	21,069,029	21,279,719	21,613,096	21,945,647	22,276,865	22,605,578	1.9%
Low cost airlines	7,260,348	8,204,354	8,739,600	9,096,889	9,278,826	9,464,403	9,653,691	9,846,765	10,043,700	2.9%
Subtotal domestic	26,237,839	28,076,459	29,355,089	30,165,918	30,558,546	31,077,499	31,599,338	32,123,629	32,649,278	2.2%
International										
Asia	2,723,613	3,148,087	3,353,676	3,541,428	3,706,678	3,845,085	3,969,447	4,079,608	4,175,642	4.1%
Latin America/Caribbean	2,395,871	2,750,660	3,163,259	3,289,789	3,356,751	3,420,313	3,475,248	3,521,911	3,562,753	3.8%
Europe	1,848,565	2,022,467	2,224,714	2,290,623	2,351,147	2,403,952	2,446,695	2,488,024	2,527,948	3.2%
South Pacific	1,342,387	1,429,069	1,457,650	1,486,803	1,516,540	1,546,870	1,577,808	1,609,364	1,641,551	2.0%
Canada	1,151,444	1,115,355	1,160,310	1,185,359	1,209,292	1,233,477	1,256,913	1,279,601	1,301,543	2.2%
Middle East/Africa	422,049	410,270	480,016	548,803	612,797	683,093	755,132	828,266	901,844	11.9%
Subtotal international	9,883,929	10,875,908	11,839,625	12,342,806	12,753,204	13,132,791	13,481,244	13,806,773	14,111,280	3.8%
Total enplaned passengers	36,121,768	38,952,367	41,194,714	42,508,724	43,311,750	44,210,289	45,080,581	45,930,403	46,760,558	2.6%
Annual percent increase		7.8%	5.8%	3.2%	1.9%	2.1%	2.0%	1.9%	1.8%	
LANDED WEIGHT (1,000-POUND UNITS)										
Passenger airlines										
Domestic										
Network airlines and regional affiliates	25,871	27,608	29,112	29,859	30,342	30,913	31,447	31,953	32,432	2.3%
Low cost airlines	8,475	9,457	9,965	10,299	10,431	10,565	10,701	10,839	10,979	2.2%
International	14,305	15,453	16,294	16,294	16,983	17,303	17,602	17,885	18,153	2.3%
Total passenger airlines	48,652	52,518	55,370	56,871	57,756	58,780	59,750	60,676	61,563	2.3%
All-cargo airlines	6,415	6,699	6,773	6,866	6,963	7,061	7,153	7,242	7,325	1.3%
Total landed weight	55,067	59,217	62,143	63,737	64,718	65,841	66,903	67,918	68,888	2.2%
Annual percent increase		7.5%	4.9%	2.6%	1.5%	1.7%	1.6%	1.5%	1.4%	

Notes: For Fiscal Years ending June 30. Columns may not add to totals shown because of rounding.
Sources: Historical, Department records. Forecast, ICF International, September 2016.

AIRPORT FACILITIES AND CAPITAL PROGRAM

AIRPORT FACILITIES

Los Angeles International Airport occupies approximately 3,670 acres of land and is located approximately 15 road miles from downtown Los Angeles. The primary Airport facilities, as shown on Figure 16, include: nine passenger terminal buildings (collectively, the Central Terminal Area or CTA), public parking facilities, the Airfield Area, the aviation support area, remote gates, and cargo facilities.

Figure 16

PRIMARY FACILITIES

Los Angeles International Airport



The CTA is accessed via upper- and lower-level roadways. As shown in Table 15, seven of the nine terminal buildings primarily accommodate domestic airline service while Terminal 2 and the TBIT primarily accommodate international airline service.

West of the aviation support area are 18 remote gates used by airlines when no gates are available in the CTA. Passengers are bused between the remote gates and certain terminal buildings.

Table 15
AIRPORT TERMINAL BUILDINGS AND GATES
 Los Angeles International Airport

Terminal building	Primary airlines	Primarily domestic or international service	Number of gates	Gross building square footage
1	Southwest	Domestic	13	370,000
2	Foreign-flag airlines	International (a)	10	493,000
3	Virgin America	Domestic	12	323,000
4	American	Domestic (b)	13	593,000
5	Delta	Domestic (b)	13	533,000
6	Alaska	Domestic (b)	13	447,000
7	United	Domestic (b)	11	556,000
8	United	Domestic	9	146,000
TBIT	Foreign-flag airlines	International	18	2,578,000
	Central Terminal Area		112	6,039,000
		West remote gates	18	
		Commuter gate positions	8	
		Total Airport gates	138	

Note: All information as current as of September 2016.

(a) Primarily international; also serves domestic flights to/from Hawaii.

(b) Primarily domestic with some international flights.

Source: Department records.

Public parking facilities at the Airport include close-in and remote parking, as listed on Table 16:

Table 16
PUBLIC PARKING FACILITIES
 Los Angeles International Airport

Public parking facility	Spaces
Close-in parking	
Central Terminal Area garages	8,577
Park One surface lot	2,700
Subtotal	11,277
Remote parking	
Lot C surface lot	5,300
Skyview Center surface lot	2,300
Cell phone waiting surface lot	22
Subtotal	7,622
Airport total	18,899

Source: Department records.

As shown on Figure 16 and in Table 17, the Airport has four east-west parallel runways, configured in two pairs. Runways 6L-24R and 6R-24L are located north of the CTA and Runways 7L-25R and 7R-25L are located south of the CTA. Each of the four runways is equipped with an instrument landing system for arrivals. The current runway system can accommodate the arrivals and departures of all commercial aircraft currently in service, including the Airbus A380.

Table 17
LOS ANGELES INTERNATIONAL AIRPORT RUNWAYS

Airfield	Location	Runway length (feet)	Runway width (feet)
Runway 6L-24R	North of the CTA	8,926	150
Runway 6R-24L	North of the CTA	10,285	150
Runway 7L-25R	South of the CTA	12,091	150
Runway 7R-25L	South of the CTA	11,095	200

Source: Department records.

Cargo facilities are located in two primary areas at the Airport: east of the CTA and south of Runway 7R-24L. These facilities provide more than 2 million square feet of storage and cargo handling space for the all-cargo airlines and for the passenger airlines that provide belly cargo services. Directly west of the CTA is the aviation support area consisting of miscellaneous aircraft maintenance facilities, Department buildings, and FAA facilities.

CAPITAL PROGRAM

Department management periodically develops and updates its Capital Program for the redevelopment, improvement, and expansion of Airport facilities. The Capital Program is developed based on anticipated facility needs, current and forecast airline traffic, available funding sources, and project priorities.

Exhibit A (presented at the end of this Report, along with all financial exhibits) presents all anticipated funding sources for the approximate \$6.8 billion Capital Program, including approximately \$460.0 million from the net proceeds of the Series 2016B Subordinate Bonds. Approximately \$2.3 billion of the Capital Program is expected to be funded from the net proceeds of Future Bonds. The Capital Program is expected to be completed by the end of FY 2022.

The financial forecasts included in this Report reflect changes in Pledged Revenues, LAX M&O Expenses, and Debt Service associated with the financing, construction, and completion of the Capital Program.

As noted below, certain projects are expected to be undertaken and initially funded by the airlines, and the completed facilities would then be acquired and/or the airlines would be reimbursed by the Department. All other project costs are to be funded by the Department.

Terminal

- **Midfield Satellite Concourse – North Project:** This project consists of the development of a new 12-gate, 800,000-square-foot concourse west of the TBIT/Bradley West terminal complex. This project would include utilities and baggage systems, and would be connected via an underground tunnel to the TBIT/Bradley West, and would serve both international and domestic airline operations. This project is estimated to cost \$1.5 billion (including \$200.0 million to be funded from Series 2016B Subordinate Bond proceeds) and is expected to be completed by FY 2020.
- **North Terminals Project:** This project includes a planned phased construction project including the complete renovation of Terminal 3, reconstruction of check-in and passenger screening areas for Terminals 2 and 3, installation of an in-line checked baggage inspection system serving Terminal 2 and Terminal 3, relocation of the affected airlines and renovation of infrastructure and support spaces necessary to accommodate airlines in Terminal 5, Terminal 6, and the TBIT that are planned to be relocated from Terminal 2 and Terminal 3, aircraft ramp improvements, infrastructure supporting the planned automated people mover, and additional renovations to Terminal 2. This project is estimated to cost \$1.5 billion and is expected to be completed by FY 2022.
- **Terminal 1 Improvement Project:** This project consists of the phased reconstruction of substantially all of Terminal 1, including the development of a new centralized 12-lane passenger security screening checkpoint, a new checked baggage inspection system, and redeveloped public areas, hold rooms and gate areas, airline operations space, and adjacent apron areas. Southwest Airlines is providing construction funding and undertaking these improvements, which are to be purchased by the Department in phases when portions of the project are complete and have been included in the annual calculation of the Terminal Buildings Charge. This project is estimated to cost \$536.5 million (including \$150.0 million to be funded from Series 2016B Subordinate Bond proceeds) and is expected to be completed by FY 2019.
- **Terminals 6/7/8 Improvement Project:** This project consists of the phased redevelopment of portions of these terminals, including a new checked baggage screening system, a new baggage sortation system, renovated baggage claim areas, renovated passenger security screening checkpoints, airline office areas, the replacement of passenger boarding bridges, and the construction of a new club room for use by United Airlines premium passengers. United Airlines is providing construction funding and undertaking these improvements, which are to be purchased by the Department in phases when portions of the project are complete and have been included in the annual calculation of the Terminal Buildings Charge. This project is estimated to cost \$548.8 million (including \$110.0 million to be funded from Series 2016B Subordinate Bond proceeds) and is expected to be completed by FY 2019.
- **Terminal 3/TBIT Connector:** This project consists of the construction of a post-security corridor linking Terminal 3 with the TBIT/Bradley West complex. This project is estimated to cost \$180.0 million and is expected to be completed by FY 2021.

- **Terminal Commercial Management:** This project consists of the development of certain public use areas in Terminals 1, 2, 3, 6, and the TBIT, including public seating, restroom facilities, and common area enhancements. Under the terms of its agreements with the Department, Westfield Concessions Management, LLC, is funding and undertaking these improvements, which are to be purchased by the Department in phases when completed. This project is estimated to cost \$146.6 million and is expected to be completed by FY 2017.
- **Terminal 1.5:** This project consists of the development of a new terminal building between Terminal 1 and Terminal 2 that would link the two terminals directly and result in a single unified facility. This project is estimated to cost \$400.0 million and is expected to be completed by FY 2021.
- **Terminal 2 Improvement Project:** This project consists of the phased redevelopment of portions of Terminal 2, including the ticketing lobby, baggage claim areas, baggage screening, concourse areas, and building systems. The Department is funding and undertaking these improvements. This project is estimated to cost \$204.9 million and is expected to be completed by FY 2018.
- **Baggage System Enhancements:** This project includes construction of outbound baggage systems supporting the combined operations of both the TBIT and the Midfield Satellite Concourse (Phase 1). The project includes construction of baggage conveyance systems, explosives trace detection workstations, an on-screen resolution control room, and installation/integration of TSA-provided explosive detection system (EDS) machines. This project is currently estimated to cost \$250.0 million and is expected to be completed by FY 2020.
- **Elevator and Escalator Replacements:** This project consists of the comprehensive upgrading of elevator and escalator systems throughout the public areas of the Airport (primarily in the CTA) that have exceeded their useful lives. This project is estimated to cost \$248.2 million and is expected to be completed by FY 2018.
- **Acquisition of Terminal 4 Improvements:** This project consists of the acquisition by the Department of the Terminal 4 improvements undertaken by American Airlines. This project is estimated to cost \$200.0 million and the improvements are expected to be acquired by June 2017.
- **Other Terminal Projects:** This project consists of electrical upgrades, gate and holdroom renovations, passenger boarding bridges, baggage system improvements, fire/life safety improvements, lighting improvements, signage and wayfinding improvements, and other miscellaneous terminal improvements. These projects are estimated to cost \$237.8 million and is expected to be completed by FY 2022.

Airfield and Apron

- **Runway Safety Area (RSA) Improvements:** This project consists of improvements to the west end of Runway 7L-25R to bring the RSA into compliance with FAA standards and to extend the runway by 800 feet. Also included are improvements to the east ends of Runways 6L-24R and 6R-24L. This project is estimated to cost \$267.9 million and is expected to be completed by FY 2017.
- **Midfield Satellite Concourse – North Project Apron:** This project includes apron improvements associated with the Midfield Satellite Concourse – North Project. This project is estimated to cost \$187.3 million and is expected to be completed by FY 2019.
- **Other Airfield and Apron Projects:** This project consists of utilities for remain overnight aircraft parking, storm water improvements, pavement rehabilitation, a new fire drill training facility, and construction of airfield access posts. These improvements are estimated to cost \$56.5 million and is expected to be completed during the Forecast Period.

Remaining Projects

- **Noise Mitigation and Soundproofing:** This project consists of the soundproofing of residences located near the Airport that are significantly affected by aircraft noise. Also, the Department is currently implementing a voluntary program of acquisition of residences located in the Manchester Square and Belford areas that are affected by aircraft noise. This project is estimated to cost \$266.5 million and is expected to be completed during the Forecast Period.
- **Other:** These projects include a range of infrastructure, utility, information technology, and other projects estimated to cost \$115.9 million and are expected to be completed during the Forecast Period.

FUNDING THE AIRPORT CAPITAL PROGRAM

The Department expects to pay the estimated costs of the Capital Program using the funding sources shown in Exhibit A, as discussed below. To the extent that the Department does not receive the funding shown in Exhibit A, the Department would (1) defer projects or reduce project scopes, as appropriate, (2) issue additional Airport revenue bonds, or (3) use additional Department funds.

Federal Grants

The Department receives FAA grants-in-aid under the federal Airport Improvement Program (AIP) for up to 75% of the costs of eligible projects. Certain of these grants are received as entitlement grants, the annual amounts of which are calculated on the basis of the number of enplaned passengers and the total landed weight of all-cargo aircraft at the Airport. Other grants are received as discretionary grants, awarded on the basis of the FAA's determination of the priorities of projects at the Airport and at other airports nationwide.

In addition to AIP grants, the Department expects to receive funding from the Transportation Security Administration (TSA) for checked baggage inspection system improvements at various terminals. As shown in Exhibit A, the Department expects to receive approximately \$81.0 million in TSA funds and \$113.0 million in FAA grants for projects in the Capital Program.

Passenger Facility Charge Revenues

As shown in Exhibit A, the Department expects to use approximately \$390.2 million of PFC revenues on a pay-as-you-go basis for projects in the Capital Program.

The Department also expects to use PFC revenues in each Fiscal Year of the Forecast Period to pay a portion of the debt service on certain outstanding Bonds that were issued to finance all or a portion of the costs of PFC-eligible projects. As described in more detail in the “Financial Performance” section of this Report (under “Debt Service”), PFC revenues are not included in the definition of Pledged Revenues under the Senior Indenture. For purposes of meeting the Rate Covenants, the portion of principal and interest on Senior Bonds or Subordinate Obligations paid with PFC revenues are excluded from the calculation of Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service.

To date, the FAA has authorized the Department to collect \$3.1 billion in PFC revenues at the Airport at the \$4.50 PFC level for approved projects. As of June 30, 2016, the Department had collected a total of \$2.3 billion in PFC revenues (including interest income) and expended approximately \$1.9 billion on FAA-approved PFC-eligible projects.

The overall Capital Program funding plan, forecast airline revenues, and other key financial results reflected in this Report are based on the assumption that the current \$4.50 PFC level at the Airport will remain in effect throughout the Forecast Period.

Department Funds

As reflected in Exhibit A, the Department expects to use approximately \$2.6 billion of Department funds to pay Capital Program project costs.

The Department generates cash each year from the operation of the Airport, after all obligations under the Senior Indenture and the Subordinate Indenture have been met. Department funds reflected in Exhibit A also include Terminal Renewal and Improvement Fund (TRIF) amounts estimated to be used for future terminal projects (generated pursuant to the Terminal Rate Agreements described in the “Financial Performance” section this Report—under “Airline Revenues”). Amounts in the TRIF can only be used to fund terminal or terminal-related projects. All other Department funds can be used for any lawful purpose.

The estimated use of Department funds reflected in Exhibit A is based on an internal Department policy that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to annual LAX Maintenance and Operation Expenses.

Other Funds and Prior Bond Proceeds

As presented in Exhibit A, approximately \$166.4 million of airline tenant funding and proceeds from the Ontario International Airport Authority (OIAA)²⁰ are expected to be used to fund other Capital Program project costs.

Also as presented on Exhibit A, approximately \$714.1 million in prior revenue bond proceeds are expected to fund a portion of the Capital Program.

Series 2016B Subordinate Bond Proceeds

As reflected in Exhibit A, approximately \$460.0 million of Series 2016B Subordinate Bond proceeds are expected to be used to fund certain Capital Program project costs.

The Series 2016B Subordinate Bonds are expected to be subject to the Alternative Minimum Tax (AMT) and to have a fixed interest rate. Exhibit B presents the estimated sources and uses of proposed Series 2016B Subordinate Bond proceeds, as provided by the Department's co-financial advisor Public Resources Advisory Group. In addition to funding a portion of the costs of the Capital Program, the net proceeds from the sale of the Series 2016B Subordinate Bonds would also be used to (1) make a deposit to the Subordinate Debt Service Reserve Fund, (2) pay capitalized interest on the Series 2016B Subordinate Bonds, and (3) pay the costs of issuance, including underwriters' discount and financing, legal, and other costs for issuance of the Series 2016B Subordinate Bonds.

Future Bond Proceeds

As reflected in Exhibit A, approximately \$1.9 billion of future Senior Bond proceeds and approximately \$327.1 million of future Subordinate Bond proceeds (for a total of approximately \$2.3 billion) are expected to be used to fund a portion of Capital Program project costs.

Exhibit B presents the estimated sources and uses of funds for Future Bonds, as provided by the Department's co-financial advisor Public Resources Advisory Group—based on the assumption that Future Bonds issued to fund airfield or apron projects will be Subordinate Obligations and that Future Bonds issued for all other projects in the Capital Program will be Senior Bonds. The Department may use any combination of Senior Bonds and Subordinate Obligations to fund these or other projects in the Capital Program.

The net proceeds of Future Bonds are assumed to be used to (1) pay capitalized interest, (2) make deposits to the Senior or Subordinate Debt Service Reserve Funds, and (3) pay the issuance costs of Future Bonds.

²⁰ Further to the ONT Settlement Agreement (see the Official Statement for additional information), the FAA permitted the Department to reallocate PFC collections from LA/ONT to the Airport for the purposes of funding portions of the Capital Program in the amount of approximately \$117 million, approximately \$47 million of which is to be transferred to the Airport upon the transfer of LA/ONT to OIAA and the balance to be remitted as collected by OIAA.

OTHER PROJECTS

The Department is considering future projects at the Airport that are not included in the financial forecasts presented in this Report (referred to as Other Projects, as described below). While these projects have proceeded through various stages of definition, each project remains subject to certain changes that may be identified in the environmental permitting and design process. Funding sources for the Other Projects are currently being developed, and will likely change as agreements to implement the Other Projects are being finalized. A number of different approvals, including Board approval, are required prior to proceeding with the Other Projects. Other Project scopes, costs and funding plans remain subject to substantial revision.

Other Projects currently include the following:

Automated People Mover (APM) System. An automated people mover (APM) system, as envisioned, would connect the CTA with a new consolidated rental car facility (ConRAC) and new Intermodal Transportation Facilities (ITF). Ridership on the APM system would include, but not be limited to, passengers and employees.

Stops on the APM system between the CTA and the ConRAC would be at (1) proposed Intermodal Transit Facilities, which may include, but not be limited to, Airport public/employee parking facilities and commercial vehicle pick-up and drop-off areas, and (2) a station connecting riders to the Los Angeles County Metropolitan Transportation Authority's light rail line (Crenshaw/LAX Transit Project).

The Department currently expects that the APM project would include, but not be limited to, right-of-way acquisitions, fixed infrastructure guideways, APM stations, an APM maintenance facility, and other system infrastructure such as computer systems and APM train cars.

Department management's initial estimate of APM project costs is between approximately \$2.5 billion and \$3.1 billion (in future dollars) and, subject to obtaining the required environmental and other approvals, including Board award of agreements to implement the APM, the APM is expected to be operational in 2024.

Consolidated Rental Car Facility (ConRAC). The proposed ConRAC would be located east of the CTA and, subject to obtaining required environmental approvals as well as Board award of agreements to implement the ConRAC, would open in 2023. Department management's initial estimate of ConRAC project costs is between approximately \$1.0 billion and \$1.1 billion (in future dollars), and may include a customer service building, a ready/return area, a vehicle storage area, quick-turnaround facilities, and an area for rental car customers to access and exit the APM system.

Transportation between the proposed ConRAC and the CTA would initially be provided by an interim common shuttle bus system until the APM system is operational in 2024.

As discussed in the Rental Car Revenues section of this Report, 13 rental car companies currently serve the Airport under concession agreements that are scheduled to expire on January 1, 2018, but the Department may extend such agreements for two one-year periods at

its sole discretion. The Department currently expects that those same companies will likely to occupy the ConRAC under new rental car concession and lease agreements.

Intermodal Transportation Facilities. Two ITFs are currently proposed on the APM route where users would access and exit the APM system. The ITFs would have (1) pick-up and drop-off locations for private and commercial vehicles that currently access the terminals using the CTA roadways and (2) parking facilities for passengers and employees. Department management's initial estimate of ITF project costs is between approximately \$700 million and \$900 million (in future dollars). As discussed later in this section, a portion of those costs may be paid by private developers (or reimbursed by the Department to the private developers) and may be phased in over several years following completion of the APM system. Environmental and other approvals as well as Board award of agreements are required for the two ITFs prior to initiating construction.

Other Related Projects. Various roadway and access improvements to the Airport may be required to support the projects listed above. Department management's initial estimate of these costs is between approximately \$300 million and \$400 million (in future dollars). Subject to obtaining required environmental approvals as well as Board award of agreements to implement these improvements, these projects would be completed in phases as the ConRAC, APM, and ITFs become operational.

Total cost estimates for all of the Other Projects described above range between approximately \$4.5 billion and \$5.5 billion (in future dollars).

Potential Funding Sources and Commercial Arrangements

Table 18 summarizes the potential sources of revenue and major funding sources for each of the Other Projects. Some or all of the funding sources summarized in Table 18 in varying amounts, plus other sources of funds, would be used to pay Other Project costs.

Provided below is a discussion of the potential capital funding strategy and commercial arrangements for each of the Other Projects.

APM System. A DBFOM approach may be used by Department management for all or a portion of designing, financing, constructing, operating and maintaining of the APM system under an agreement between the Department and the DBFOM developer to be selected through a competitive bid process. On August 11, 2016, the Department received five responses to a Request for Qualifications from developers (APM Developer) to design, build, finance, operate, and maintain (DBFOM) the APM system. All five APM Developers have been shortlisted by the Department and will now move into the next step in the APM procurement process.

Table 18
POTENTIAL SOURCES OF REVENUE AND MAJOR FUNDING SOURCES
 Los Angeles International Airport

		Potential Other Projects			
		APM	ConRAC	Intermodal Transportation Facilities	Roadway and Access Improvements
Potential sources of new Pledged Revenues	Airline rates and charges		Ground rent	Ground rent	Airline rates and charges
				Concession fees	
				Vehicle access fees	
				Public parking revenues	
				Employee parking revenues	
Potential sources of funds to pay capital and certain operating costs	DBFOM Capital (a)		DBFOM Capital (a)		
				Private Developers	
	Additional Senior or Subordinate Revenue Bonds			Additional Senior or Subordinate Revenue Bonds	Additional Senior or Subordinate Revenue Bonds
	PFC Revenues (b)				
	CFC Revenues (b) (c)		CFC Revenues (b) (c)		
	Department Funds		Department Funds	Department Funds	Department Funds
			Special Facility Bonds (d)		

(a) Would likely include debt and equity from the DBFOM.

(b) PFC revenues and CFC revenues are not included in Pledged Revenues under the Senior Indenture and Subordinate Indenture and are not included in the forecast of Pledged Revenues presented in this Report. PFC revenues can only be used on FAA-approved PFC-eligible costs. CFC revenues can only be used on CFC-eligible costs, as defined in California Code 1936.

(c) Customer Facility Charge (CFC). Only to be used for those portions of annual APM capital and operating costs used by rental car passengers and that are CFC-eligible.

(d) Debt service on Special Facility Bonds (SFBs) are not paid from Pledged Revenues. CFC-eligible debt service on SFBs would be paid from future CFC revenues.

The APM project may be funded from a combination of the following major sources of capital:

- APM Developer capital, which would likely include debt and equity of the selected APM Developer to fund some or all of the APM project costs. The commercial arrangements between the APM Developer and the Department would likely include an “availability payment” (AP) where the Department would make defined annual payments to the APM Developer during the term of the APM Developer contract. The APM AP may include the annual cost of operating the APM system. The Department currently expects that any APM AP would be split between operating and capital financing repayment, falling into LAX’s flow of funds accordingly.
- Additional Senior and/or Subordinate Bonds, which would be paid from Pledged Revenues.
- Department funds to reduce the overall cost of funding the APM project.

Future annual PFC revenues and/or CFC revenues may be used to pay significant portions of the annual capital and operating costs of the APM system, including the AP. Department management would have to receive approval from the FAA to use PFC revenue to pay any PFC-eligible capital costs of the APM. As discussed below, Department management would likely have to change the amount and basis for charging the CFC to have sufficient revenues to pay for annual APM capital and operating costs that would be allocable to the ConRAC.

Remaining annual capital and operating costs would be paid from a combination of future airline rates and charges and/or Department commercial revenues. The amount of additional revenues, if any, from either source are not known as of the date of this Report.

ConRAC. A DBFOM approach separate and apart from the APM approach may be used for the ConRAC (ConRAC Developer).

The Department currently expects that the capital costs of the ConRAC would be paid from annual CFC revenues that are currently collected from on-Airport rental car companies and remitted to the Department. Because CFC revenues are not currently defined as Pledged Revenues, the obligation to pay ConRAC capital costs will likely not reside under the Senior Indenture and the Subordinate Indenture, and as such, these annual costs would not affect Senior and Subordinate Bond debt service coverage ratios.

The ConRAC project may be funded from a combination of the following major sources of capital:

- ConRAC Developer capital, which may also be structured as an AP under a contract between the Department and the selected ConRAC Developer. This payment may include the annual cost of operating and maintaining the ConRAC.
- Special Facility Bonds that would not be issued under the Senior Indenture and Subordinate Indenture.
- Department funds to reduce the overall cost of funding the ConRAC project.

Annual CFC revenues would likely be used to pay CFC-eligible costs that are included in the AP, debt service on any Special Facility Bonds issued to fund ConRAC project costs, and repay Department cash used for CFC-eligible costs.

As of the date of this Report, the Department collects a \$10 CFC per rental car contract from rental car customers. The \$10 CFC is collected by the on-Airport rental car companies and remitted to the Department. Based on actual FY 2016 results, the Department collected approximately \$34.6 million in CFC revenues. A small portion of those revenues has been used to pay the costs related to developing the ConRAC at the Airport.

Under *California Code 1936*, as amended, CFC revenues can be used to pay ConRAC capital costs as well as capital and operating costs of a common transportation system, such as the APM; CFC revenues cannot be used to pay ConRAC operating costs, which would be the responsibility of the rental car companies that use and occupy the ConRAC.

Under *California Code 1936*, as amended, the Department can change the amount and basis for collecting a CFC from the current \$10 per contract level to a maximum of \$9.00 per transaction

day, up to a 5-day maximum. Changing the amount and basis for collecting the CFC, as well as other changes, would likely be required to use annual CFC revenues to pay ConRAC capital costs, and to pay any APM capital and operating costs that may be allocable to the ConRAC. Currently under *California Code 1936*, as amended, changes to the amount and basis for collecting the CFC would have to be initiated by January 1, 2018 by submitting certain information to the State of California.

Intermodal Transportation Facilities. The following major sources of capital may be used to fund the cost of each ITF:

- Ground rent plus a percentage fee on revenues generated by private developers, which may be used by the Department to fund, operate, and manage certain commercial operations at each ITF.
- Additional Senior and/or Subordinate Bonds, which would be paid from Pledged Revenues.
- Department funds to reduce the overall cost of funding these facilities.

Any annual capital and operating costs associated with each ITF that are the responsibility of the Department (and not the responsibility of private developers) would be paid from additional LAX commercial revenues at each ITF (e.g., public parking revenues) that, when the ITS is operational, would likely be included as Pledged Revenues.

Other Related Projects. The following major sources of capital may be used to fund the cost of roadway and circulation improvements:

- Additional Senior and/or Subordinate Bonds, which would be paid from Pledged Revenues.
- Department funds to reduce the overall cost of funding these facilities.

Annual capital and operating costs of these improvements would likely be paid from future airline rates and charges and commercial revenues that would be part of Pledged Revenues.

The use of any capital or combination of capital from the sources described above and listed in Table 18 to finance Other Projects will be determined by the Department, in consideration of any number of factors, including, but not limited to:

- The availability of moneys from, but not limited to, the funding sources described above
- Capital and bond market conditions at the time any such additional bonds are issued
- The proposed capital structure for the APM Developer and the ConRAC Developer
- Projected airline costs per enplaned passenger and debt service coverage ratios for the Airport

FINANCIAL PERFORMANCE

FINANCIAL FRAMEWORK

The Department accounts for Airport financial operations and results according to generally accepted accounting principles for governmental entities and the requirements of the Senior Indenture and the Subordinate Indenture. Other key documents that influence Airport financial operations are the agreements with the airlines for their use and lease of Airport facilities.

The financial forecasts presented in this Report reflect the Department's expected course of action during the Forecast Period to generate Pledged Revenues sufficient to meet the Senior Rate Covenant and the Subordinate Rate Covenant.

Under the Senior Rate Covenant, the Department has covenanted to establish, fix, prescribe, and collect rates, tolls, fees, rentals, and charges for the use of the Airport so that, in each Fiscal Year:

- Pledged Revenues are at least equal to the amount of required deposits to various funds and accounts during such Fiscal Year, and
- Net Pledged Revenues, together with any Transfer, are equal to at least 125% of the Senior Aggregate Annual Debt Service on outstanding Senior Bonds.

The Subordinate Rate Covenant of the Subordinate Indenture requires the Department, in each Fiscal Year, to generate Subordinate Pledged Revenues to:

- Meet the payment requirements of funds and accounts under the Subordinate Indenture, and
- Together with any Transfer, be at least equal to 115% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations.

Any "Transfer" from the LAX Revenue Account to the Debt Service Fund for purposes of meeting the Senior Rate Covenant shall not exceed 25% of Senior Aggregate Annual Debt Service on outstanding Senior Bonds and shall not exceed 15% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations.

An overview of recent historical Airport financial results is provided in this section and the assumptions used as the basis for forecasting Pledged Revenues, LAX M&O Expenses, debt service on Senior Bonds and Subordinate Obligations, and deposits to funds and accounts established under the Senior and Subordinate Indentures are discussed.

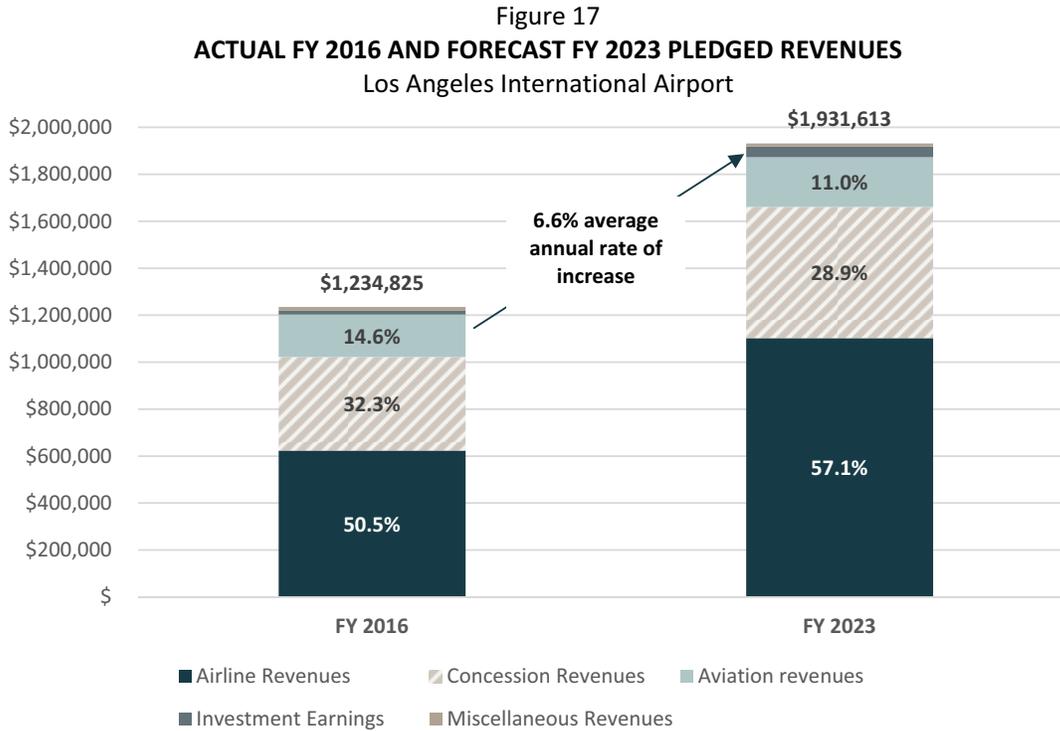
PLEDGED REVENUES

Exhibit C presents budgeted and forecast Pledged Revenues for the Airport.

In FY 2016, airline revenues and concession revenues accounted for 82.8% of Pledged Revenues. Airline revenues include terminal building rentals, landing fees, and apron fees.

Concession revenues include, but are not limited to, public parking fees, rental car privilege fees, and terminal building concession revenues.

Figure 17 presents the major sources of Pledged Revenues for the Airport for actual FY 2016 and FY 2023 (forecast):



Notes: Percentages reflect shares of total Pledged Revenues. Percentages for investment earnings and miscellaneous revenues are not shown, but they accounted for 1.5% and 1.1% of Pledged Revenues, respectively, in FY 2016 and are forecast to account for 2.4% and 0.7%, respectively, in FY 2023. Columns may not total 100% because of rounding.

The forecast increase in Pledged Revenues is largely the result of an expected increase in airline revenues, from approximately 50.5% of Pledged Revenues in FY 2016 to approximately 57.1% of Pledged Revenues in FY 2023. The forecast increase in airline revenues is primarily driven by significant Department capital investments in airline areas and the cost-recovery basis for calculating annual airline rates and charges.

The major sources of Pledged Revenues and the assumptions used to forecast Pledged Revenues are discussed below.

Airline Revenues

Overview. Forecast airline terminal building rentals, landing fees, and apron fees, in total and expressed on a per enplaned passenger basis, are shown on Exhibit C-1. Airline revenues (including airline lounge payments) totaled approximately \$623.3 million in FY 2016 (accounting for 50.5% of Pledged Revenues) and are forecast to be approximately \$1.1 billion in FY 2023 (accounting for 57.1% of Pledged Revenues), as shown on Exhibit C.

Forecasts of airline terminal building rentals, landing fees, and apron fees incorporated in this Report were calculated pursuant to the methodologies in the LAX Passenger Terminal Tariff, Rate Agreements, prior terminal leases, and the Air Carrier Operating Permits, as discussed in the following paragraphs.

LAX Passenger Terminal Tariff. Airlines occupy and use terminal space at the Airport under the terms of the LAX Passenger Terminal Tariff (Airport Terminal Tariff). The Airport Terminal Tariff has no term or expiration date, but is subject to change from time to time by the Board of Airport Commissioners. After consultation with airline representatives regarding the Department's rates and charges, the Board approved certain changes to the Airport Terminal Tariff on September 17, 2012, as described below, which became effective on January 1, 2013. The Airport Terminal Tariff applies to all terminals at the Airport, provided however, that the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines occupying space in Terminal 4 are subject to the rate methodology adopted on September 17, 2012. American Airlines, operating from Terminal 4, has a lease with the Department for the use and occupancy of space that is scheduled to expire in December 2024. Under this lease, American Airlines is required to pay operation and maintenance charges based on the methodology used to determine the Airport Terminal Tariff.

Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space. The fees and charges established under the Airport Terminal Tariff are as follows:

- **Terminal Buildings Charge** – A charge based on an equalized rate calculated by the Department by dividing the total of all capital and maintenance and operation costs allocated by the Department to the passenger terminals at the Airport by the total rentable areas in the terminals.
- **Federal Inspection Services (FIS) Fee** – A fee based on an equalized rate calculated by the Department by dividing the total of all capital and maintenance and operation costs allocated by the Department to FIS areas at the Airport by the number of international passengers passing through the FIS facilities.
- **Common Use Area Fees and Charges** – Fees and charges based on rates calculated by the Department based on the airlines' use of common areas in the terminals, such as hold rooms, baggage claim systems, and ticket counters.
- **Terminal Special Charges** – Fees based on rates calculated by the Department for use by the Aeronautical Users of certain equipment and services at the Airport that are not

otherwise billed to aeronautical users through the rates and charges described above, such as, certain custodial services, outbound baggage system maintenance, terminal airline support systems and loading bridge capital and maintenance.

Rate Agreement. To resolve certain litigation regarding the Department's rate setting methodology, and to phase-in new terminal rates and charges for the airlines serving the Airport, the Department offered the airlines a Rate Agreement in 2013. Airlines that do not enter into a Rate Agreement will not participate in the discounts, fixed charges, and credits for concession revenues described below.

All airlines currently serving the Airport have entered into the Rate Agreement with the Department. Pursuant to the Rate Agreement, the airlines consent to and waive rights to challenge the application of the Airport Terminal Tariff rate-setting methodology (approved by the Board in September 2012).

Under the Rate Agreement:

- The equalized terminal rental rates are phased in over a 5-year period (calendar years 2013 through 2017).
- For calendar years 2014 through 2017, the Terminal Buildings Charge will be discounted by 20%, 15%, 10%, and 5%, respectively.
- Starting in calendar year 2018, the equalized Terminal Buildings Charge will be calculated pursuant to the Airport Terminal Tariff, without a discount.
- Since the beginning of calendar year 2014, the Department has provided a credit to the airlines for a portion of the concession revenues generated in the LAX terminals (known as Tier One Revenue Sharing) in the calculation of the Terminal Buildings Charge and the FIS Fee.
- The Department established the Terminal Renewal and Improvement Fund (TRIF), which is funded with annual net revenues from the application of the Airport Terminal Tariff. Amounts deposited in the TRIF are required to be used by the Department to fund, together with debt and grant funding, terminal related capital improvements. Deposits into the TRIF may not exceed \$125 million annually or a maximum unused fund balance of \$500 million. These limits are subject to annual consumer price index increases.
- The Department can include the amortization of TRIF-funded capital projects in the cost base for the calculation of the terminal rental rate five years after any such TRIF-funded project is put in service.
- 50% of the amount in the TRIF, which is not otherwise committed to projects, in excess of the TRIF limits described above, are required to be deposited in a Revenue Sharing Fund. Amounts deposited in the Revenue Sharing Fund are required to be distributed to airlines executing the Rate Agreement as a credit against any amount due in the following priority: first, against Terminal Building Charges and second, against landing fees.

Terminal 4 Lease. The Department has a lease with American Airlines for the use of terminal space in Terminal 4, which is scheduled to expire in December 2024. This lease was entered into in connection with the issuance of certain conduit financings by the Regional Airports Improvement Corporation and provides the Department with the right, under certain circumstances, to defease the third-party debt used to finance terminal improvements. Any early termination of this lease may require payment or provision for payment by the Department of some or all of the related conduit financings.

Under this lease, rental rates are not charged pursuant to the Airport Terminal Tariff. Instead, rental rates for terminal premises and on ground areas are adjusted periodically, typically every 5 years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. American is required to pay operation and maintenance charges based on the Airport Terminal Tariff rate-setting methodology.

Air Carrier Operating Permit. Airlines operating at the Airport use landing and apron facilities pursuant to a 10-year Air Carrier Operating Permit scheduled to expire June 30, 2022, with an option to extend for another 10 years. The Air Carrier Operating Permit can be terminated with a 30-day notice from the airlines or the Department. The Air Carrier Operating Permit sets forth (1) how landing and apron fees are to be calculated each year and (2) various terms and conditions related to the use of landing and apron facilities, including, but not limited to, insurance requirements and indemnification provisions.

Forecast of Airline Revenues. The forecast of airline revenues is presented in Exhibit C-1 (along with the calculation of airline cost per enplaned passenger). The forecast of airline revenues is based on (1) the cost recovery and rate-setting principles in the Terminal Rate Agreement and the Air Carrier Operating Permit, (2) the forecast of LAX M&O Expenses, debt service on Senior Bonds and Subordinate Obligations, and other costs that are allocable to the airline cost centers and included in the annual calculation of airline rates and charges, (3) assumptions regarding the amount of new terminal space associated with the completion of certain projects in the Capital Program during the Forecast Period, and (4) the assumption that beginning July 1, 2017, all terminal space in Terminal 4 will be subject to the Rate Agreement and the Department's existing lease with American Airlines for terminal space in Terminal 4 will no longer be in effect.

Exhibit C-2 presents forecast airline Terminal Buildings rentals through FY 2023. Terminal Building costs are recovered according to the commercial compensatory rate-setting methodology (with certain discounts and credits) prescribed in the Terminal Rate Agreement. The net cost requirement of the Terminal Buildings cost center is divided by total rentable space in the Terminal Buildings to determine the average rental rate (Terminal Buildings Rate) per square foot. Airlines that lease space from the Department are charged this average rate per square foot. For those airlines that do not lease space, but operate on a common-use basis, the Terminal Buildings Rate is used to calculate the net requirement of all common-use space, which is then recovered based on a common-use methodology.

Exhibit C-3 presents forecast landing and apron fees, calculated according to a cost center compensatory (cost-based) rate-setting methodology prescribed in the Air Carrier Operating Permit, under which (1) the cost requirements of the Airfield Area cost center are recovered through landing fees assessed per 1,000-pound unit of total aircraft landed weight and (2) the cost requirements of the Apron Area cost center are recovered through apron fees assessed per 1,000-pound unit of passenger airline aircraft landed weight.

Aviation Revenues

Aviation Revenues at the Airport (other than airline revenues discussed above) include building rent, land rentals, aircraft parking fees, fuel fees, and other aviation revenues. In FY 2016, Aviation Revenues accounted for 14.6% of Pledged Revenues.

Land Rentals. The Department leases land to multiple aviation users of the Airport, including the passenger and cargo airlines. Uses of the land include aircraft maintenance, cargo facilities, and automobile parking²¹. In FY 2016, land rentals accounted for 7.8% of Pledged Revenues. Land rental revenue is forecast to increase with inflation.

Building Rentals. The Department leases buildings, other than the Terminal Buildings, to multiple aviation users, including the passenger and cargo airlines. Uses of the space include aircraft maintenance, cargo facilities, and administrative offices. Building rentals also include terminal building rents from entities other than airlines. In FY 2016, building rentals accounted for 6.5% of Pledged Revenues. Building rental revenue is forecast to increase with inflation.

Other Aviation Revenues. This category includes other miscellaneous revenues generated from aviation users of the Airport, including revenues from aircraft parking, fuel flowage fees, and the TSA. In FY 2016, other aviation revenues accounted for 0.3% of Pledged Revenues. Other aviation revenues are forecast to increase with inflation, with the exception of those subcategories related to the number of aircraft (e.g., aircraft parking and fuel flowage fees), which are driven by inflation plus the forecast growth in landed weight.

Concession Revenues

Concession revenues totaled \$398.7 million in FY 2016 (accounting for 32.3% of Pledged Revenues) and are forecast to total approximately \$558.7 million in FY 2023 as presented in Exhibit C (accounting for 28.9% of Pledged Revenues). Annual concession revenues are forecast to increase between FY 2016 and FY 2023; however, because airline revenues are forecast to increase at a higher rate during the same period, the percent of Pledged Revenues accounted for by concession revenues is forecast to decrease (from 32.3% to 28.9%) during the Forecast Period. As described below, the Department has entered into multiple agreements with concessionaries for the provision of non-airline services at the Airport.

²¹ The Department owns the Park One and Skyview Center parking facilities and collects rent from the operators of the facilities. All other revenue associated with automobile parking is reflected in Automobile Parking in Exhibit C.

Automobile Parking Revenues. Automobile parking is provided in the CTA garages, a surface lot adjacent to the Central Terminal Area, and remote parking surface lots. In FY 2016, automobile parking revenues accounted for 7.6% of Pledged Revenues.

Table 19 lists the public parking facilities at the Airport²², as well as the number of spaces and current parking rates in effect at each facility.

Parking facilities in the CTA are operated for the Department by ABM Onsite Services-West under a 5-year management contract that became effective June 1, 2016, and has five one-year extension options. Under this contract, the Department receives 100% of the gross parking revenues from these facilities, and compensates ABM Onsite Services-West for certain expenses it incurs in operating the facilities. The Department has also entered into a 6-year contract with LAZ Parking for the operation of the surface Lot C, which became effective June 1, 2016 and has four one-year extension options.

Multiple facilities near the Airport also provide parking for Airport patrons. The Department does not impose a privilege fee on these off-Airport parking facilities operated by private companies, but does impose a trip fee for the shuttle bus operations of off-Airport parking companies.

Table 19
PUBLIC PARKING FACILITIES AND RATES
Los Angeles International Airport

Public parking	Number of spaces	24-hour rate	Hourly rate
Close-in parking			
Central Terminal Area garages	8,577	\$30.00	\$3.00 first hour, \$4.00 thereafter
Remote parking			
Lot C surface lot	5,300	\$12.00	\$4.00
Cell phone waiting lot	22	n.a.	n.a.
Subtotal	5,322		
Airport total	13,899		

Note: n.a. = Not applicable.
Source: Department records.

Parking revenues are forecast as a function of numbers of originating passengers, parking transactions per passenger, and revenue per transaction. Estimated reductions in public parking revenues per originating passenger in FY 2017 through FY 2021, resulting from the anticipated effects of CTA construction projects during that period, were also incorporated.

²² The Department owns the Park One and Skyview Center parking facilities; however, these facilities are managed under separate operating agreements and the revenue is recorded under Land Rent in Exhibit C.

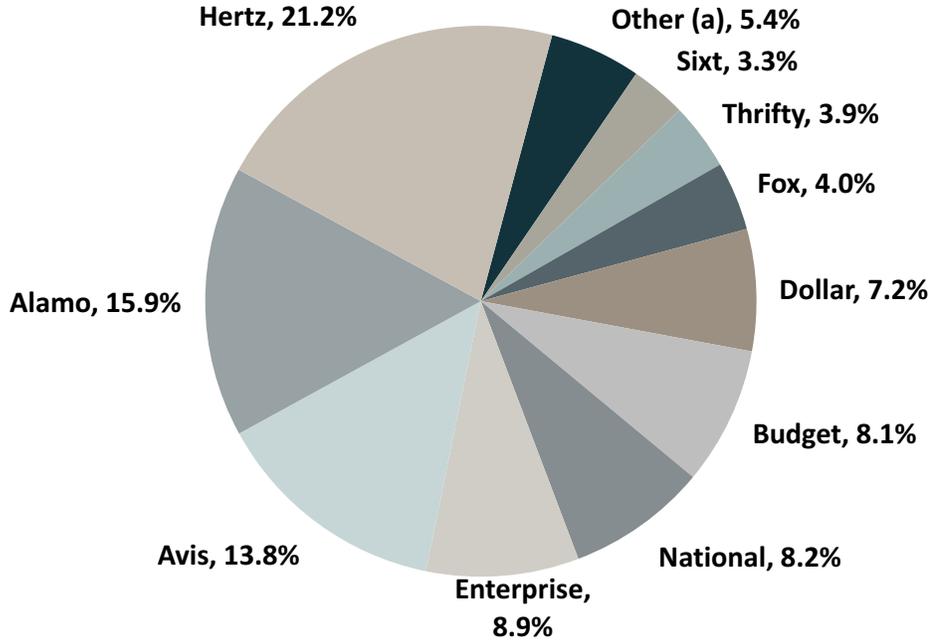
Rental Car Revenues. The Department has executed rental car concession agreements with 13 rental car companies serving the Airport (Rental Car Concessionaires). The concession agreements are scheduled to expire in January 2018, and the Department may extend the agreements for two one-year periods at its sole discretion. The concession agreements require each Rental Car Concessionaire to pay the Department a concession fee equal to 10% of its annual gross revenues or a minimum annual guarantee, whichever is greater. In FY 2016, rental car concession revenues accounted for 6.7% of Pledged Revenues, which was based on a concession fee equal to 10% of annual gross revenues.

Figure 18 presents the Rental Car Concessionaires' market shares of gross revenues in FY 2016.

The following companies and their brands have rental car concession agreements with the Department: Advantage, Alamo, Avis, Budget, Dollar, DR Car Rental (DBA Payless), Enterprise, Fox, Hertz, Midway, National, Sixt, and Thrifty. In addition, EZ, Firefly and Zipcar operate as affiliates of Advantage, Thrifty, and Avis, respectively, for a total of 16 on-Airport rental car brands. These companies operate rental car facilities located off Airport property and transport their passengers to and from the CTA on their own branded shuttle buses.

Approximately 25 other rental car companies (located off Airport property) provide rental car services to Airport passengers, but do not have concession agreements with the Department. Their customers use LAX shuttle buses to access their rental car company's courtesy shuttle at the Airport's remote rental car depot. These other companies are required to have a license agreement with the Department and pay a fixed fee per month (these other companies do not pay a percentage of gross revenues).

Figure 18
ON-AIRPORT RENTAL CAR COMPANY SHARES OF FY 2016 GROSS REVENUES
 Los Angeles International Airport



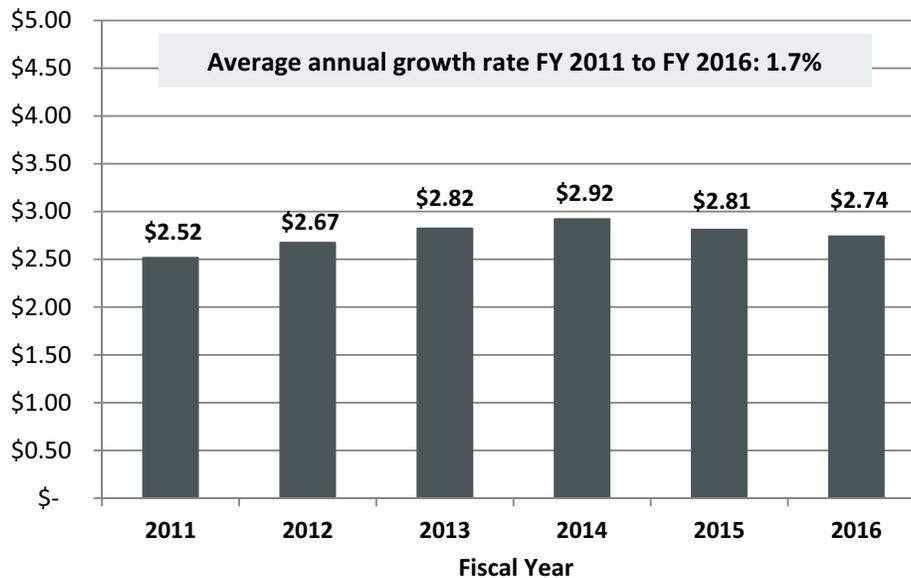
Notes: The sector shares may not total 100% because of rounding.

(a) Other includes Advantage, EZ, Firefly, Midway, Payless, and Zipcar.

Source: Department records.

Figure 19 presents the trend in rental car privilege fees paid to the Department per originating passenger at the Airport in FY 2011 through FY 2016. Between FY 2011 and FY 2016, total rental car privilege fees per originating passenger increased an average of 1.7% per year. The decrease in on-Airport rental car privilege fees per originating passenger in FY 2015 and FY 2016 were the result of the number of originating passengers increasing at a greater rate than privilege fees.

Figure 19
ON-AIRPORT RENTAL CAR PRIVILEGE FEES PER ORIGINATING PASSENGER
 Los Angeles International Airport



Source: Department records.

Rental car revenues were forecast on the basis of:

- The estimated number of originating passengers, which was based on the forecast of enplaned passengers presented earlier in this Report.
- The Department’s expectation that, when the existing agreements expire in January 2018, they will either be extended by the Department or new agreements with similar business terms will be executed with the rental car companies operating at the Airport.
- Moderate increases in the rental car privilege fees per originating passenger during the Forecast Period. The assumed increase in the privilege fee per originating passenger was based on the assumption that the Rental Car Concessionaires will continue to manage their financial performance by charging higher daily rates over the long term.

As discussed earlier, the Department imposes a \$10 CFC on rental car customers per rental car transaction, and the debt secured by the CFC revenues are expected to finance the development of a ConRAC at the Airport. Revenues generated from the CFC are not currently included in Pledged Revenues and, as such, would not support the issuance of the Series 2016B Subordinate Bonds or other debt issued under the Senior Indenture or Subordinate Indenture. The Department could include CFC revenues in Pledged Revenues in accordance with a Supplemental Senior Indenture, but has no plans to do so.

The Department is currently in discussions with the rental car companies regarding development and financing of a proposed ConRAC. The Department expects to negotiate new rental car agreements that would be executed prior to the estimated opening of the ConRAC

(currently estimated to be completed by mid-FY 2024). The Department does not expect any material change to annual privilege fees paid by the rental car companies under a new agreement.

Duty Free Revenues. The Department has entered into a duty free merchandise concession agreement with DFS Group L.P. (DFS) for the design, construction, development and operation of duty free merchandise concessions at all Airport terminal buildings. The agreement with DFS is scheduled to expire in September 2024. Under the agreement with DFS, the Department receives a certain percentage of the concessionaire's gross sales at the Airport, subject to a minimum annual guarantee, plus 10% of any gross sales in excess of \$175 million. In FY 2016, duty free revenues accounted for 5.4% of Pledged Revenues. Duty free revenues are forecast to increase with growth in the number of international passengers at the Airport.

Terminal Concession Revenues. In FY 2016, terminal concession revenues accounted for 6.2% of Pledged Revenues. Terminal concession revenues include fees paid by retail and food and beverage concessionaires in the Airport terminals. The Department has entered into multiple agreements for the provision of terminal concessions. These agreements are organized into two groups:

- **Retail and Food and Beverage Concessions**—The Department directly manages the concession programs in Terminals 4, 5, 7, and 8. The Department has entered into several agreements with companies to provide retail and food and beverage concessions in these terminals. The agreements for retail concessions are scheduled to expire in June 2021 and agreements for food and beverage concessions are scheduled to expire between June 2021 and June 2023. These concessionaires pay the Department the greater of either a percentage of gross receipts or a minimum annual guarantee.
- **Terminal Commercial Manager Concessions**—These concessions are operated under two separate concession agreements that the Department has entered into with Westfield Airports, LLC (Westfield). One agreement is for Terminal 2 and the TBIT. The second agreement is for Terminals 1, 2, and 6. Westfield serves as the master developer and manager of the concessions in these terminals. Both Terminal Commercial Manager agreements with Westfield are scheduled to expire in 2029. Under the Department's agreements with Westfield, the Department receives the greater of a minimum annual guarantee or rent (consisting of a base percentage of Westfield's revenues plus a contingent percentage additional rent if gross sales exceed certain benchmarks).

The forecasts of retail and food and beverage concession revenues and terminal commercial management revenues were developed together based on combined per passenger spend rates for the three categories. The combined spend rate for these three revenue categories was forecast to increase with inflation until the assumed first full year of operation of the Midfield Satellite Concourse—Phase 1, when the spend rate is forecast to increase 5% in both FY 2020 and FY 2021.

Terminal Advertising. The Department has entered into a Terminal Media Operator concession agreement with JCDecaux Airport, Inc. (JCDecaux) for advertising sponsorship and other media throughout the terminal buildings. In FY 2016, Terminal Buildings advertising revenue accounted for 2.1% of Pledged Revenues. The agreement with JCDecaux is scheduled to expire in December 2020, at which time the Department has the right to extend the agreement for one 3-year period. For purposes of this Report, it was assumed that the Department will extend JCDecaux's agreement for the 3-year option period. Terminal Buildings advertising revenues are forecast to increase with inflation thereafter.

Commercial Vehicle Revenues. The Department generates revenues from a per trip fee on all bus, limousine, and taxicab operators, as well as companies such as Uber and Lyft. In FY 2016, commercial vehicle revenues accounted for 2.9% of Pledged Revenues. In FY 2015, the Department entered into agreements that provide transportation network companies, such as Uber and Lyft, access to the Airport ground transportation market—the agreements specify that a \$4.00 fee for each drop-off or pick-up is to be paid to the Department. This fee resulted in a 54.9% increase in commercial vehicle revenues between FY 2015 and FY 2016. Commercial vehicle revenues, including revenues from Uber and Lyft, are forecast to increase with inflation.

Other Concession Revenue. Revenues in this category primarily include fees generated from foreign exchange, telecommunications, luggage carts, and automated teller machine transactions. In FY 2016, other concession revenue accounted for 1.3% of Pledged Revenues. Other concession revenue is forecast to increase with numbers of enplaned passengers and inflation.

Investment Earnings

Investment earnings on moneys held in the LAX Revenue Fund, Reserve Fund, and M&O Reserve Fund (funds defined under the Senior Indenture) are defined as Pledged Revenues under the Senior Indenture. In FY 2016, investment earnings accounted for 1.5% of Pledged Revenues. The forecast of investment earnings is based on an assumed increase in the investment earnings rate and estimated increases in LAX Revenue Fund, Debt Service Reserve Fund, and M&O Reserve Fund balances during the Forecast Period.

Miscellaneous Revenues

Miscellaneous revenues include (1) federal subsidies associated with the Series 2009C and Series 2010C Subordinate Build America Bonds (BABs) and (2) other Airport sales and services. In FY 2016, miscellaneous revenues accounted for 0.9% of Pledged Revenues. The miscellaneous revenues associated with the BABs are forecast based on (1) the assumption that federal sequestration will continue, (2) debt service schedules for the associated BABs, and (3) historical subsidies. All other miscellaneous revenues are forecast based on assumed rates of inflation.

LAX M&O EXPENSES

Exhibit D presents LAX M&O Expenses by expense type and by Airport cost center. As defined in the Senior Indenture, LAX M&O Expenses are substantially all maintenance and operating expenses of the Airport, excluding (1) depreciation, (2) administrative costs allocated to other airports operated and maintained by the Department, and (3) any expenses of the Airport paid from sources other than Pledged Revenues.

FY 2017 Budget LAX M&O Expenses

The Department's LAX M&O Expenses budget for FY 2017 was used as the basis for forecasting LAX M&O Expenses.

Historically, salaries and benefits have represented the single largest category of expense at the Airport, which is typical of most U.S. airports, and is expected to be the case in FY 2017 and during each Fiscal Year of the Forecast Period at LAX. The next largest category of expense at the Airport is contractual services, which includes expenses associated with various technical, professional service, management, and other contracts. Other categories of LAX M&O Expenses include materials and supplies, utilities, and other operating expenses²³.

The major categories of budgeted FY 2017 LAX M&O Expenses and the allocation to Airport cost centers are shown on Figure 20.

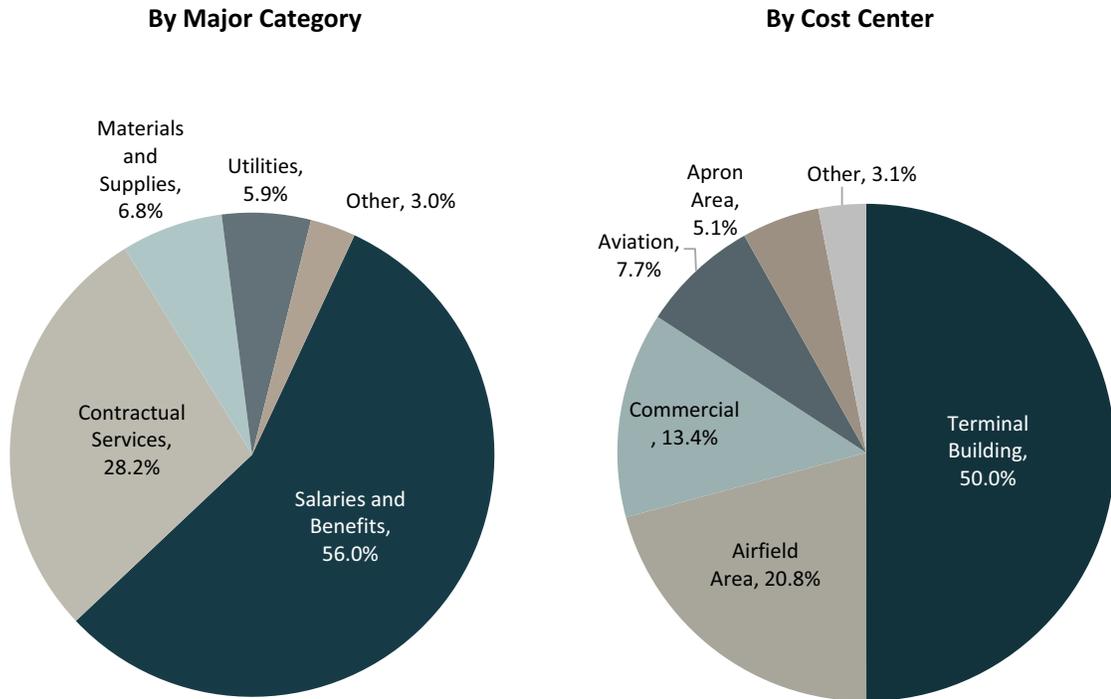
Forecast LAX M&O Expenses

Forecast LAX M&O Expenses in FY 2017 through FY 2023 are based on (1) the Department's FY 2017 budget and its plans for operating Airport facilities throughout the Forecast Period, (2) assumed inflationary and real (net of inflation) increases in the costs of labor, services, utilities, and supplies, and (3) estimates of additional expenses associated with new or expanded Airport facilities included in the Capital Program to be placed in service during the Forecast Period (as described below).

The Department expects that certain projects in the Capital Program, including the Midfield Satellite Concourse - North Project, Terminal 1.5, and the Terminal 3/TBIT Connector Building, will result in additional increases in LAX M&O Expenses during the Forecast Period. Forecasts of LAX M&O Expenses associated with these terminal projects were developed based on preliminary estimates of increased total terminal square footage and current LAX M&O Expenses associated with Airport terminal facilities. Expenses associated with increased space are forecast to be lower per square foot than current LAX M&O Expenses to account for higher efficiency in newer facilities (e.g., lower utility costs).

²³ Includes expenses associated with administrative services and advertising and public relations.

Figure 20
FY 2017 BUDGET LAX MAINTENANCE AND OPERATION EXPENSES

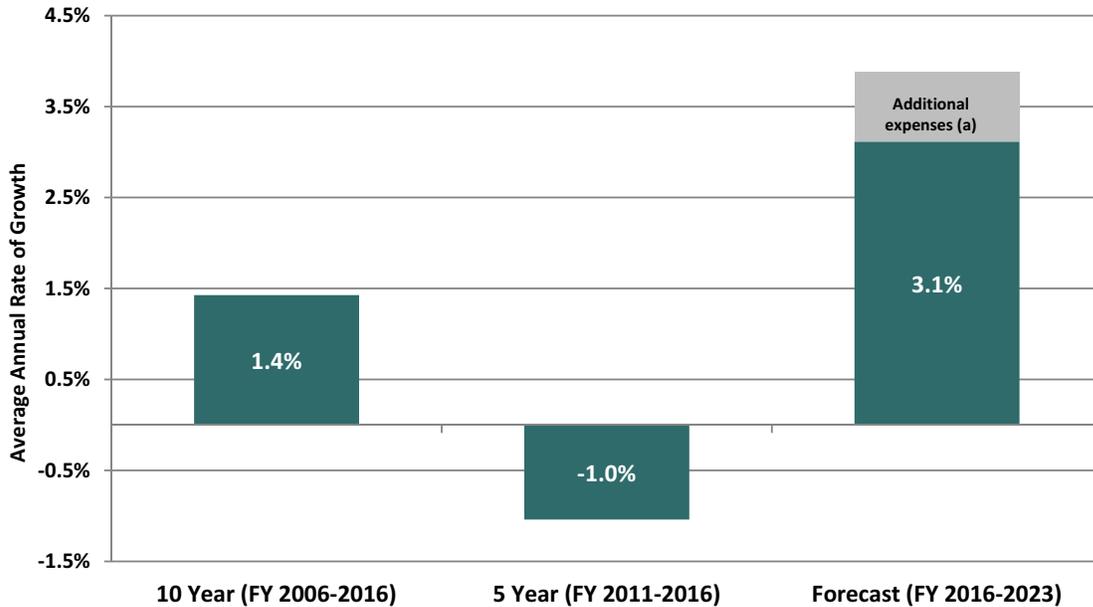


Note: The percentages by major category are prior to adjustments to exclude M&O Expenses associated with administrative expenses allocated to other airports and M&O Expenses paid from grants. The sector shares may not add to 100.0% because of rounding.

Source: The Department's FY 2017 budget.

LAX M&O Expenses per enplaned passenger increased an average of approximately 1.4% per year during the most recent 10-year period (FY 2006 to FY 2016) and decreased an average of approximately 1.0% per year during the most recent 5-year period (FY 2011 through FY 2016). The relationship between LAX M&O Expenses and numbers of enplaned passengers was analyzed because the cost of operating and maintaining an airport is typically based on numbers of passengers, among other factors. A comparison of historical and forecast rates of growth in LAX M&O Expenses per enplaned passenger at the Airport is presented on Figure 21.

Figure 21
RATES OF GROWTH IN LAX M&O EXPENSES PER ENPLANED PASSENGER
 Los Angeles International Airport



(a) Reflects an allowance for additional M&O Expenses associated with projects in the Capital Program. Sources: Department records for historical data. Forecast results are based on the LAX M&O Expenses presented in Exhibit D and forecast enplaned passengers presented in this Report.

LAX M&O Expenses are forecast to increase from a budget of approximately \$717.5 million in FY 2017 to approximately \$1.0 billion in FY 2023, an average annual increase of 6.1% per year.

DEBT SERVICE

Exhibit E presents Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service for outstanding Senior Bonds and Subordinate Obligations, respectively, as well as for the Series 2016B Subordinate Bonds and Future Bonds.

Principal of and interest on Senior Bonds or Subordinate Obligations paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service for purposes of meeting the Senior and Subordinate Rate Covenants. Exhibit E reflects PFC revenues expected to be used by the Department each Fiscal Year to pay debt service. The actual amount of PFC revenues that the Department will use to pay debt service may vary from year to year.

As shown in Exhibit E, Senior Aggregate Annual Debt Service is projected to increase from approximately \$132.8 million in FY 2017 to approximately \$218.2 million in FY 2023. Subordinate Aggregate Annual Debt Service is projected to increase from approximately \$79.1 million in FY 2017 to approximately \$148.6 million in FY 2023.

The Department uses a commercial paper program to assist with short-term borrowing needs pursuant to the Subordinate Indenture. The Department is currently authorized to issue up to \$500 million of commercial paper. As of the date of this Report, the Department's current outstanding commercial paper balance is approximately \$50.4 million of the Series C Subordinate Commercial Paper Notes. No commercial paper was assumed to be issued during the Forecast Period to pay for the costs of projects included in the Capital Program reflected in Exhibit A.

Series 2016B Subordinate Bonds

Debt service on the Series 2016B Subordinate Bonds was estimated by Public Resources Advisory Group, the Department's co-financial adviser. The proposed Series 2016B Subordinate Bonds are assumed to be issued as fixed-rate bonds, amortized over the useful lives of the individual projects to be funded with net bond proceeds, and have a final maturity date of May 15, 2046. An estimated all-in true interest cost of approximately 3.97% on the Series 2016B Subordinate Bonds was provided by Public Resources Advisory Group.

Future Bonds

Debt service projected for future Senior Bonds and Subordinate Obligations expected to be issued during the Forecast Period (as shown in Exhibit B) was also provided by Public Resources Advisory Group, based on the following assumptions:

- An assumed fixed interest rate of 6.00% for both future Senior Bonds and future Subordinate Obligations.
- Capitalized interest and other costs of issuance to be funded from the net proceeds of Future Bonds; debt service on Future Bonds included in the financial forecasts presented in this Report is net of capitalized interest.
- The Future Bonds for each project will be amortized over the lower of the project's expected useful life or 30 years, whichever occurs first.
- Future Bonds issued to pay for airfield or apron projects will be Subordinate Obligations.
- Future Bonds issued for all other projects in the Capital Program will be Senior Bonds.

FLOW OF FUNDS AND DEBT SERVICE COVERAGE

Exhibit F presents the forecast application of Pledged Revenues to the various funds and accounts under the Senior Indenture and the Subordinate Indenture and the calculation of debt service coverage according to the Senior Rate Covenant and the Subordinate Rate Covenant.

Pledged Revenues remaining after the payment of LAX M&O Expenses, Senior Bond debt service, Subordinate Obligations debt service, and other fund deposit requirements are available for any lawful Airport purpose.

The Senior Rate Covenant is forecast to be met in each Fiscal Year of the Forecast Period:

- As reflected in Exhibit C, Pledged Revenues are forecast to exceed the amount of required deposits to various funds and accounts under the Senior Indenture during each Fiscal Year of the Forecast Period, and
- As reflected in Exhibit F and on Figure 22, Net Pledged Revenues are forecast to equal at least 125% of the Senior Aggregate Annual Debt Service, taking into account outstanding Senior Bonds and future Senior Bonds (and assuming no Transfers).

Under the Senior Indenture, any Transfer from the LAX Revenue Account to the Debt Service Fund taken into account for purposes of meeting the Senior Rate Covenant shall not exceed 25% of Senior Aggregate Annual Debt Service on outstanding Senior Bonds. No Transfers were assumed during the Forecast Period for the purposes of calculating Senior debt service coverage ratios.

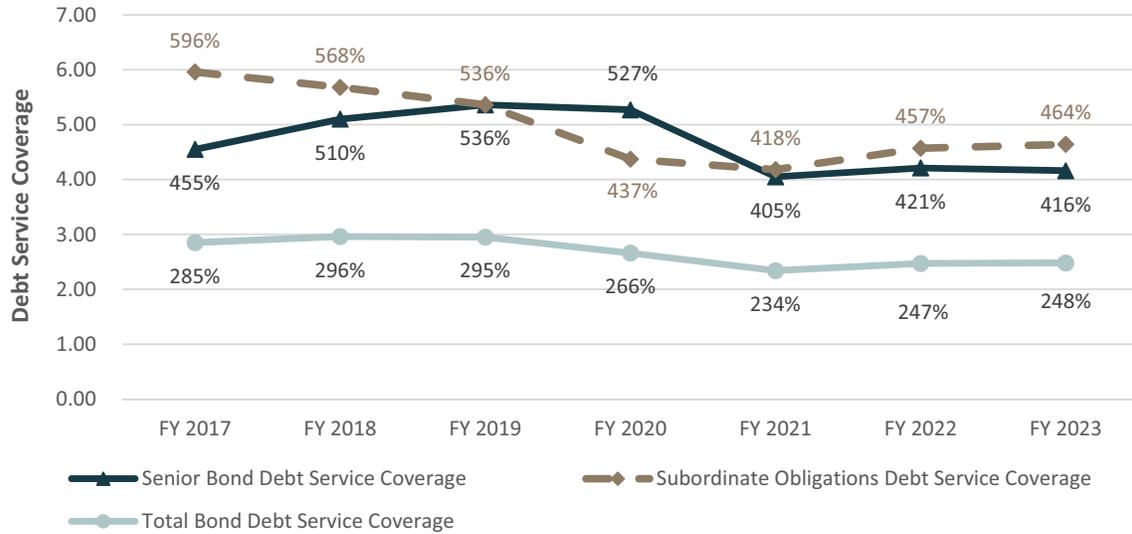
The Subordinate Rate Covenant is forecast to be met in each Fiscal Year of the Forecast Period:

- As reflected in Exhibit F, Subordinate Pledged Revenues are forecast to exceed the amount of required deposits to various funds and accounts under the Subordinate Indenture during each Fiscal Year of the Forecast Period, and
- As reflected in Exhibit F and on Figure 22, Subordinate Pledged Revenues are forecast to equal at least 115% of the Subordinate Aggregate Annual Debt Service, taking into account outstanding Subordinate Obligations, the Series 2016B Subordinate Bonds, and future Subordinate Obligations.

Under the Subordinate Indenture, any Transfer from the LAX Revenue Account to the Debt Service Fund taken into account for purposes of meeting the Subordinate Rate Covenant shall not exceed 15% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations. No Transfers were assumed during the Forecast Period for the purposes of calculating Subordinate debt service coverage ratios.

Table 18 of the Official Statement for the Series 2016B Subordinate Bonds provides historical data on debt service coverage for Senior Bonds and Subordinate Obligations.

Figure 22
FORECAST DEBT SERVICE COVERAGE
 Los Angeles International Airport



Notes: Includes debt service on Senior Bonds, existing Subordinate Obligations, including the Series C Subordinate Commercial Paper Notes, and estimated debt service on the Series 2016B Subordinate Bonds and Future Bonds. Debt service is net of capitalized interest, if any. Debt service coverage on Subordinate Obligations is higher than debt service coverage on Senior Bonds as a result of, among other reasons, significantly lower Subordinate Obligation debt service as compared with Senior Bond debt service. Source of Debt Service: Public Resources Advisory Group.

SENSITIVITY ANALYSIS—PROJECTED FINANCIAL RESULTS

The forecast financial results presented in this Report were tested to determine their sensitivity to potential changes in airline traffic forecasts. The assumptions underlying the projected financial results in the sensitivity analysis include the following relative to the forecasts presented earlier in this Report:

- Enplaned passengers and landed weight would be as presented in this Report for FY 2017 and FY 2018. In FY 2019 through FY 2023, no growth in the numbers of enplaned passengers and landed weight was assumed under the sensitivity analysis.
- Nonairline revenues from certain sources would decrease in proportion to decreases in numbers of enplaned passengers.
- PFC revenues would also decrease in proportion to the projected decreases in the number of enplaned passengers.

As shown in Exhibit G, the Department is projected to meet the requirements of the Senior Rate Covenant and the Subordinate Rate Covenant under the sensitivity analysis.

If the hypothetical assumptions underlying the sensitivity analysis projections were realized, Department management would likely take certain of the following mitigating actions that would result in improved financial metrics compared with those presented in Exhibit G: (1) reduce LAX M&O Expenses, (2) reduce the scope and cost of projects in the Capital Program, (3) delay implementation of certain projects in the Capital Program, and/or (4) reduce or delay the amount and frequency of Future Bonds expected to be issued to fund projects in the Capital Program.

Exhibit A
ESTIMATED CAPITAL PROGRAM COSTS AND SOURCES OF FUNDS (a)
Los Angeles International Airport
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Sources of Funds										
	Estimated Project Costs	Federal Grants		Pay-as-you-go PFCs	Department Funds	Other Funds (b)	Prior Bond Proceeds	Series 2016B Subordinate Bond Proceeds	Future Bond Proceeds		Total
		TSA	AIP						Subordinate	Senior	
TERMINAL PROJECTS											
Midfield Satellite Concourse -- North Project (c)	\$ 1,457,791	\$ -	\$ -	\$ -	\$ 520,457	\$ -	\$ -	\$ 200,000	\$ -	\$ 737,334	\$ 1,457,791
Acquisition of Tenant Managed Terminal Projects											
North Terminals Project	\$ 1,450,000	\$ -	\$ -	\$ -	\$ 652,032	\$ 110,000	\$ -	\$ -	\$ -	\$ 687,968	\$ 1,450,000
Terminal 1 Improvement Project (c)	536,520	56,000	-	-	179,676	15,701	112,114	150,000	23,029	-	536,520
Terminals 6/7/8 Improvement Project (c)	548,827	-	16,121	-	190,584	12,894	219,228	110,000	-	-	548,827
Terminal 3 / TBIT Connector (by Delta)	180,000	-	-	-	90,000	-	-	-	-	90,000	180,000
Terminal Commercial Management (T1, T2, T3, T6, TBIT)	146,631	-	-	-	20,280	-	126,351	-	-	-	146,631
Acquisition of Tenant Managed Terminal Projects Total	\$ 2,861,978	\$ 56,000	\$ 16,121	\$ -	\$ 1,132,572	\$ 138,595	\$ 457,693	\$ 260,000	\$ 23,029	\$ 777,968	\$ 2,861,978
Terminal 1.5 Program	400,000	25,000	-	-	187,500	-	-	-	-	187,500	400,000
Terminal 2 Improvement Project	204,914	-	-	-	86,300	-	118,614	-	-	-	204,914
MSC/BW Baggage Enhancements	250,000	-	-	-	125,000	-	-	-	-	125,000	250,000
Elevators and Escalators Replacements	248,252	-	-	110,000	75,089	-	63,163	-	-	-	248,252
Acquisition of Terminal 4 Improvements	200,000	-	-	-	100,000	-	-	-	-	100,000	200,000
Bradley West Outbound Baggage Handling System	50,853	-	-	-	50,853	-	-	-	-	-	50,853
Other Terminal Projects (d)	237,844	-	-	-	174,886	-	47,958	-	-	15,000	237,844
TERMINAL PROJECTS TOTAL	\$ 5,911,632	\$ 81,000	\$ 16,121	\$ 110,000	\$ 2,452,657	\$ 138,595	\$ 687,428	\$ 460,000	\$ 23,029	\$ 1,942,802	\$ 5,911,632
AIRFIELD AND APRON PROJECTS											
Runway Safety Area Improvements	\$ 267,914	\$ -	\$ 86,874	\$ -	\$ 55,129	\$ -	\$ 26,675	\$ -	\$ 99,236	\$ -	\$ 267,914
Midfield Satellite Concourse -- North Apron Project	187,297	-	10,000	5,960	-	-	-	-	171,337	-	187,297
Other Airfield and Apron Projects (e)	56,527	-	-	-	23,043	-	-	-	33,484	-	56,527
AIRFIELD AND APRON PROJECTS TOTAL	\$ 511,738	\$ -	\$ 96,874	\$ 5,960	\$ 78,172	\$ -	\$ 26,675	\$ -	\$ 304,057	\$ -	\$ 511,738
OTHER CAPITAL PROJECTS											
Noise Mitigation and Soundproofing	\$ 266,500	\$ -	\$ -	\$ 266,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 266,500
Infrastructure (f)	30,029	-	-	7,709	22,320	-	-	-	-	-	30,029
Landside (g)	25,520	-	-	-	25,520	-	-	-	-	-	25,520
Miscellaneous (h)	60,404	-	-	-	32,646	27,758	-	-	-	-	60,404
OTHER CAPITAL PROJECTS TOTAL	\$ 382,453	\$ -	\$ -	\$ 274,209	\$ 80,486	\$ 27,758	\$ -	\$ -	\$ -	\$ -	\$ 382,453
TOTAL CAPITAL PROGRAM	\$ 6,805,823	\$ 81,000	\$ 112,995	\$ 390,169	\$ 2,611,315	\$ 166,353	\$ 714,103	\$ 460,000	\$ 327,086	\$ 1,942,802	\$ 6,805,823

- (a) Only includes projects expected to be completed by FY 2022 to show one full year of financial forecasts following completion of the Capital Program.
(b) Reflects airline tenant funds and certain PFC revenues made available to the Department following the transfer of Ontario International Airport.
(c) To be partially funded with the net proceeds of the Series 2016B Subordinate Bonds
(d) Includes improvements to the exterior of the CTA (Phase 2), improvements to terminals 4-8 (South Terminal Improvement Phase 1), Terminal 6 electrical upgrades, TBIT passenger boarding bridges relocation, Terminal 1-Terminal 8 minimum point of entry and IT room expansion, fire life safety system improvements, along with other miscellaneous terminal improvements.
(e) Includes improvements to Taxilane T (Phase 2), remain overnight aircraft parking electrification, stormwater connections, a replacement of the fire drill training facility, and construction of access posts.
(f) Includes a project to expand Access Control and Alarm Monitoring Systems, integration of the facilities monitoring control system with the CUP, fire life safety system upgrades, Imperial Cargo Complex water mains replacement, and underground storage tank removal.
(g) Includes projects for landside accessibility, wayfinding, and signage in the Central Terminal Area, Bradley West traffic mitigations, and parking structure improvements.
(h) Includes a project for the Airport police canine facility, Qantas hangar demolition, IT improvements, improvements to the Skyview building, and roofing replacement for certain support facilities.
- Source: City of Los Angeles, Department of Airports.

Exhibit B
ESTIMATED SOURCES AND USES OF BOND FUNDS
Los Angeles International Airport
Fiscal Years Ending June 30
(dollars in thousands)

	Series 2016B Subordinate Bonds	Future Bond Series						Total Future Bond Series	Total Series 2016B Subordinate Bonds and Future Bond Series
		2017	2018	2019	2020	2021	2022		
SENIOR BONDS									
Sources of funds									
Par amount		\$ 295,220	\$ 375,550	\$ 566,890	\$ 526,415	\$ 175,955	\$ 269,735	\$ 2,209,765	\$ 2,209,765
Reoffering premium		-	-	-	-	-	-	-	-
Total sources of funds		\$ 295,220	\$ 375,550	\$ 566,890	\$ 526,415	\$ 175,955	\$ 269,735	\$ 2,209,765	\$ 2,209,765
Uses of funds									
Project costs funded with bond proceeds		\$ 246,571	\$ 326,386	\$ 489,464	\$ 474,935	\$ 160,478	\$ 244,968	\$ 1,942,802	\$ 1,942,802
Capitalized interest		21,508	18,390	31,471	8,120	974	2,652	83,117	83,117
Debt service reserve fund deposit		25,073	28,141	41,987	39,674	13,270	20,225	168,370	168,370
Costs of issuance		886	1,127	1,701	1,579	528	809	6,629	6,629
Underwriters discount		1,181	1,502	2,268	2,106	704	1,079	8,839	8,839
Contingency		1	5		1	1	1	8	8
Total uses of funds		\$ 295,220	\$ 375,550	\$ 566,890	\$ 526,415	\$ 175,955	\$ 269,735	\$ 1,940,030	\$ 2,209,765
SUBORDINATE BONDS									
Sources of funds									
Par amount	\$ 464,060	\$ 132,195	\$ 149,955	\$ 81,205	\$ 14,070	\$ -	\$ -	\$ 377,425	\$ 841,485
Reoffering premium	91,749	-	-	-	-	-	-	-	91,749
Total sources of funds	\$ 555,809	\$ 132,195	\$ 149,955	\$ 81,205	\$ 14,070	\$ -	\$ -	\$ 377,425	\$ 933,234
Uses of funds									
Project costs funded with bond proceeds	\$ 460,000	\$ 110,354	\$ 130,336	\$ 73,560	\$ 12,835	\$ -	\$ -	\$ 327,086	\$ 787,086
Capitalized interest	58,624	10,570	6,745	675				17,991	76,615
Debt service reserve fund deposit	33,933	10,341	11,823	6,400	1,133			29,698	63,631
Costs of issuance	1,392	397	450	244	42			1,132	2,524
Underwriters discount	1,856	529	600	325	56			1,510	3,366
Contingency	3	5	1		3			9	12
Total uses of funds	\$ 555,809	\$ 132,195	\$ 149,955	\$ 81,205	\$ 14,070	\$ -	\$ -	\$ 377,425	\$ 933,234

Source: Public Resources Advisory Group.

Exhibit C
PLEDGED REVENUES
Los Angeles International Airport
Fiscal Years Ending June 30
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual		Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023
Airline Revenues								
Terminal Building rentals (a)	\$ 382,399	\$ 410,216	\$ 472,259	\$ 511,147	\$ 558,280	\$ 648,516	\$ 723,034	\$ 735,009
Landing and apron fees	240,853	267,831	282,350	302,120	330,288	345,835	357,075	367,613
Total Airline Revenues	\$ 623,252	\$ 678,047	\$ 754,609	\$ 813,267	\$ 888,568	\$ 994,352	\$ 1,080,109	\$ 1,102,623
Annual increase/(decrease)		8.8%	11.3%	7.8%	9.3%	11.9%	8.6%	2.1%
Aviation Revenues (b)								
Land rentals (c)	\$ 96,167	\$ 97,342	\$ 99,289	\$ 101,275	\$ 103,300	\$ 105,366	\$ 107,473	\$ 109,623
Building rent (d)	80,268	81,873	83,510	85,181	86,884	88,622	90,394	92,202
Aircraft parking	3,139	2,200	2,330	2,413	2,504	2,595	2,687	2,780
Fuel fees	393	484	513	531	551	571	591	611
Other aviation revenue (e)	706	5,082	5,382	5,574	5,784	5,995	6,208	6,423
Total Aviation Revenues	\$ 180,672	\$ 186,981	\$ 191,024	\$ 194,973	\$ 199,023	\$ 203,149	\$ 207,354	\$ 211,639
Annual increase/(decrease)		3.5%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%
Concession Revenues								
Auto parking	\$ 94,086	\$ 98,424	\$ 102,579	\$ 105,562	\$ 108,830	\$ 112,082	\$ 115,336	\$ 118,595
Rental cars	83,300	90,537	95,761	100,009	104,636	109,363	114,210	119,181
Duty free	66,287	71,300	76,188	80,690	85,169	89,614	94,073	98,551
Duty paid terminal concessions								
Food & beverage	\$ 22,746	\$ 25,399	\$ 26,864	\$ 28,056	\$ 30,070	\$ 32,195	\$ 34,442	\$ 36,818
Retail	10,433	11,333	11,811	12,155	13,027	13,948	14,922	15,951
Terminal commercial management	43,343	49,278	52,375	54,966	58,911	63,075	67,477	72,131
Duty paid terminal concessions total	\$ 76,522	\$ 86,010	\$ 91,051	\$ 95,177	\$ 102,009	\$ 109,218	\$ 116,841	\$ 124,900
Commercial vehicles revenue (f)	35,601	38,049	40,048	41,621	43,334	45,070	46,838	48,639
Foreign exchange	8,003	7,925	8,341	8,669	9,026	9,387	9,756	10,131
Telecommunications	2,071	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other concession revenue (g)	6,386	5,661	5,958	6,192	6,447	6,706	6,969	7,237
Terminal advertising	26,438	26,000	26,520	27,050	28,143	29,280	29,866	30,463
Total Concession Revenues	\$ 398,692	\$ 424,935	\$ 447,476	\$ 465,999	\$ 488,623	\$ 511,750	\$ 534,917	\$ 558,725
Annual increase/(decrease)		6.6%	5.3%	4.1%	4.9%	4.7%	4.5%	4.5%

Exhibit C (Page 2 of 2)

PLEGGED REVENUES

Los Angeles International Airport

Fiscal years ending June 30th

(dollars in thousands)

	Actual Unaudited		Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023
Airport Sales and Services								
Accommodations	\$ 97	\$ 114	\$ 116	\$ 118	\$ 120	\$ 122	\$ 124	\$ 126
Other sales & services	2,741	2,534	2,585	2,637	2,690	2,744	2,799	2,855
Total Airport Sales and Services	\$ 2,838	\$ 2,648	\$ 2,701	\$ 2,755	\$ 2,810	\$ 2,866	\$ 2,923	\$ 2,981
Annual increase/(decrease)		-6.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Miscellaneous Revenues								
Build America Bonds subsidy (Series 2009C)	\$ 6,396	\$ 6,156	\$ 6,556	\$ 6,386	\$ 6,210	\$ 6,024	\$ 5,828	\$ 5,592
Build America Bonds subsidy (Series 2010C)	1,366	1,465	1,465	1,465	1,465	1,465	1,465	1,465
Miscellaneous revenues	3,296	2,799	2,854	2,912	2,970	3,030	3,090	3,152
Total Miscellaneous Revenues	\$ 11,058	\$ 10,420	\$ 10,876	\$ 10,763	\$ 10,645	\$ 10,519	\$ 10,383	\$ 10,209
Annual increase/(decrease)		-5.8%	4.4%	-1.0%	-1.1%	-1.2%	-1.3%	-1.7%
Investment Earnings	\$ 18,313	\$ 18,615	\$ 20,739	\$ 24,374	\$ 24,945	\$ 32,154	\$ 38,252	\$ 45,436
Total Pledged Revenues	\$ 1,234,825	\$ 1,321,646	\$ 1,427,425	\$ 1,512,132	\$ 1,614,615	\$ 1,754,789	\$ 1,873,938	\$ 1,931,613
Annual increase/(decrease)		7.0%	8.0%	5.9%	6.8%	8.7%	6.8%	3.1%

(a) Net of Tier 2 Revenue Sharing credits.

(b) Other than Airline Terminal rentals, landing fees, and apron fees.

(c) Includes revenues associated with the Park One property.

(d) Includes (1) passenger terminal building rents from entities other than airlines and (2) rents from buildings other than the passenger terminals.

(e) Includes TSA revenue and other aviation fees.

(f) Includes bus, limousine, taxi cab, and transportation network company (e.g. Uber/Lyft) revenues.

(g) Includes, among other items, luggage carts and automated teller machine revenue.

Exhibit C-1
AIRLINE REVENUES AND COST PER ENPLANED PASSENGER
Los Angeles International Airport
Fiscal Years Ending June 30
(amounts in thousands, except cost per enplaned passenger)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual				Forecast			
	2016	2017	2018	2019	2020	2021	2022	2023
AIRLINE REVENUES								
Airline Terminal Rentals	\$ 382,399	\$ 420,208	\$ 472,259	\$ 519,185	\$ 575,395	\$ 659,169	\$ 727,166	\$ 763,509
Less: Tier Two Revenue Sharing (a)	-	(9,992)	-	(8,038)	(17,115)	(10,653)	(4,132)	(28,500)
Net Airline Terminal Rentals	\$ 382,399	\$ 410,216	\$ 472,259	\$ 511,147	\$ 558,280	\$ 648,516	\$ 723,034	\$ 735,009
Less: Airline Lounge Payments	(22,196)	(22,008)	(23,130)	(25,086)	(27,594)	(30,890)	(33,577)	(35,341)
Net Airline Terminal Payments -- Aeronautical	\$ 360,203	\$ 388,208	\$ 449,129	\$ 486,061	\$ 530,686	\$ 617,626	\$ 689,457	\$ 699,668
Signatory Airline Landing and Apron Fees	240,793	267,706	282,350	302,120	330,288	345,835	357,075	367,613
Subtotal Signatory Airline Revenues	\$ 600,997	\$ 655,914	\$ 731,479	\$ 788,181	\$ 860,974	\$ 963,462	\$ 1,046,532	\$ 1,067,282
Non-Signatory landing fees (b)	59	125	-	-	-	-	-	-
Less: Landing Fees associated with all-cargo carriers	(23,318)	(24,404)	(24,761)	(26,671)	(27,621)	(28,475)	(29,340)	(30,109)
Total Passenger Airline Revenues	\$ 577,738	\$ 631,635	\$ 706,717	\$ 761,510	\$ 833,353	\$ 934,987	\$ 1,017,192	\$ 1,037,173
Enplaned passengers	38,952	41,195	42,509	43,312	44,210	45,081	45,930	46,761
Airline cost per enplaned passenger	\$ 14.83	\$ 15.33	\$ 16.63	\$ 17.58	\$ 18.85	\$ 20.74	\$ 22.15	\$ 22.18

(a) Pursuant to the Rate Agreement, the following amounts, if any, are credited to Signatory Airlines as Tier Two Revenue Sharing: (1) amounts in the Terminal Renewal and Improvement Fund above the maximum balance specified in the Rate Agreement and (2) Net Terminal Cash Flow generated each year above the annual maximum specified in the Rate Agreement.

(b) None assumed in the forecasts.

Exhibit C-2
AIRLINE TERMINAL RENTALS
Los Angeles International Airport
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Forecast						
	2017	2018	2019	2020	2021	2022	2023
Calendar Year Basis (a)							
Demised Premises	\$ 273,183	\$ 336,478	\$ 355,705	\$ 407,851	\$ 467,705	\$ 506,094	\$ 521,751
Common Use Fees	37,279	42,153	44,561	51,708	57,071	61,755	63,665
Federal Inspection Service Fees	104,070	111,212	119,408	142,017	161,723	169,121	173,234
Terminal Special Charges	11,340	14,258	14,594	14,947	15,317	15,545	15,852
Prior Leases	14,543	-	-	-	-	-	-
Total airline terminal rentals (CY basis)	\$ 440,416	\$ 504,101	\$ 534,268	\$ 616,522	\$ 701,816	\$ 752,515	\$ 774,502
Fiscal Year Basis (b)							
Total airline terminal rentals (FY basis)	\$ 420,208	\$ 472,259	\$ 519,185	\$ 575,395	\$ 659,169	\$ 727,166	\$ 763,509

Note: The total airline terminal rentals (FY basis) differs from the amount shown in Exhibit C as a result of Tier 2 revenue sharing, which can be seen on Exhibit C-1.

(a) Terminal rentals are charged on a calendar year basis.

(b) Fiscal year amounts shown for inclusion in overall Airport financial forecasts (which are on a Fiscal Year basis).

Exhibit C-3
LANDING AND APRON FEES
Los Angeles International Airport
Fiscal Years Ending June 30
(in thousands, except for rates)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Budget (a)		Forecast				
	2017	2018	2019	2020	2021	2022	2023
LANDING FEE							
Operating Expense	\$ 151,154	\$ 159,587	\$ 168,402	\$ 176,836	\$ 185,692	\$ 194,991	\$ 204,755
Amortization Expense	13,832	14,723	16,127	15,611	14,184	13,959	13,307
Senior Debt Service	2,754	2,798	3,614	1,074	1,063	1,063	1,062
Subordinate Debt Service	53,260	56,732	63,062	65,703	65,892	65,752	64,001
Less: Credit for Build America Bonds subsidy (Series 2009C)	(6,156)	(6,556)	(6,386)	(6,210)	(6,024)	(5,828)	(5,592)
Less: Credit for Build America Bonds subsidy (Series 2010C)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)
Debt Service Coverage (b)	-	-	-	-	-	-	-
M&O Reserve	2,055	1,936	2,032	3,054	3,530	2,754	2,601
Van Nuys Reliever Net Costs	1,709	2,102	2,521	2,968	3,445	3,953	4,493
Total Airfield Requirement	\$ 217,143	\$ 229,856	\$ 247,907	\$ 257,571	\$ 266,316	\$ 275,177	\$ 283,162
Total Landed Weight (c)	61,389	63,737	64,718	65,841	66,903	67,918	68,888
Landing Fee Rate (d)	\$ 3.54	\$ 3.61	\$ 3.83	\$ 3.91	\$ 3.98	\$ 4.05	\$ 4.11
APRON FEE							
Operating Expense	\$ 36,671	\$ 38,716	\$ 40,855	\$ 42,901	\$ 45,050	\$ 47,306	\$ 49,675
Amortization Expense	4,064	2,613	1,940	1,991	1,857	1,802	1,745
Senior Debt Service	770	783	1,013	297	294	294	294
Subordinate Debt Service	8,684	9,911	9,911	24,960	28,909	29,180	29,373
Debt Service Coverage (b)	-	-	-	1,827	2,553	2,648	2,735
M&O Reserve	499	470	493	741	856	668	631
Total Apron Requirement	\$ 50,688	\$ 52,494	\$ 54,213	\$ 72,717	\$ 79,519	\$ 81,898	\$ 84,452
Passenger Aircraft Landed Weight (c)(d)	52,990	55,314	56,174	57,172	58,115	59,017	59,880
Apron Fee Rate	\$ 0.96	\$ 0.95	\$ 0.97	\$ 1.27	\$ 1.37	\$ 1.39	\$ 1.41
Combined Rate	\$ 4.50	\$ 4.56	\$ 4.80	\$ 5.18	\$ 5.35	\$ 5.44	\$ 5.52

(a) Source: City of Los Angeles, Department of Airports.

(b) Debt service coverage is 0.25x for Senior Debt Service and 0.15x for Subordinate Debt Service. Only debt service coverage above and beyond amortization expenses is included in the Landing Fee and Apron Fee calculations.

(c) Landed weight reflected for FY 2017 (for purposes of this exhibit) is equal to the amount in the LAWA FY 2017 Budget, which is different from the forecast FY 2017 landed weight in this Report.

(d) Landed weight associated with remote commuter operations is excluded for purposes of the Apron Fee calculation, so passenger aircraft landed weight on this exhibit is different from forecast passenger aircraft landed weight in this Report.

Exhibit D
LAX MAINTENANCE AND OPERATION EXPENSES
Los Angeles International Airport
Fiscal Years Ending June 30
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual		Budget (a)		Forecast				
	2016	2017	2018	2019	2020	2021	2022	2023	
BY TYPE OF EXPENSE									
Salaries and Benefits	\$ 387,595	\$ 407,630	\$ 428,011	\$ 449,412	\$ 481,568	\$ 518,733	\$ 547,728	\$ 575,100	
Contractual Services	182,659	205,567	215,845	226,637	242,854	261,596	276,218	290,000	
Administrative Services	3,288	4,354	4,572	4,800	5,143	5,540	5,851	6,100	
Materials and Supplies	46,062	49,435	51,907	54,502	58,402	62,908	66,425	69,700	
Utilities	36,181	43,135	45,291	47,556	50,959	54,891	57,960	60,900	
Advertising and Public Relations	4,095	1,036	1,088	1,143	1,225	1,319	1,393	1,500	
Other Operating Expenses	13,355	16,639	17,471	18,345	19,657	21,174	22,358	23,500	
LAX M&O Expenses before Adjustments	\$ 673,235	\$ 727,796	\$ 764,185	\$ 802,395	\$ 859,808	\$ 926,161	\$ 977,933	\$ 1,026,800	
Adjustments (b)	(12,579)	(10,290)	(6,733)	(3,178)	(3,274)	(3,372)	(3,473)	(3,577)	
LAX M&O Expenses	\$ 660,656	\$ 717,506	\$ 757,452	\$ 799,217	\$ 856,534	\$ 922,789	\$ 974,460	\$ 1,023,223	
Annual increase/(decrease)		8.6%	5.6%	5.5%	7.2%	7.7%	5.6%	5.0%	
Equipment/Vehicles		8,401	8,821	9,262	9,925	10,690	11,288	11,900	
Total LAX M&O Expenses + Equipment/Vehicles		\$ 725,907	\$ 766,273	\$ 808,479	\$ 866,459	\$ 933,479	\$ 985,748	\$ 1,035,123	
SUMMARY BY COST CENTER									
Terminal Building		\$ 362,856	\$ 383,099	\$ 404,261	\$ 442,001	\$ 487,767	\$ 517,716	\$ 543,638	
Apron Area		36,671	38,716	40,855	42,901	45,050	47,306	49,675	
Airfield Area		151,154	159,587	168,402	176,836	185,692	194,991	204,755	
Aviation		55,692	58,799	62,047	65,154	68,417	71,843	75,441	
Commercial		97,105	102,522	108,186	113,604	119,293	125,267	131,540	
Other / Exclusions		22,429	23,550	24,728	25,963	27,260	28,625	30,074	
Total LAX M&O Expenses + Equipment/Vehicles		\$ 725,907	\$ 766,273	\$ 808,479	\$ 866,459	\$ 933,479	\$ 985,748	\$ 1,035,123	

(a) Source: City of Los Angeles, Department of Airports. LAX M&O Expenses + Equipment/Vehicles for FY 2017 does not tie exactly to the Department's Adopted Budget for FY 2017 due to certain adjustments related to capitalized salaries and benefits and other similar adjustments. As a result these numbers do not match exactly to Table 17 of the Official Statement.

(b) Includes expenses excluded from LAX M&O Expenses, including (1) administrative and other expenses allocated to other airports and (2) certain expenses paid with grants.

Exhibit E
DEBT SERVICE
Los Angeles International Airport
Fiscal Years Ending June 30
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

		Forecast						
		2017	2018	2019	2020	2021	2022	2023
SENIOR BOND DEBT SERVICE (a)								
Existing Senior Bond Debt Service								
Series 2008A		\$ 40,434	\$ 40,501	\$ 31,671	\$ 40,987	\$ 33,757	\$ 41,382	\$ 41,381
Series 2009A		20,960	20,896	29,720	23,191	30,410	22,827	22,829
Series 2010A		61,893	61,891	58,651	67,204	62,849	59,817	57,221
Series 2010D		51,725	51,877	52,044	52,226	59,889	62,876	65,469
Series 2012A		11,584	11,427	11,261	9,884	6,587	6,588	6,595
Series 2012B		9,071	9,075	9,074	9,072	9,072	9,073	9,071
Series 2012C		6,897	6,895	10,143	-	-	-	-
Series 2013A		8,534	8,534	8,534	8,534	8,534	8,534	8,534
Series 2015A		15,027	15,748	17,565	17,573	17,564	17,563	17,564
Series 2015B		2,850	3,136	3,139	3,138	3,140	3,136	3,136
Series 2015D		19,702	20,509	20,511	20,522	20,508	20,518	20,514
Series 2015E		2,148	2,148	2,148	2,153	2,149	2,151	2,145
Total Existing Senior Bond Debt Service	[A]	\$ 250,826	\$ 252,636	\$ 254,461	\$ 254,483	\$ 254,459	\$ 254,466	\$ 254,460
Future Senior Bond Debt Service								
Series 2017		\$ -	\$ 14,790	\$ 16,098	\$ 18,930	\$ 24,428	\$ 25,266	\$ 25,266
Series 2018		-	-	15,244	19,582	25,720	27,595	27,595
Series 2019		-	-	-	10,209	33,172	41,987	41,987
Series 2020		-	-	-	-	28,981	38,883	38,883
Series 2021		-	-	-	-	-	12,295	12,859
Series 2022		-	-	-	-	-	-	17,573
Total Future Senior Bond Debt Service	[B]	\$ -	\$ 14,790	\$ 31,342	\$ 48,721	\$ 112,301	\$ 146,026	\$ 164,163
Total Senior Bond Debt Service	[C]=[A]+[B]	\$ 250,826	\$ 267,426	\$ 285,803	\$ 303,204	\$ 366,760	\$ 400,492	\$ 418,623
Less: PFC revenues used to pay Senior Bond Debt Service (b)	[D]	\$ (117,985)	\$ (135,985)	\$ (152,703)	\$ (159,228)	\$ (161,412)	\$ (186,906)	\$ (200,376)
Senior Aggregate Annual Debt Service (c)	[E]=[C]+[D]	\$ 132,841	\$ 131,442	\$ 133,100	\$ 143,976	\$ 205,349	\$ 213,586	\$ 218,246
Allocation to Direct Cost Centers								
Terminal Building		\$ 119,769	\$ 118,210	\$ 117,429	\$ 133,121	\$ 194,524	\$ 202,764	\$ 207,422
Apron Area		768	783	1,013	297	294	294	294
Airfield Area		2,744	2,798	3,614	1,074	1,063	1,063	1,062
Aviation		2,963	3,022	3,936	1,087	1,083	1,082	1,081
Commercial		6,597	6,629	7,108	8,396	8,385	8,384	8,387
Senior Aggregate Annual Debt Service	= [E]	\$ 132,841	\$ 131,442	\$ 133,100	\$ 143,976	\$ 205,349	\$ 213,586	\$ 218,246

Exhibit E (page 2 of 2)

DEBT SERVICE

Los Angeles International Airport
Fiscal Years Ending June 30 (dollars in thousands)

	Forecast						
	2017	2018	2019	2020	2021	2022	2023
SUBORDINATE OBLIGATIONS DEBT SERVICE (a)							
Existing Subordinate Obligations Debt Service							
Series 2008C	\$ 6,196	\$ 6,191	\$ 6,195	-	-	-	-
Series 2009C	27,958	27,808	27,635	27,455	27,273	27,086	26,845
Series 2009E	4,791	4,793	4,796	4,793	-	-	-
Series 2010B	6,729	6,730	6,730	6,730	8,328	8,689	8,937
Series 2010C	4,187	4,187	4,187	4,187	4,187	4,187	4,187
Series 2013B	5,059	5,274	5,274	5,274	5,280	5,270	5,270
Series 2015C	9,783	9,784	9,785	15,979	15,979	15,978	14,404
Series 2016A	8,970	20,431	20,434	20,431	20,431	20,435	20,449
Commercial Paper	5,250	5,250	5,250	5,250	5,250	5,250	5,250
Total Existing Subordinate Obligations Debt Service	[F] \$ 78,922	\$ 90,447	\$ 90,284	\$ 90,099	\$ 86,727	\$ 86,895	\$ 85,341
Future Subordinate Obligations Debt Service							
Series 2016B	\$ 212	\$ 2,020	\$ 9,138	\$ 23,834	\$ 33,933	\$ 33,895	\$ 33,895
Series 2017	-	2,330	4,912	9,832	10,341	10,341	10,341
Series 2018	-	-	3,914	11,143	11,730	11,730	11,730
Series 2019	-	-	-	5,725	6,211	6,211	6,211
Series 2020	-	-	-	-	1,133	1,100	1,100
Total Future Subordinate Obligations Debt Service	[G] \$ 212	\$ 4,350	\$ 17,963	\$ 50,534	\$ 63,349	\$ 63,277	\$ 63,277
Subordinate Aggregate Annual Debt Service	[H]=[F]+[G] \$ 79,135	\$ 94,797	\$ 108,248	\$ 140,633	\$ 150,076	\$ 150,172	\$ 148,618
Allocation to Direct Cost Centers							
Terminal Building	\$ 10,301	\$ 22,856	\$ 29,976	\$ 44,672	\$ 49,976	\$ 49,943	\$ 49,946
Apron Area	9,252	9,911	9,911	24,960	28,909	29,180	29,373
Airfield Area	54,321	56,732	63,062	65,703	65,892	65,752	64,001
Aviation	-	-	-	-	-	-	-
Commercial	5,261	5,298	5,298	5,298	5,298	5,298	5,298
Subordinate Aggregate Annual Debt Service	= [H] \$ 79,135	\$ 94,797	\$ 108,248	\$ 140,633	\$ 150,076	\$ 150,172	\$ 148,618
TOTAL DEBT SERVICE	= [E]+[H] \$ 211,976	\$ 226,239	\$ 241,348	\$ 284,609	\$ 355,424	\$ 363,759	\$ 366,864

(a) As defined in the Senior and Subordinate Indentures, for purposes of meeting the Senior and Subordinate Rate Covenants, Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service is net of PFC Revenues used to pay debt service and net of capitalized interest.

(b) The amount of PFC revenues reflected on this exhibit to pay debt service is based on (1) existing approvals from the FAA and (2) the assumption that the Department will apply for and receive FAA approval to use PFC revenues for debt service associated with certain future terminal projects.

Exhibit F
FLOW OF FUNDS AND DEBT SERVICE COVERAGE
Los Angeles International Airport
Fiscal Years Ending June 30
(amounts in thousands, except coverage ratios)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

		Forecast						
		2017	2018	2019	2020	2021	2022	2023
FLOW OF FUNDS								
Pledged Revenues								
Airline Revenues		\$ 678,047	\$ 754,609	\$ 813,267	\$ 888,568	\$ 994,352	\$ 1,080,109	\$ 1,102,623
Aviation Revenues		186,981	191,024	194,973	199,023	203,149	207,354	211,639
Concession Revenues		424,935	447,476	465,999	488,623	511,750	534,917	558,725
Airport Sales & Services		2,648	2,701	2,755	2,810	2,866	2,923	2,981
Miscellaneous Revenues		10,420	10,876	10,763	10,645	10,519	10,383	10,209
Investment Earnings		18,615	20,739	24,374	24,945	32,154	38,252	45,436
Total Pledged Revenues	[A]	\$ 1,321,646	\$ 1,427,425	\$ 1,512,132	\$ 1,614,615	\$ 1,754,789	\$ 1,873,938	\$ 1,931,613
LAX M&O Expenses	[B]	717,506	757,452	799,217	856,534	922,789	974,460	1,023,223
Net Pledged Revenues	[C]=[A]-[B]	\$ 604,141	\$ 669,973	\$ 712,915	\$ 758,081	\$ 832,000	\$ 899,478	\$ 908,390
Remaining Flow of Funds costs								
Senior Aggregate Annual Debt Service (a)	[D]	\$ 132,841	\$ 131,442	\$ 133,100	\$ 143,976	\$ 205,349	\$ 213,586	\$ 218,246
Subordinate Aggregate Annual Debt Service (b)	[E]	79,135	94,797	108,248	140,633	150,076	150,172	148,618
M&O Reserve	[F]	9,566	9,009	9,459	14,214	16,427	12,817	12,105
Total - Remaining Flow of Funds costs	[G]=[D]+[E]+[F]	\$ 221,542	\$ 235,248	\$ 250,807	\$ 298,822	\$ 371,851	\$ 376,575	\$ 378,969
Net revenues remaining (c)	[H]=[C]-[G]	\$ 382,598	\$ 434,725	\$ 462,108	\$ 459,258	\$ 460,149	\$ 522,903	\$ 529,421

Exhibit F (page 2 of 2)
FLOW OF FUNDS AND DEBT SERVICE COVERAGE
Los Angeles International Airport
Fiscal Years Ending June 30 (dollars in thousands)

		Forecast						
		2017	2018	2019	2020	2021	2022	2023
DEBT SERVICE COVERAGE								
Senior Bond Debt Service Coverage								
Pledged Revenues	= [A]	\$ 1,321,646	\$ 1,427,425	\$ 1,512,132	\$ 1,614,615	\$ 1,754,789	\$ 1,873,938	\$ 1,931,613
LAX M&O Expenses	= [B]	717,506	757,452	799,217	856,534	922,789	974,460	1,023,223
Net Pledged Revenues	[C]=[A]-[B]	\$ 604,141	\$ 669,973	\$ 712,915	\$ 758,081	\$ 832,000	\$ 899,478	\$ 908,390
Senior Aggregate Annual Debt Service (a)	= [D]	132,841	131,442	133,100	143,976	205,349	213,586	218,246
Senior Bond Debt Service Coverage (d)	= [C] / [D]	4.55	5.10	5.36	5.27	4.05	4.21	4.16
Subordinate Obligation Debt Service Coverage								
Net Pledged Revenues	= [C]	\$ 604,141	\$ 669,973	\$ 712,915	\$ 758,081	\$ 832,000	\$ 899,478	\$ 908,390
Less: Senior Aggregate Annual Debt Service	= [D]	132,841	131,442	133,100	143,976	205,349	213,586	218,246
Net Subordinate Pledged Revenues	[H]=[C]-[D]	\$ 471,299	\$ 538,531	\$ 579,815	\$ 614,105	\$ 626,652	\$ 685,892	\$ 690,143
Subordinate Aggregate Annual Debt Service (b)	= [E]	79,135	94,797	108,248	140,633	150,076	150,172	148,618
Subordinate Obligation Debt Service Coverage (d)	= [H] / [E]	5.96	5.68	5.36	4.37	4.18	4.57	4.64
Total Debt Service Coverage								
Net Pledged Revenues	= [C]	\$ 604,141	\$ 669,973	\$ 712,915	\$ 758,081	\$ 832,000	\$ 899,478	\$ 908,390
Senior and Subordinate Bond Debt Service	[I]=[D]+[E]	\$ 211,976	\$ 226,239	\$ 241,348	\$ 284,609	\$ 355,424	\$ 363,759	\$ 366,864
Total Debt Service Coverage (d)	= [C] / [I]	2.85	2.96	2.95	2.66	2.34	2.47	2.48

- (a) Senior Aggregate Annual Debt Service is net of PFC revenues used to pay Senior Debt Service and net of capitalized interest.
(b) Subordinate Aggregate Debt Service is net of capitalized interest.
(c) These amounts are available to the Department to use for discretionary purposes.
(d) No Transfers were assumed for purposes of calculating debt service coverage ratios.

Exhibit G
COMPARISON OF BASELINE FORECAST AND SENSITIVITY PROJECTION RESULTS
 Los Angeles International Airport
 Fiscal Years Ending June 30

The forecasts and projections presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Forecast						
	2017	2018	2019	2020	2021	2022	2023
ENPLANED PASSENGERS							
Baseline forecast (a)	41,194,714	42,508,724	43,311,750	44,210,289	45,080,581	45,930,403	46,760,558
Annual increase/(decrease)	5.8%	3.2%	1.9%	2.1%	2.0%	1.9%	1.8%
Sensitivity projection	41,194,714	42,508,724	42,508,724	42,508,724	42,508,724	42,508,724	42,508,724
Annual increase/(decrease)	5.8%	3.2%	0%	0%	0%	0%	0%
AIRLINE COST PER ENPLANED PASSENGER							
Baseline forecast	\$ 15.33	\$ 16.63	\$ 17.58	\$ 18.85	\$ 20.74	\$ 22.15	\$ 22.18
Sensitivity projection	\$ 15.33	\$ 16.63	\$ 17.91	\$ 19.68	\$ 22.12	\$ 24.11	\$ 24.66
DEBT SERVICE COVERAGE ON SENIOR BONDS							
Baseline forecast	4.55	5.10	5.36	5.27	4.05	4.21	4.16
Sensitivity projection	4.55	5.10	5.29	5.15	3.93	4.05	3.97
DEBT SERVICE COVERAGE ON SUBORDINATED OBLIGATIONS							
Baseline forecast	5.96	5.68	5.36	4.37	4.18	4.57	4.64
Sensitivity projection	5.96	5.68	5.27	4.25	4.01	4.34	4.36
DEBT SERVICE COVERAGE ON ALL BONDS							
Baseline forecast	2.85	2.96	2.95	2.66	2.34	2.47	2.48
Sensitivity projection	2.85	2.96	2.92	2.60	2.27	2.38	2.36

(a) As reflected in Exhibits A-F.

APPENDIX B
ANNUAL FINANCIAL REPORT OF
LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF
THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

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Los Angeles
International Airport

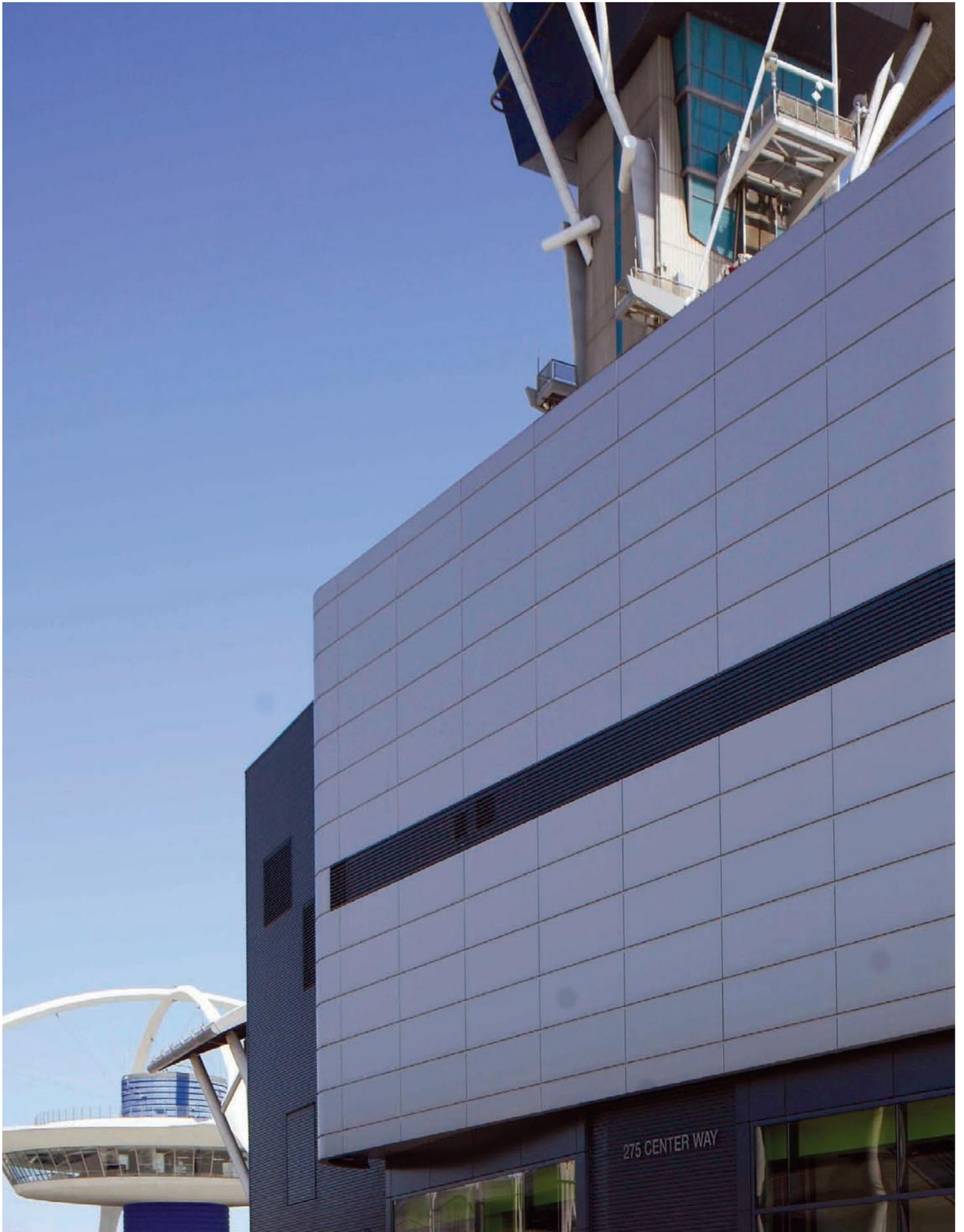


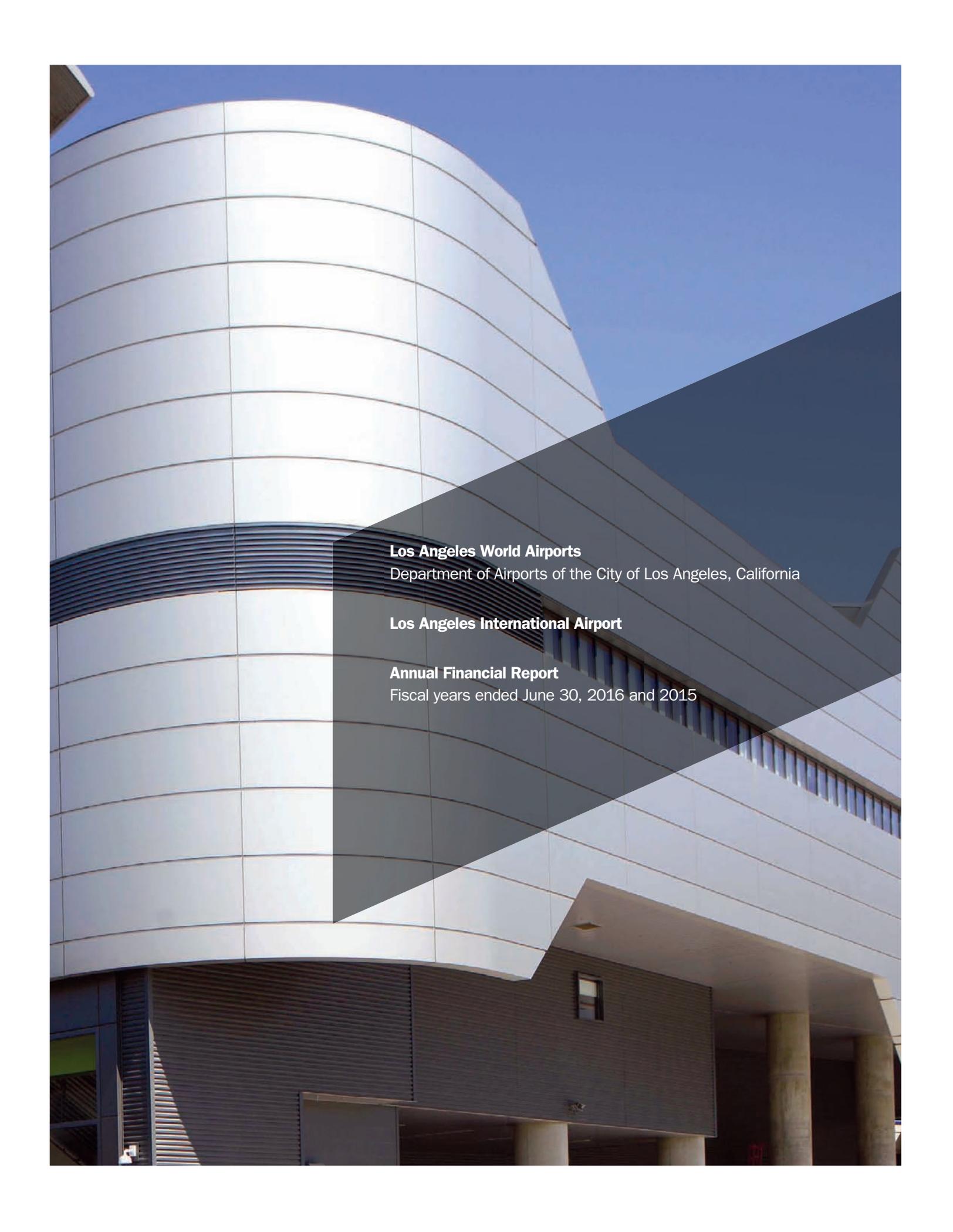
Annual Financial Report

Fiscal years ended June 30, 2016
and 2015

Department of Airports Los Angeles, California







Los Angeles World Airports

Department of Airports of the City of Los Angeles, California

Los Angeles International Airport

Annual Financial Report

Fiscal years ended June 30, 2016 and 2015

Board of Airport Commissioners, Elected City Officials, and Los Angeles World Airports Executive Staff



Sean O. Burton
President



Valeria C. Velasco
Vice President



Gabriel L. Eshaghian
Commissioner



Nolan V. Rollins
Commissioner



Beatrice C. Hsu
Commissioner



Jeffery J. Daar
Commissioner



Cynthia A. Telles
Commissioner



Deborah Flint
Executive Director

CITY OF LOS ANGELES ELECTED OFFICIALS

Eric Garcetti, Mayor
Mike Feuer, City Attorney
Ron Galperin, City Controller

CITY COUNCIL

Herb J. Wesson, Jr., President, District 10
Mitchell Englander, President Pro Tempore, District 12
Nury Martinez, Assistant President Pro Tempore, District 6

Gilbert A. Cedillo, District 1
Paul Krekorian, District 2
Bob Blumenfield, District 3
David E. Ryu, District 4

Paul Koretz, District 5
Vacant, District 7
Marqueece Harris-Dawson, District 8
Curren D. Price, Jr., District 9

Mike Bonin, District 11
Mitch O'Farrell, District 13
José Huizar, District 14
Joe Buscaino, District 15

LOS ANGELES WORLD AIRPORTS EXECUTIVE STAFF

Deborah Flint, Executive Director
Samson Mengistu, Deputy Executive Director, Chief Operating Officer
Stephen Martin, Deputy Executive Director, Chief Development Officer
Ryan Yakubik, Deputy Executive Director, Chief Financial Officer
Justin Erbacci, Deputy Executive Director, Chief Innovation and Technology Officer
Roger Johnson, Deputy Executive Director, Airports Development
Debbie Bowers, Deputy Executive Director, Commercial Development
Samantha Bricker, Deputy Executive Director, Environmental Programs
Trevor Daley, Deputy Executive Director, External Affairs
David Shuter, Deputy Executive Director, Facilities Maintenance & Utilities
Cynthia Guidry, Deputy Executive Director, Planning and Development
Patrick Gannon, Deputy Executive Director, Security and Public Safety
Raymond Ilgunas, General Counsel



Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2016.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2016 and 2015, were fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a material effect on its passenger facility charge program for the fiscal year ended June 30, 2016. MGO's report is on pages 95 and 96.

MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1936, as amended by Senate Bill 1192 and Assembly Bill 359*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2016. MGO's report is on pages 101 and 102.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 5 through 30.

The financial condition of LAX depends primarily upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. Passenger and cargo traffic at LAX depends on the demographic characteristics and economic activity of the Air Trade Area. LAX is part of a system of Southern California airports - along with LA/Ontario International Airport, Van Nuys Airport and property retained for future aeronautical uses in the City of Palmdale - that are owned and operated by Los Angeles World Airports.

LAX is the seventh busiest airport in the world and third in the United States. LAX served more than 77.8 million passengers in fiscal year 2016. LAX offers 742 daily nonstop flights to 101 cities in the U.S. and 1,273 weekly nonstop flights to 76 cities in 41 countries on 64 commercial air carriers. LAX ranks 14th in the world and fifth in the U.S. in air cargo tonnage processed, with more than 2.1 million tons of air cargo valued at over \$101.4 billion.

Passenger traffic at LAX increased by 8.0% in fiscal year 2016 as compared to fiscal year 2015. Of the 77.8 million passengers that moved in and out of LAX, domestic passengers accounted for 72.2%, while international passengers accounted for 27.8%. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

A handwritten signature in blue ink, appearing to read 'Deborah Flint', written over a light blue circular stamp.

Deborah Flint
Executive Director

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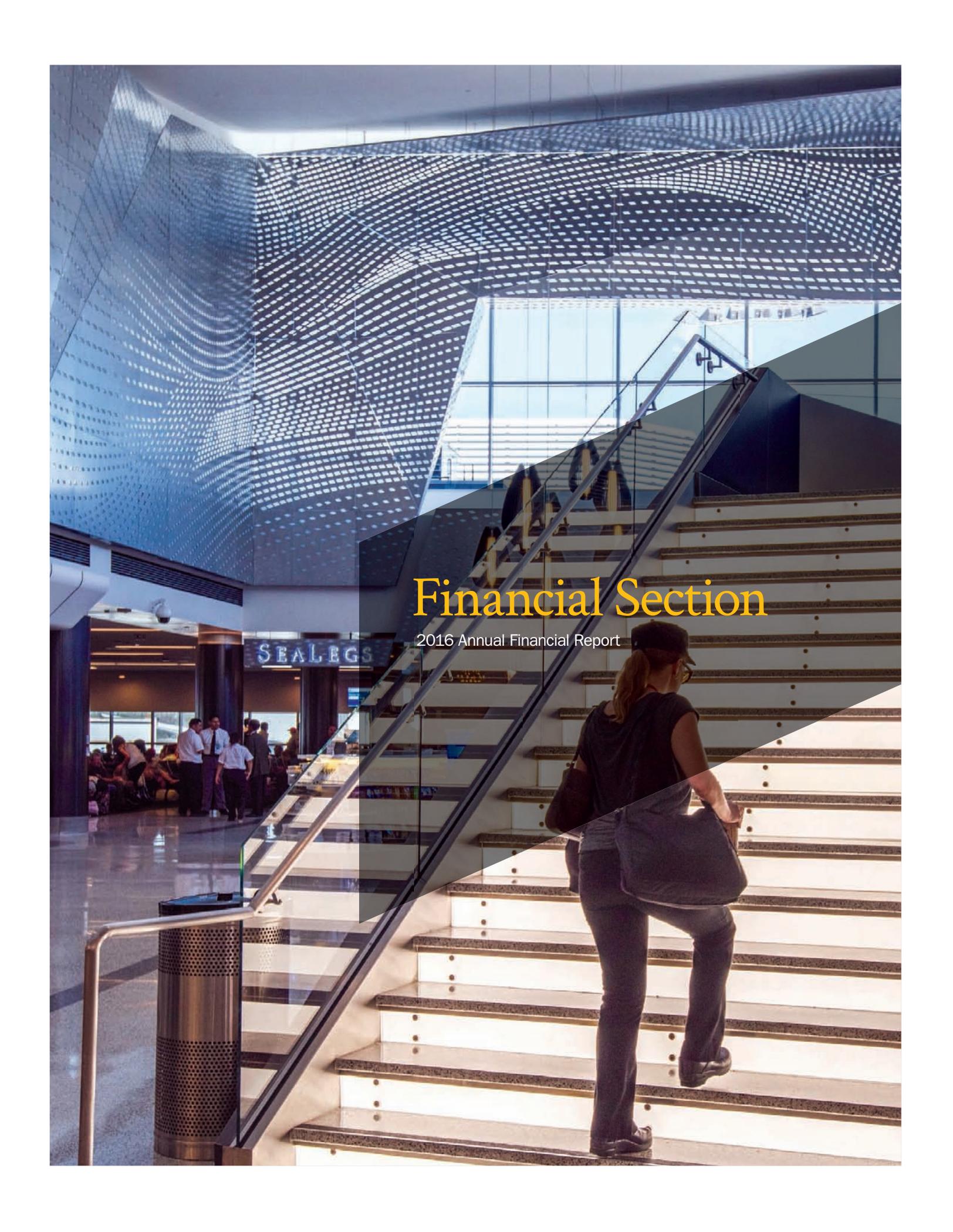
Los Angeles World Airports
 (Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Annual Financial Report
Fiscal Years Ended June 30, 2016 and 2015

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Financial Section

2016 Annual Financial Report

Financial Section Contents

- INDEPENDENT AUDITOR'S REPORT
- MANAGEMENT'S DISCUSSION AND ANALYSIS
- FINANCIAL STATEMENTS
- REQUIRED SUPPLEMENTARY INFORMATION





Independent Auditor's Report

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the fiscal years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAX as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements of LAX are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of LAX. They do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2016 and 2015, the changes in their financial position, or, where applicable, their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Independent Auditor's Report (continued)

Change in Accounting Principles

As described in Note 1, effective July 1, 2014, LAX adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The implementation of these statements resulted in a restatement of net position as of July 1, 2014, in the amount of \$567.9 million. The net position as of July 1, 2013 was not restated because all of the information available to restate prior year amounts was not readily available. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 30, the schedule of LAX's proportionate share of the net pension liability on page 89, and the schedule of contributions - pension on pages 90 to 92 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of LAX. The accompanying compliance section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 97 to 100; and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 103 to 104 (collectively Information) are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of LAWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAWA's internal control over financial reporting and compliance.

Macias Gini E O'Connell CPA

Los Angeles, California
October 26, 2016

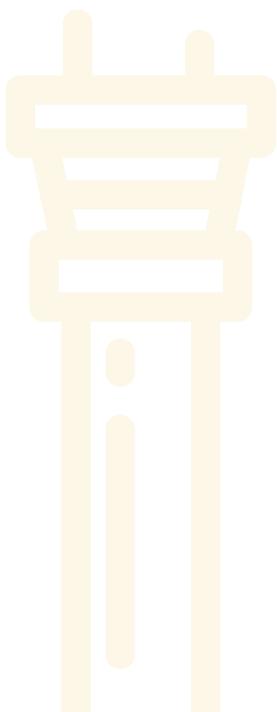


Financial Section

Management's Discussion and Analysis

2016 Annual Financial Report

Management's Discussion and Analysis



Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Los Angeles World Airports (LAWA) is an independent, fiscally self-sufficient department of the City of Los Angeles, California (City). LAWA is an enterprise fund that owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). LAWA owns approximately 17,750 acres of land located east of USAF Plant 42 in the City of Palmdale. LAWA retains the rights for future development of the Palmdale property.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2016 and 2015. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 33.

Using This Financial Report

LAX's financial report consists of this management's discussion and analysis (MD&A), and the financial statements that follow after the MD&A. The financial statements include:

The Statements of Net Position present information on all of LAX's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2016 and 2015. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. Over time, increases and decreases in net position may serve as a useful indicator about whether LAX's financial condition is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present the results of LAX's operations and information showing the changes in net position for the fiscal years ended June 30, 2016 and 2015. These statements can, among other things, be useful indicators of how LAX recovered its costs through rates and charges. All changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

The Statements of Cash Flows relate to the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. Consequently, only transactions that affect LAX's cash and cash equivalents accounts were recorded in these statements. At the end of the statements, a reconciliation is provided to assist in understanding the difference between operating income and cash flows from operating activities.

The Notes to the Financial Statements present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of LAX's financial activities.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Passenger and Other Traffic Activity Highlights

The following table presents a summary of passenger and other traffic for the last three fiscal years:

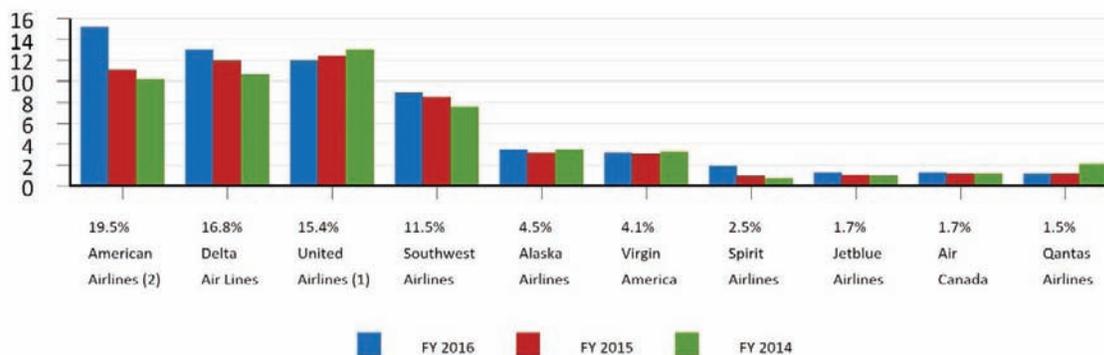
	FY 2016	FY 2015	FY 2014	% Change	
				FY 2016	FY 2015
Total passengers	77,799,530	72,062,730	68,786,455	8.0%	4.8%
Domestic passengers	56,151,106	52,478,111	50,162,524	7.0%	4.6%
International passengers	21,648,424	19,584,619	18,623,931	10.5%	5.2%
Departing passengers	38,952,367	36,114,325	34,333,784	7.9%	5.2%
Arriving passengers	38,847,163	35,948,405	34,452,671	8.1%	4.3%
Passenger flight operations					
Departures	300,023	291,107	286,725	3.1%	1.5%
Arrivals	299,652	290,920	286,627	3.0%	1.5%
Landing weight					
(thousand lbs)	59,166,582	54,990,272	52,572,657	7.6%	4.6%
Air cargo (tons)					
Mail	92,675	87,791	76,784	5.6%	14.3%
Freight	2,024,248	2,016,438	1,852,760	0.4%	8.8%

Note: Prior years' data may change because of the updated available information, however, in order to remain comparable and consistent with the published data, the passenger and other traffic numbers for prior fiscal years are not changed. Fiscal Year (FY) 2016 traffic data is based on information available on July 26, 2016.

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2016 and the comparative passengers for fiscal years 2015 and 2014.

FY 2016 Top Ten Carriers and Percentage of Market Share (passengers in millions)



(1) Continental Airlines merged with United Airlines and combined data was reported in FY 2014.

(2) American Airlines merged with US Airways and combined data was reported in FY 2016.



Passenger Traffic, Fiscal Year 2016

Passenger traffic at LAX increased by 8.0% in fiscal year 2016 as compared to fiscal year 2015. Of the 77.8 million passengers that moved in and out of LAX, domestic passengers accounted for 72.2%, while international passengers accounted for 27.8%. American Airlines ferried the largest number of passengers at 15.2 million with a 11.8%¹ increase in passenger traffic. Delta Air Lines, ranked second with 13.1 million passengers posted a 9.2% increase in passenger traffic. United Airlines, ranked third with 12.0 million passengers posted a 3.2% decrease in passenger traffic. Southwest Airlines (8.9 million) and Alaska Airlines (3.5 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.3 million passengers and was ranked ninth overall.

Passenger Traffic, Fiscal Year 2015

Passenger traffic at LAX increased by 4.8% in fiscal year 2015 as compared to fiscal year 2014. Of the 72.1 million passengers that moved in and out of LAX, domestic passengers accounted for 72.8%, while international passengers accounted for 27.2%. United Airlines ferried the largest number of passengers at 12.4 million with a 5.2% decrease in passenger traffic. Delta Air Lines, ranked second with 12.0 million passengers posted a 17.8% increase in passenger traffic. American Airlines, ranked third with 11.1 million passengers posted a 3.8% increase in passenger traffic. Southwest Airlines (8.5 million) and Alaska Airlines (3.2 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked eight overall.

Flight Operations, Fiscal Year 2016

Departures and arrivals at LAX had an increase of 17,648 flights or 3.0% during fiscal year 2016 when compared to fiscal year 2015. Scheduled and charter were up 19,080 flights, while commuter flights were down 1,432. Revenue landing pounds were up 7.6%. The top three carriers in terms of landing pounds were American Airlines, Delta Air Lines, and United Airlines. In total, these three airlines contributed 42.1% of the total revenue pounds at LAX.

Flight Operations, Fiscal Year 2015

Departures and arrivals at LAX had an increase of 8,675 flights or 1.5% during fiscal year 2015 when compared to fiscal year 2014. Scheduled² and charter were up 85,315 flights, while commuter flights were down 76,640. Revenue landing pounds were up 4.6%. The top three carriers in terms of landing pounds were Delta Air Lines, United Airlines and American Airlines. In total, these three airlines contributed 40.2% of the total revenue pounds at LAX.

¹ American Airlines merged with US Airways and combined data was reported in FY 2016. On a comparable basis, FY 2015 passenger data for American Airlines was normalized to show combined total of 13.6 million for the purpose of calculating the increase in passenger traffic.

² The increase in scheduled and charter flights by 85,315 and the decrease in commuter flights by 76,640 in fiscal year 2015 was due to the grouping of the Skywest activity into United Airlines effective FY2015. Skywest is considered as a commuter airline while United Airlines is considered as a scheduled carrier. Prior year data is not restated as information is not available.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Air Cargo Operations, Fiscal Year 2016

Freight and mail cargo at LAX increased by 0.6% in fiscal year 2016 as compared to fiscal year 2015. Freight and mail were up by 7,810 tons and 4,884 tons, respectively. Domestic cargo was up by 14,185 tons or 1.7% and international cargo was down by 1,491 tons or 0.1%. Federal Express was the top air freight carrier accounting for 17.8% of total freight cargo, followed by Delta Air Lines with 4.8%. Delta Air Lines was the top mail carrier accounting for 24.5% of total mail cargo.

Air Cargo Operations, Fiscal Year 2015

Freight and mail cargo at LAX increased by 9.1% in fiscal year 2015 as compared to fiscal year 2014. Freight and mail were up by 163,678 tons and 11,007 tons, respectively. Domestic cargo was up by 32,670 tons or 4.1% and international cargo was up by 142,015 tons or 12.6%. Federal Express was the top air freight carrier accounting for 17.6% of total freight cargo, followed by Korean Airlines with 4.9%. United Airlines was the top mail carrier accounting for 31.8% of total mail cargo.

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2016

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2016 by \$4.5 billion.
- Bonded debt had a net increase of \$619.8 million.
- Operating revenue totaled \$1.2 billion.
- Operating expenses (including depreciation and amortization of \$226.4 million) totaled \$890.3 million.
- Net nonoperating revenue was \$44.6 million.
- Federal and other grants totaled \$49.3 million.
- LAX's proportionate share of net pension liability (NPL) for the retirement benefits, based on the ratio of LAX's contributions to the City's retirement plan's total contributions, was \$642.4 million as of measurement date June 30, 2015, and reporting date June 30, 2016. NPL, the difference between the total pension liability (TPL) and the retirement plan's net position, is an important measure required by Governmental Accounting Standards Board (GASB) Statements No. 68³ and 71⁴, to disclose in the financial statements. (See Note 13 of the notes to the financial statements.)
- Net position increased by \$415.3 million.

³ GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, issued in June 2012

⁴ GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68, issued in November 2013



Financial Highlights, Fiscal Year 2015

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2015 by \$4.1 billion.
- Bonded debt had a net increase of \$316.5 million.
- Operating revenue totaled \$1.0 billion.
- Operating expenses (including depreciation and amortization of \$178.0 million) totaled \$823.4 million.
- Net nonoperating revenue was \$17.6 million.
- Federal and other grants totaled \$31.0 million.
- LAX's proportionate share of NPL for the retirement benefits, based on the ratio of LAX's contributions to the City's retirement plan's total contributions, was \$566.6 million as of measurement date June 30, 2014, and reporting date June 30, 2015. NPL, the difference between the TPL and the retirement plan's net position, is an important measure required by GASB Statements No. 68 and 71, to disclose in the financial statements. (See Note 13 of the notes to the financial statements.) The data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amounts was not readily available.
- Net position decreased by \$291.6 million (including restatement of net position of \$(567.9) million as a result of the implementation of GASB Statements No. 68 and 71).



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Net Position Summary

A condensed net position summary for fiscal years 2016, 2015, and 2014 is presented below:

Condensed Net Position (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Assets					
Unrestricted current assets	\$ 925,151	\$ 777,512	\$ 752,234	\$ 147,639	\$ 25,278
Restricted current assets	1,741,896	1,590,602	1,673,096	151,294	(82,494)
Capital assets, net	7,793,002	6,991,500	6,453,252	801,502	538,248
Other noncurrent assets	5,785	8,550	11,235	(2,765)	(2,685)
Total assets	10,465,834	9,368,164	8,889,817	1,097,670	478,347
Deferred outflows of resources					
Deferred charges on debt refunding	24,179	25,307	676	(1,128)	24,631
Changes of assumptions related to pension	65,097	82,071	—	(16,974)	82,071
Contribution after measurement date related to pension	55,972	49,043	—	6,929	49,043
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,273	—	—	6,273	—
Total deferred outflows of resources	151,521	156,421	676	(4,900)	155,745
Liabilities					
Current liabilities payable from unrestricted assets	339,450	304,022	402,672	35,428	(98,650)
Current liabilities payable from restricted assets	166,609	126,729	112,117	39,880	14,612
Noncurrent liabilities	4,940,204	4,335,666	4,030,675	604,538	304,991
Net pension liability	642,431	566,613	—	75,818	566,613
Total liabilities	6,088,694	5,333,030	4,545,464	755,664	787,566
Deferred inflows of resources					
Differences between expected and actual experience related to pension	27,695	16,914	—	10,781	16,914
Differences between projected and actual investment earnings related to pension	18,375	103,501	—	(85,126)	103,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,881	17,723	—	(3,842)	17,723
Total deferred inflows of resources	59,951	138,138	—	(78,187)	138,138
Net Position					
Net investment in capital assets	3,262,634	2,952,716	2,667,815	309,918	284,901
Restricted for debt service	389,217	341,697	325,490	47,520	16,207
Restricted for capital projects	686,080	742,742	893,390	(56,662)	(150,648)
Restricted for operations and maintenance reserve	179,836	174,228	164,284	5,608	9,944
Restricted for federally forfeited property and protested funds	1,137	1,289	1,088	(152)	201
Unrestricted	(50,194)	(159,255)	292,962	109,061	(452,217)
Total net position	\$ 4,468,710	\$ 4,053,417	4,345,029	\$ 415,293	\$ (291,612)



Net Position, Fiscal Year 2016

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2016 and 2015, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4.5 billion and \$4.1 billion, respectively, representing a 10.2% increase or \$415.3 million.

The largest portion of LAX's net position (\$3.3 billion or 73.0%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position (\$1.3 billion or 28.1%) represents resources that are subject to various restrictions on how they may be used. The unrestricted net position (-\$50.2 million or -1.1%) was a result of a positive net position of \$25.6 million offset by the recognition of \$75.8 million additional net pension liability in accordance with GASB Statements No. 68 and 71.

Unrestricted current assets increased by 19.0%, from \$777.5 million at June 30, 2015 to \$925.2 million at June 30, 2016. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2016) held in the City Treasury. Cash inflows were more than outflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for operating activities, capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2016) held in the City Treasury for capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 27.6% from \$653.7 million in fiscal year 2015 to \$834.0 million in fiscal year 2016 mainly due to unspent proceeds of newly issued 2016 series bonds as of June 30, 2016.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 11.5%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of \$2.8 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net increase of \$35.4 million or 11.7%. This was mainly due to the increase of \$20.1 million, or 9.7% in contracts and accounts payable as a result of the accrued \$34.4 million acquisition of Terminal 1 renovations at year-end; increase of \$9.8 million, or 253.7% in obligations under securities lending transactions, and increase of \$2.6 million or 15.9% in other current liabilities. The increase in other current liabilities was mainly due to an increase in LAX's share of the City Treasury's year-end pending investment trade of \$8.3 million, offset by decrease of \$5.4 million in unapplied credits issued to the airlines in FY 2016.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Current liabilities payable from restricted assets had an increase of \$39.9 million or 31.5% due to the increase of \$14.5 million, or 17.7% in current maturities of bonded debt, increase of \$11.3 million in obligations under securities lending transactions, increase of \$8.3 million in LAX's allocated share of the City Treasury's fiscal year-end pending investment trades, increase of \$2.7 million in accrued interest payable, and increase of \$2.4 million, or 124.8% in contracts and accounts payable in fiscal year 2016. The net increase in noncurrent liabilities was \$680.4 million or 13.9%, as a result of additional bond issuances of \$613.5 million and the recognition of LAX's additional proportionate share of net pension liability of \$75.8 million in fiscal year 2016.

The total deferred outflows of resources had a net decrease of \$4.9 million or 3.1%. The decrease was mainly due to the decrease of \$17.0 million, or 20.7% in the proportionate share of deferred outflows of resources for changes of assumptions related to pension, and the decrease of \$1.1 million or 4.5% in deferred charges on debt refunding, offset by the increase of \$6.9 million or 14.1% in deferred outflows of resources for contribution after measurement date related to pension, and the increase of \$6.3 million in the deferred outflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension.

The total deferred inflows of resources had a net decrease of \$78.2 million or 56.6%. The decrease was mainly due to the decrease of \$85.1 million, or 82.2% in the deferred inflows of resources for differences between projected and actual investment earnings related to pension, and the decrease of \$3.8 million or 21.7% in the the deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension, offset by the increase of \$10.8 million, or 63.7% in the deferred inflows of resources for differences between expected and actual experience related to pension.

Net Position, Fiscal Year 2015

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2015 and 2014, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4.1 billion and \$4.3 billion, respectively, representing a 6.7% decrease or \$291.6 million. The decrease in net position is a result of LAX's adoption of the provisions of GASB Statements No. 68 and No. 71.

The largest portion of LAX's net position (\$3.0 billion or 72.8%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position (\$1.3 billion or 31.1%) represents resources that are subject to various restrictions on how they may be used. The unrestricted net position (-\$159.3 million or -3.9%) reflects the recognition of the reduction of net position due to GASB Statements No. 68 and 71 as stated above.

Unrestricted current assets increased by 3.4%, from \$752.2 million at June 30, 2014 to \$777.5 million at June 30, 2015. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2015) held in the City Treasury. Cash outflows were less than inflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.



Restricted current assets include cash and investments (including reinvested cash collateral in 2015) held in the City Treasury for capital projects funded by PFCs and CFCs. Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 9.0% from \$599.6 million in fiscal year 2014 to \$653.7 million in fiscal year 2015 mainly due to unspent proceeds of newly issued 2015 series bonds as of June 30, 2015.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 8.3%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of \$2.7 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net decrease of \$98.7 million or 24.5%. This was mainly due to the decrease of \$109.7 million, or 34.5% in contracts and accounts payable as a result of the final closeout payment of \$83.3 million and \$62.0 million for the Bradley West Core project and Bradley West Gates project, respectively. The decrease was offset by increase in obligations under securities lending transactions and increase in other current liabilities. The increase in other current liabilities was mainly due to the increase in the negative accounts receivable balance of \$5.4 million resulting from the unapplied credits issued to the airlines, and increase in LAX's share of the City Treasury's year-end pending investment trade of \$1.3 million.

Current liabilities payable from restricted assets had a net increase of \$14.6 million or 13.0%. The increase was mainly due to the increase of \$9.3 million, or 12.9% in current maturities of bonded debt, and the increase of \$1.4 million in accrued interest payable, increase of \$4.7 million in obligations under securities lending transactions and \$1.7 million in LAX's allocated share of the City Treasury's fiscal year-end pending investment trades, in fiscal year 2015, offset by the decrease of \$2.5 million, or 56.6% in contracts and accounts payable.

The net increase in noncurrent liabilities was \$871.6 million or 21.6%, as a result of additional bond issuances of \$497.3 million and the recognition of LAX's proportionate share of net pension liability of \$566.6 million during fiscal year 2015.

In addition to the net pension liability, LAX has also recognized the proportionate share of deferred outflows of resources for changes of assumptions related to pension of \$82.1 million, deferred outflows of resources for contribution after measurement date related to pension of \$49.0 million, deferred inflows of resources for differences between projected and actual investment earnings related to pension of \$103.5 million, deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of \$17.7 million, and deferred inflows of resources for differences between expected and actual actuarial experience related to pension of \$16.9 million. LAX has also recognized the reversal of the net pension obligation of \$9.0 million during fiscal year 2015. As a result, the net financial impact of the implementation of GASB Statements No. 68 and 71 is decrease in the net position by \$564.6 million. Implementation of GASB Statements No. 68 and 71 is solely for financial reporting purpose, and it does not represent an immediate funding requirement.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2016, 2015, and 2014 is presented below:

Condensed Changes in Net Position (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016	FY 2015
				increase (decrease)	increase (decrease)
Operating revenue	\$ 1,206,612	\$ 1,045,800	\$ 961,729	\$ 160,812	\$ 84,071
Less- Operating expenses	663,879	645,398	610,027	18,481	35,371
Operating income before depreciation and amortization	542,733	400,402	351,702	142,331	48,700
Less- Depreciation and amortization	226,439	178,035	141,795	48,404	36,240
Operating income	316,294	222,367	209,907	93,927	12,460
Other nonoperating revenue, net	44,628	17,648	59,196	26,980	(41,548)
Federal and other grants	49,255	30,964	24,674	18,291	6,290
Inter-agency transfers	5,116	5,303	6,329	(187)	(1,026)
Changes in net position	415,293	276,282	300,106	139,011	(23,824)
Net position, beginning of year, as previously reported	4,053,417	4,345,029	4,044,923	(291,612)	300,106
Change in accounting principle	—	(567,894)	—	567,894	(567,894)
Net position, beginning of year, as restated	4,053,417	3,777,135	4,044,923	276,282	(267,788)
Net position, end of year	\$ 4,468,710	\$ 4,053,417	\$ 4,345,029	\$ 415,293	\$ (291,612)



Operating Revenue

LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2016, 2015, and 2014:

Summary of Operating Revenue (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Aviation revenue					
Landing fees	\$ 240,853	\$ 227,518	\$ 222,608	\$ 13,335	\$ 4,910
Building rentals	462,667	365,296	315,764	97,371	49,532
Land rentals	96,167	90,478	86,534	5,689	3,944
Other aviation revenue	6,599	4,564	3,620	2,035	944
Total aviation revenue	806,286	687,856	628,526	118,430	59,330
Concession revenue	398,692	354,082	331,311	44,610	22,771
Other operating revenue	3,996	3,862	1,892	134	1,970
Total operating revenue before reliever fee	1,208,974	1,045,800	961,729	163,174	84,071
Reliever airport fee (landing fees offset)	(2,362)	—	—	(2,362)	—
Total operating revenue	\$ 1,206,612	\$ 1,045,800	\$ 961,729	\$ 160,812	\$ 84,071

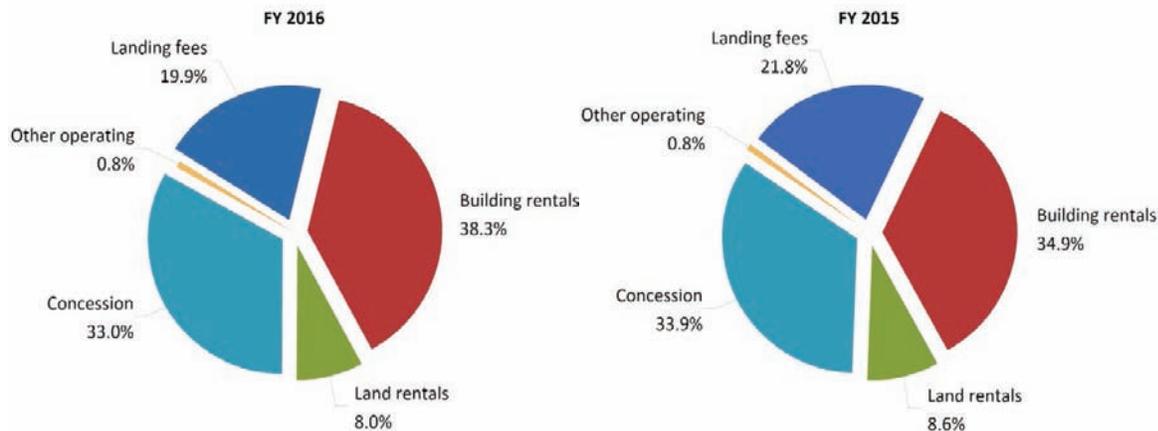


Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015

(continued)

Operating Revenue, Fiscal Year 2016

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2016 and 2015. Other aviation and other operating revenue were added and labeled "other."



For the fiscal year ended June 30, 2016, total operating revenue before reliever airport fees was \$1.2 billion, a \$163.2 million or 15.6% increase from the prior fiscal year. The growth in aviation related revenue was \$118.4 million. Non-aviation revenue had an increase of \$44.7 million mostly from concessions.

As described in the notes to the financial statements (see page 44), landing fees assessed to air carriers at LAX are based on a cost recovery methodology. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

Landing fees for the fiscal year ended June 30, 2016 were up from \$227.5 million to \$240.9 million, or 5.9%. Total building rental revenue posted a growth of \$97.4 million, or 26.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, increased cost recovery with the implementation of the terminal agreement, as well as the new and renegotiated leases signed with the airlines and other tenants. Land rental revenue increased by \$5.7 million mainly due to the increase in leased areas.

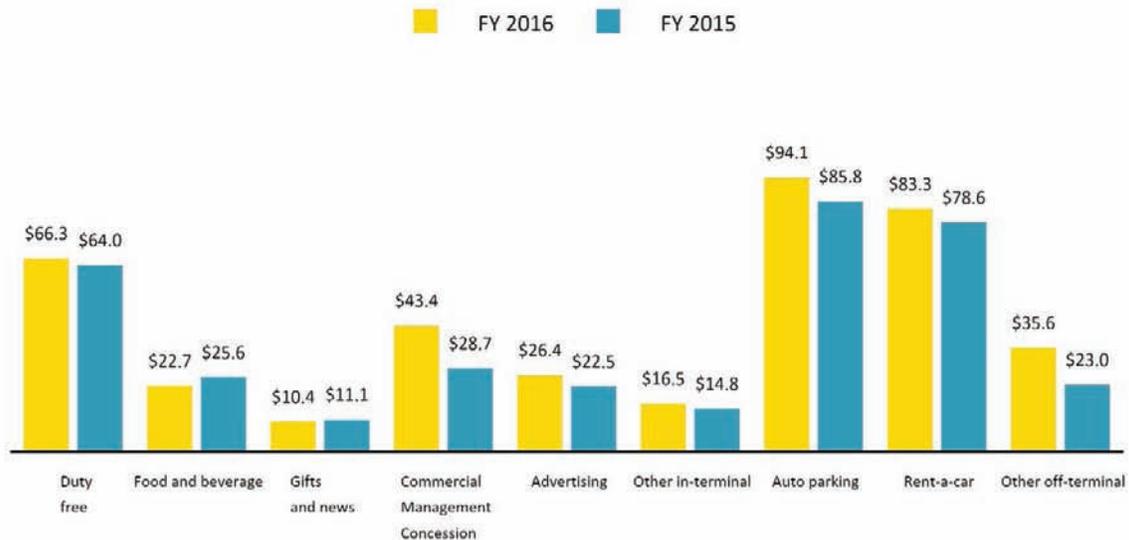


Total revenue from concessions was \$398.7 million in fiscal year 2016, a 12.6% growth from \$354.1 million in fiscal year 2015. In-terminal concession revenue are rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services, transportation network company and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2016 had a net increase of \$19.0 million or 11.4% as compared to fiscal year 2015. The concessions benefited from the increased passenger traffic. Duty free revenues increased by \$2.3 million, or 3.6%. Advertising revenue increased by \$3.9 million, or 17.3% as a result of negotiated increases in the minimum annual guarantee (MAG). Foreign exchange and telecommunications increased by \$1.7 million, or 20.2%. As discussed in Note 8 of the notes to the financial statements, LAX entered into Terminal Commercial Management Concession Agreements with Westfield Concession Management, LLC to develop, lease, and manage certain retail food and beverage operations in specific locations at the TBIT, Terminals 1, 2, 3 and 6. Overall, the total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires showed a net increase of \$11.1 million, or 17.0%.

Off-terminal concession revenue in fiscal year 2016 was \$213.0 million as compared to \$187.4 million in fiscal year 2015, an increase of \$25.6 million, or 13.7%. Of the \$25.6 million increase, \$8.3 million was from auto parking, \$4.7 million from rent-a-car, \$1.5 million from bus, limousine and taxi services, and \$2.2 million from flyaway bus service. New fees charged to transportation network companies added \$8.9 million in fiscal year 2016.

Comparative concession revenue by type for fiscal years 2016 and 2015 are presented in the following chart (amounts in millions).





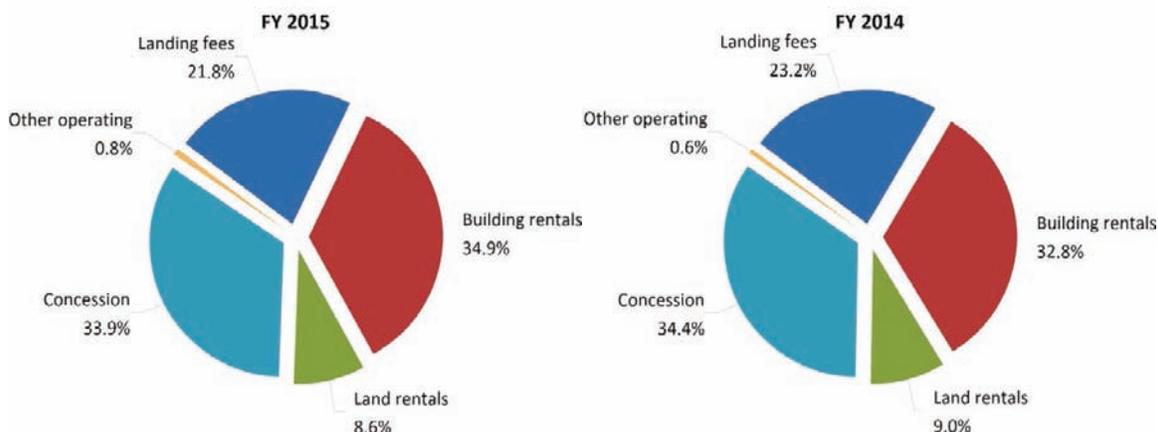
Management’s Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Operating Revenue, Fiscal Year 2015

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2015 and 2014. Other aviation and other operating revenue were added and labeled “other.”



For the fiscal year ended June 30, 2015, total operating revenue was \$1.0 billion, a \$84.1 million or 8.7% increase from the prior fiscal year. The growth in aviation related revenue was \$59.3 million. Non-aviation revenue had a net increase of \$24.8 million mostly from concessions.

As described in the notes to the financial statements (see page 44), landing fees assessed to air carriers at LAX are based on a cost recovery methodology. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

Landing fees for the fiscal year ended June 30, 2015 were up from \$222.6 million to \$227.5 million, or 2.2%. Total building rental revenue posted a growth of \$49.5 million, or 15.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, increased cost recovery with the implementation of the terminal agreement, as well as the new and renegotiated leases signed with the airlines and other tenants. Land rental revenue increased by \$3.9 million mainly due to the increase in leased areas.

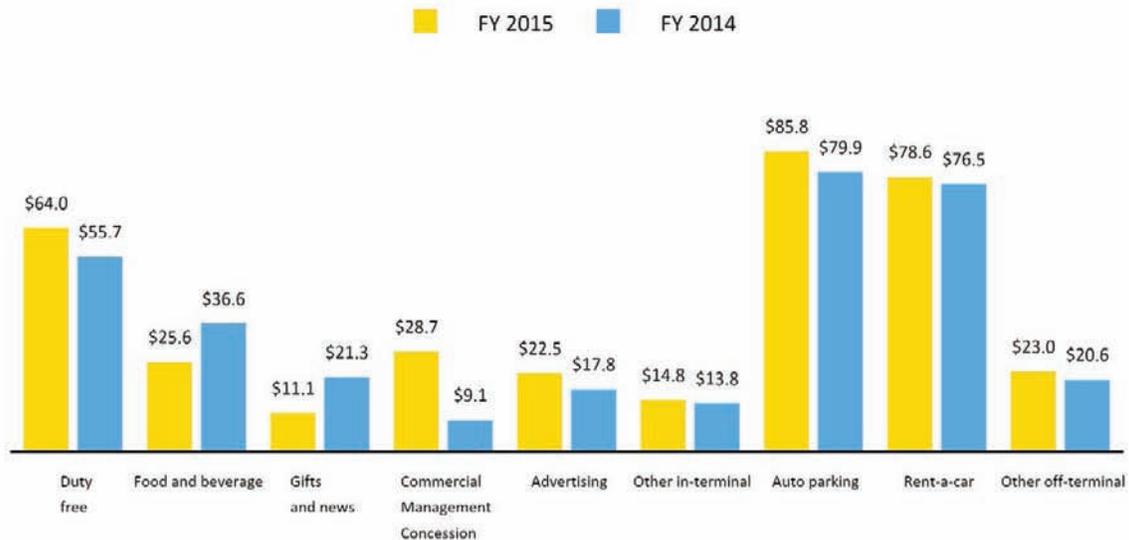


Total revenue from concessions was \$354.1 million in fiscal year 2015, an 6.9% growth from \$331.3 million in fiscal year 2014. In-terminal concession revenue are rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2015 had a net increase of \$12.4 million or 8.0% as compared to fiscal year 2014. The concessions benefited from the increased passenger traffic. Duty Free revenues increased by \$8.3 million, or 14.8%. Advertising revenue increased by \$4.7 million, or 26.8% as a result of the new advertising contract. Foreign exchange and telecommunications increased by \$1.1 million, or 14.8%. As discussed in Note 8 of the notes to the financial statements, LAX entered into Terminal Commercial Management Concession Agreements with Westfield Concession Management, LLC to develop, lease, and manage certain retail food and beverage operations in specific locations at the TBIT, Terminals 1, 2, 3 and 6. Overall, the total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires showed a slight decrease of \$1.6 million, or 2.4% mainly caused by the closure of some retail locations due to the on-going terminal modernization projects.

Off-terminal concession revenue in fiscal year 2015 was \$187.4 million as compared to \$177.0 million in fiscal year 2014, an increase of \$10.4 million, or 5.9%. Of the \$10.4 million increase, \$5.9 million was from auto parking, \$2.1 million from rent-a-car, \$1.3 million from bus, limousine and taxi services, and \$1.1 million from flyaway bus service.

Comparative concession revenue by type for fiscal years 2015 and 2014 are presented in the following chart (amounts in millions).





Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2016, 2015, and 2014. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

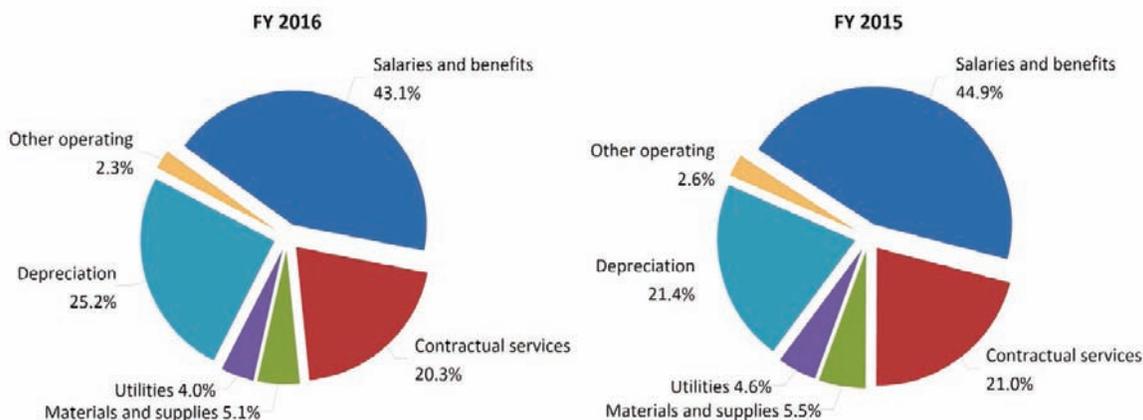
Summary of Operating Expenses (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Salaries and benefits	\$ 387,595	\$ 374,018	\$ 356,726	\$ 13,577	\$ 17,292
Contractual services	182,659	174,745	161,771	7,914	12,974
Materials and supplies	46,062	46,102	45,726	(40)	376
Utilities	36,181	38,355	39,089	(2,174)	(734)
Other operating expenses	20,738	21,205	16,093	(467)	5,112
Operating expenses before depreciation	673,235	654,425	619,405	18,810	35,020
Depreciation	226,439	178,035	141,795	48,404	36,240
Total operating expenses	899,674	832,460	761,200	67,214	71,260
Less- allocation to ONT, VNY and PMD	9,356	9,027	9,378	329	(351)
Net operating expenses	\$ 890,318	\$ 823,433	\$ 751,822	\$ 66,885	\$ 71,611



Operating Expenses, Fiscal Year 2016

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2016 and 2015. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.



For the fiscal year ended June 30, 2016, operating expenses before allocation to other airports were \$899.7 million, a \$67.2 million or 8.1% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by \$13.6 million, contractual services, up by \$7.9 million, and depreciation, up by \$48.4 million, offset by the decrease in utilities of \$2.2 million.

Salaries and overtime before capitalized charges had an increase of \$6.7 million or 2.4% due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was \$13.5 million, or 13.1%. The decrease in workers' compensation of \$5.6 million, or 40.8% was mainly due to the decrease in the number of high value cases during fiscal year 2016 as compared to fiscal year 2015. The increase in contractual services was mainly due to higher city services payment, capital planning and engineering services, offset by lower legal services expenses. The increase in depreciation charges from \$178.0 million to \$226.4 million in fiscal year 2016 was due to the completion of the associated projects related to Bradley West, and the replacement of the Central Utility Plant (CUP) facilities at LAX. During fiscal year 2016, \$1.8 billion was reclassified from construction work in progress to depreciable capital asset categories.

The decrease in utilities from \$38.4 million to \$36.2 million in fiscal year 2016 was due to the decrease in electricity of \$0.8 million, or 2.9%, and decrease in water charges of \$1.9 million, or 30.9%, offset by the increase of \$0.5 million, or 12.5% in gas and telephone. The decrease in fiscal year 2016 electricity charges was resulted from the operation of a new, more energy efficient CUP. The decrease in water charges was due to a one-time rate adjustment credit of \$0.7 million and efforts to lower water consumption in fiscal year 2016.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

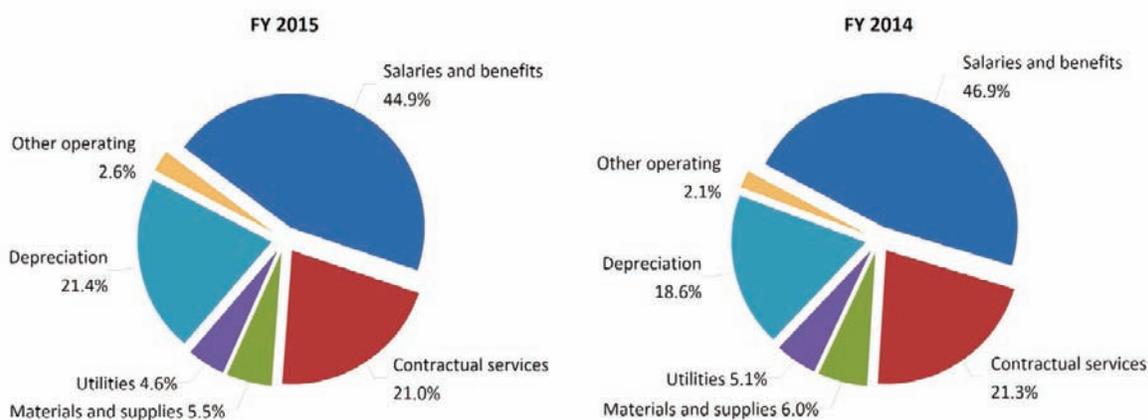
Materials and supplies remains at the same spending level at \$46.1 million and other operating expenses decreased by \$0.5 million, or 2.2%. The decrease in other operating expenses was mainly due to a decrease of \$2.7 million as a result of the change in accrued property tax from possessory interest tax instead of real estate tax for the Skyview property; offset by the increase of a legal settlement costs of \$1.3 million to the State Water Resources Control Board relating to monitoring of underground fuel storage tank. Bad debts expenses in fiscal year was \$0.3 million as compared to a reduction in bad debts expenses of \$0.3 million in fiscal year 2015.

Because of the increase in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also increased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services among other costs.



Operating Expenses, Fiscal Year 2015

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2015 and 2014. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.



For the fiscal year ended June 30, 2015, operating expenses before allocation to other airports were \$832.5 million, a \$71.3 million or 9.4% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by \$17.3 million, contractual services, up by \$13.0 million, and depreciation, up by \$36.2 million, offset by the decrease in utilities of \$0.7 million.

Salaries and overtime before capitalized charges had an increase of \$12.7 million or 4.7% due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was \$1.9 million, or 1.9%. The increase in provision for workers' compensation liability was mainly due to the increase in number of cases as well as the increase in some high value cases during fiscal year 2015. The increase in contractual services was mainly due to the surge in legal services expenses of \$6.7 million for lawsuit relating to local control of the LA/ONT International Airport. The increase in depreciation charges from \$141.8 million in fiscal year 2014 to \$178.0 million was due to the completion of major projects including the Bradley West North and South Gates, and the core area improvements at LAX. During fiscal year 2015, \$168.9 million was reclassified from construction work in progress to depreciable capital asset categories. The decrease in utilities from \$39.1 million to \$38.4 million in fiscal year 2015 was due to the decrease in electricity of \$1.3 million, or 4.4%, decrease in gas and telephone of \$0.8 million, or 17.4%, offset by the increase of \$1.3 million, or 26.6% of water charges. The decrease was a result of the replacement of the CUP with an energy efficient facility which saves electrical and natural gas usage in fiscal year 2015.

Materials and supplies, and other operating expenses increased by \$0.4 million, or 0.8% and \$5.1 million, or 31.8%, respectively. The increase in other operating expenses was mainly caused by a reduction in the reversal of bad debts allowance from \$4.4 million in fiscal year 2014 to \$0.3 million in fiscal year 2015. In accordance to LAX's policy, the allowance for bad debt is calculated based on 2% of outstanding month-end receivables plus 80% of all bankruptcy accounts and aged accounts over 120 days that are referred to the City Attorney.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Because of the reduction in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also decreased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services among other costs.

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services as well as producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2016, 2015, and 2014.

Summary of Nonoperating Transactions (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Nonoperating revenue					
Passenger facility charges	\$ 150,409	\$ 137,855	\$ 132,809	\$ 12,554	\$ 5,046
Customer facility charges	31,996	29,347	28,675	2,649	672
Interest income	19,638	20,327	20,413	(689)	(86)
Net change in fair value of investments	13,776	(2,021)	1,799	15,797	(3,820)
Other nonoperating revenue	17,985	8,618	11,122	9,367	(2,504)
	<u>\$ 233,804</u>	<u>\$ 194,126</u>	<u>\$ 194,818</u>	<u>\$ 39,678</u>	<u>\$ (692)</u>
Nonoperating expenses					
Interest expense	\$ 182,386	\$ 166,919	\$ 133,694	\$ 15,467	\$ 33,225
Other nonoperating expenses	6,790	9,559	1,928	(2,769)	7,631
	<u>\$ 189,176</u>	<u>\$ 176,478</u>	<u>\$ 135,622</u>	<u>\$ 12,698</u>	<u>\$ 40,856</u>
Federal capital grants	<u>\$ 49,255</u>	<u>\$ 30,964</u>	<u>\$ 24,674</u>	<u>\$ 18,291</u>	<u>\$ 6,290</u>
Inter-agency transfers	<u>\$ 5,116</u>	<u>\$ 5,303</u>	<u>\$ 6,329</u>	<u>\$ (187)</u>	<u>\$ (1,026)</u>



Nonoperating Transactions, Fiscal Year 2016

As a result of the increase of 8.0% passenger traffic in fiscal year 2016, PFCs increased by \$12.6 million, or 9.1%. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, posted an increase of \$2.7 million, or 9.0% in fiscal year 2016.

Interest income decreased slightly due to slightly lower average balance of cash and pooled investments held in City Treasury. The net change in fair value of investments reflects the increase driven by the upward year-end net adjustment to the fair value of investment securities. The other nonoperating revenue increased by \$9.4 million, or 108.7% in fiscal year 2016. This was mainly due to increase of \$1.0 million in sales of property and equipment, increase of \$5.1 million from the favorable litigation settlement relating to the Runway 25L Relocation and Center Taxiway Improvement project, and increase of \$2.3 million rental income from residential acquisition program. Interest expenses increased with additional issuances of \$613.5 million revenue bonds in fiscal year 2016 to finance capital improvement projects. The decrease in other nonoperating expenses was mainly due to lower expenses offset by the increase of \$1.3 million bond issuance expenses in fiscal year 2016.

Nonoperating Transactions, Fiscal Year 2015

As a result of the increase in passenger traffic in fiscal year 2015, PFCs increased by \$5.0 million, or 3.8%. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, posted an increase of \$0.7 million, or 2.3% in fiscal year 2015.

Interest income decreased slightly by due to slightly lower average balance of cash and pooled investments held in City Treasury. The net change in fair value of investments reflects the decrease driven by the downward year-end net adjustment to the fair value of investment securities. A component of other nonoperating revenue related to reimbursements for certain Transportation Security Administration (TSA) programs was \$2.1 million less in fiscal year 2015. Interest expenses increased with additional issuances of revenue bonds in the amount of \$497.3 million in fiscal year 2015 to finance capital improvement projects. The increase in other nonoperating expenses was mainly due to correction of prior years' expenses of \$6.9 million, together with \$0.8 million bond issuance expenses.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Long-Term Debt

As of June 30, 2016, LAX's outstanding long-term debt before unamortized premium and discount was \$4.6 billion. Issuances during the year amounted to \$613.5 million, and payments for scheduled maturities were \$81.7 million. Together with the unamortized premium and discount, bonded debt of LAX increased by \$619.8 million to a total of \$4.9 billion.

As of June 30, 2015, LAX's outstanding long-term debt before unamortized premium and discount was \$4.1 billion. Issuances during the year amounted to \$497.3 million, redemption and advanced refunding totaled \$190.6 million, and payments for scheduled maturities were \$72.4 million. Together with the unamortized premium and discount, bonded debt of LAX increased by \$316.5 million to \$4.3 billion.

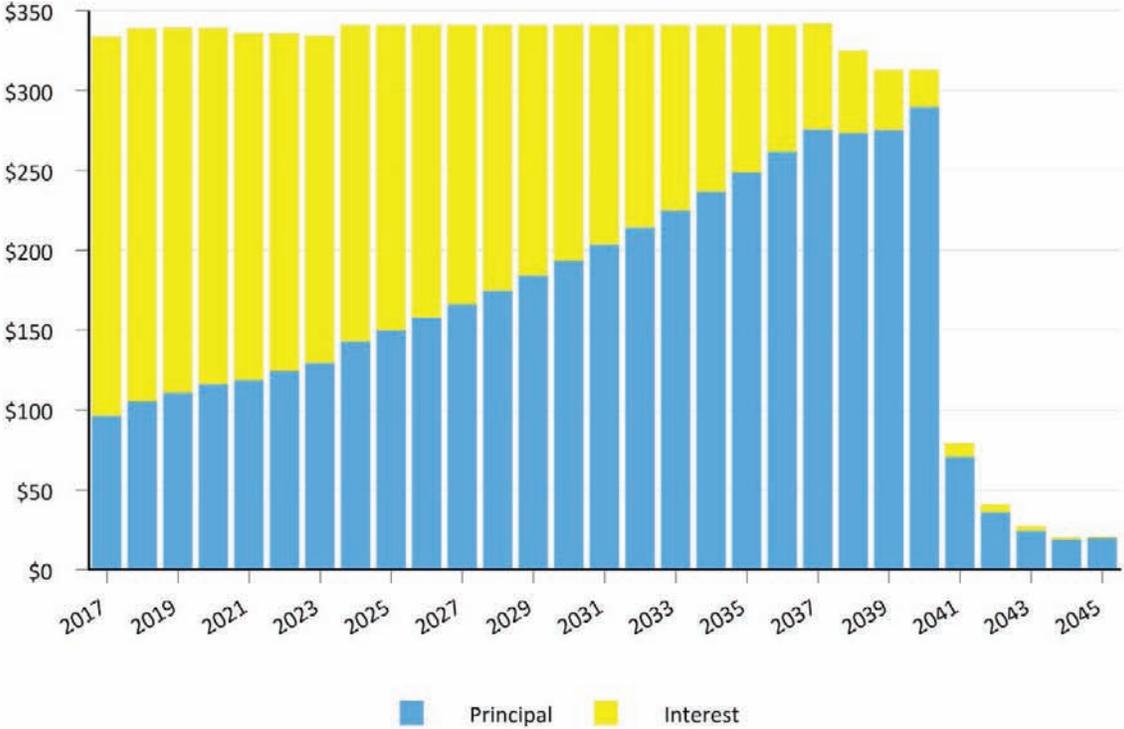
As of June 30, 2016 and 2015, LAX had \$418.8 million and \$368.1 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2016 and 2015, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA respectively for Senior Bonds; AA-, A1, and AA- respectively for Subordinate Bonds.

Additional information regarding LAX's bonded debt can be found in Note 6 of the notes to the financial statements beginning on page 60.



Outstanding principal, plus scheduled interest as of June 30, 2016, is scheduled to mature as shown in the following chart (amounts in millions).





Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2016 and 2015 were \$7.8 billion and \$7.0 billion, respectively. This investment, which accounts for 74.5% and 74.6% of LAX's total assets as of June 30, 2016 and 2015, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAX's policy affecting capital assets can be found in Note 1(f) of the notes to the financial statements on page 43. Additional information can be found in Note 4 on pages 57-58.

Capital Assets, Fiscal Year 2016

Major capital expenditure activities during fiscal year 2016 included:

- \$356.4 million renovations at Terminals 1 to 8
- \$166.2 million interior improvements and security upgrades at TBIT and Bradley West
- \$88.7 million construction of Midfield Satellite Concourse
- \$72.6 million construction of runways and taxiways
- \$56.6 million Central Terminal Area (CTA) curbside development project and Second Level Roadway Joint and Deck replacement
- \$55.9 million in costs related to construction of west maintenance facility
- \$44.7 million replacement and improvements of elevators and escalators
- \$41.1 million residential acquisition, soundproofing and noise mitigation
- \$18.0 million replacement of Central Utility Plant (CUP) facilities
- \$12.1 million in costs related to various information technology network and systems projects
- \$11.5 million preconstruction activities related to LAX's landside program
- \$7.0 million construction of consolidated rental car facility

At June 30, 2016, the amounts committed for capital expenditures included \$7.1 million for airfield and runways, \$6.6 million for noise mitigation program, \$81.0 million for terminals and facilities, and \$20.1 million for various other projects.

LAX is in the midst of a multi-billion dollar capital improvements program, which is expected to continue through 2023. Among the projects underway are terminal improvements and upgrades, roadway improvements, runway and taxiway rehabilitation and improvement, utilities and infrastructure components, and an automated people mover system, a consolidated rental car facility and intermodal transportation facilities.



Capital Assets, Fiscal Year 2015

Major capital expenditure activities during fiscal year 2015 included:

- \$228.3 million interior improvements and security upgrades at TBIT and Bradley West
- \$118.2 million renovations at Terminals 1 to 8
- \$63.5 million replacement of CUP and cogeneration facilities
- \$55.0 million residential acquisition, soundproofing and noise mitigation
- \$49.2 million CTA curbside development project and Second Level Roadway Joint and Deck replacement
- \$31.7 million replacement and improvements of elevators and escalators
- \$26.7 million design and preconstruction services of Midfield Satellite Concourse
- \$23.5 million in costs related to various information technology network and systems projects
- \$21.1 million construction of runways and taxiways
- \$17.2 million in costs related to construction of west maintenance facility

At June 30, 2015, the amounts committed for capital expenditures included \$5.0 million for airfield and runways, \$7.1 million for noise mitigation program, \$75.4 million for terminals and facilities, and \$30.9 million for various other projects.



Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

(continued)

Landing Fees, Fiscal Year 2017

The airline landing fees for fiscal year 2017, which became effective as of July 1, 2016 are as follows:

Permitted air carriers	Non-permitted air carriers	
\$59.00	\$74.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
113.00	141.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.54	4.43	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.50	5.63	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

Landing fee rates were based on budgeted operating expenses and revenues. Reconciliation between actual revenues and expenses and amounts estimated in the initial calculation result in a fiscal year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Request for Information

This report is designed to provide a general overview of the Los Angeles International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ryan P. Yakubik, Chief Financial Officer, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

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Financial Section

Financial Statements

2016 Annual Financial Report



Financial Statements





Los Angeles World Airports
 (Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Statements of Net Position
June 30, 2016 and 2015
 (amounts in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	\$ 775,059	\$ 572,908
Investments with fiscal agents	16,465	100,913
Accounts receivable, net of allowance for uncollectible accounts: 2016 - \$1,043; 2015 - \$756	10,842	189
Unbilled receivables	38,213	28,868
Accrued interest receivable	2,962	2,639
Grants receivable	24,709	13,899
Receivable from City General Fund	2,766	2,684
Due from other agencies	48,588	49,594
Prepaid expenses	4,164	4,266
Inventories	1,383	1,552
Total unrestricted current assets	<u>925,151</u>	<u>777,512</u>
Restricted current assets		
Cash and pooled investments held in City Treasury	886,107	913,788
Investments with fiscal agents, includes cash and cash equivalents: 2016 - \$827,836; 2015 - \$653,729	833,981	653,729
Accrued interest receivable	1,330	1,463
Passenger facility charges receivable	17,632	19,038
Customer facility charges receivable	2,846	2,584
Total restricted current assets	<u>1,741,896</u>	<u>1,590,602</u>
Total current assets	<u>2,667,047</u>	<u>2,368,114</u>
Noncurrent Assets		
Capital assets		
Not depreciated	2,623,721	3,340,623
Depreciated, net	5,169,281	3,650,877
Total capital assets	<u>7,793,002</u>	<u>6,991,500</u>
Other noncurrent assets		
Receivable from City General Fund, net of current portion	5,785	8,550
Total other noncurrent assets	<u>5,785</u>	<u>8,550</u>
Total noncurrent assets	<u>7,798,787</u>	<u>7,000,050</u>
TOTAL ASSETS	<u>10,465,834</u>	<u>9,368,164</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	24,179	25,307
Changes of assumptions related to pension	65,097	82,071
Contribution after measurement date related to pension	55,972	49,043
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,273	—
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 151,521</u>	<u>\$ 156,421</u>



Statements of Net Position (continued)
June 30, 2016 and 2015
(amounts in thousands)

	2016	2015
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	\$ 228,389	\$ 208,250
Accrued salaries	15,133	12,766
Accrued employee benefits	5,357	4,598
Estimated claims payable	7,899	8,332
Commercial paper	50,310	50,123
Obligations under securities lending transactions	13,728	3,881
Other current liabilities	18,634	16,072
Total current liabilities payable from unrestricted assets	<u>339,450</u>	<u>304,022</u>
Current liabilities payable from restricted assets		
Contracts and accounts payable	4,255	1,893
Current maturities of bonded debt	96,200	81,700
Accrued interest payable	29,161	26,434
Obligations under securities lending transactions	17,518	6,177
Other current liabilities	19,475	10,525
Total current liabilities payable from restricted assets	<u>166,609</u>	<u>126,729</u>
Total current liabilities	<u>506,059</u>	<u>430,751</u>
Noncurrent Liabilities		
Bonded debt, net of current portion	4,822,900	4,217,562
Accrued employee benefits, net of current portion	37,158	37,208
Estimated claims payable, net of current portion	66,477	67,227
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension liability	642,431	566,613
Other long-term liabilities	886	886
Total noncurrent liabilities	<u>5,582,635</u>	<u>4,902,279</u>
TOTAL LIABILITIES	<u>6,088,694</u>	<u>5,333,030</u>
DEFERRED INFLOWS OF RESOURCES		
Differences between expected and actual experience related to pension	27,695	16,914
Differences between projected and actual investment earnings related to pension	18,375	103,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,881	17,723
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>59,951</u>	<u>138,138</u>
NET POSITION		
Net investment in capital assets	3,262,634	2,952,716
Restricted for:		
Debt service	389,217	341,697
Passenger facility charges eligible projects	435,285	528,511
Customer facility charges eligible projects	250,795	214,231
Operations and maintenance reserve	179,836	174,228
Federally forfeited property and protested funds	1,137	1,289
Unrestricted	(50,194)	(159,255)
TOTAL NET POSITION	<u>\$ 4,468,710</u>	<u>\$ 4,053,417</u>

See accompanying notes to the financial statements.



Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Statements of Revenues, Expenses and Changes in Net Position

For the Fiscal Years Ended June 30, 2016 and 2015

(amounts in thousands)

	2016	2015
OPERATING REVENUE		
Aviation revenue		
Landing fees	\$ 240,853	\$ 227,518
Reliever airport fee	(2,362)	—
Building rentals	462,667	365,296
Land rentals	96,167	90,478
Other aviation revenue	6,599	4,564
Total aviation revenue	803,924	687,856
Concession revenue	398,692	354,082
Other operating revenue	3,996	3,862
Total operating revenue	1,206,612	1,045,800
OPERATING EXPENSES		
Salaries and benefits	387,595	374,018
Contractual services	182,659	174,745
Materials and supplies	46,062	46,102
Utilities	36,181	38,355
Other operating expenses	20,738	21,205
Allocated administrative charges	(9,356)	(9,027)
Total operating expenses before depreciation and amortization	663,879	645,398
Operating income before depreciation and amortization	542,733	400,402
Depreciation and amortization	226,439	178,035
OPERATING INCOME	316,294	222,367
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	150,409	137,855
Customer facility charges	31,996	29,347
Interest income	19,638	20,327
Net change in fair value of investments	13,776	(2,021)
Interest expense	(182,386)	(166,919)
Other nonoperating revenue	17,985	8,618
Other nonoperating expenses	(6,790)	(9,559)
Total nonoperating revenue, net	44,628	17,648
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	360,922	240,015
Federal and other government grants	49,255	30,964
Inter-agency transfers	5,116	5,303
CHANGE IN NET POSITION	415,293	276,282
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	4,053,417	4,345,029
Change in accounting principle	—	(567,894)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	4,053,417	3,777,135
NET POSITION, END OF YEAR	\$ 4,468,710	\$ 4,053,417

See accompanying notes to the financial statements.



Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015
(amounts in thousands)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,190,138	\$ 1,073,907
Payments to suppliers	(215,447)	(188,643)
Payments for employee salaries and benefits	(385,235)	(374,789)
Payments for City services	(91,234)	(86,672)
Inter-agency receipts for services, net	9,356	9,027
Net cash provided by operating activities	<u>507,578</u>	<u>432,830</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	9,990	10,803
Inter-agency transfers in	6,122	21,754
Net cash provided by noncapital financing activities	<u>16,112</u>	<u>32,557</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	711,782	566,347
Principal paid on revenue bonds and commercial paper notes	(81,700)	(274,492)
Interest paid on revenue bonds and commercial paper notes	(219,340)	(203,274)
Revenue bonds issuance costs	(1,561)	(781)
Acquisition and construction of capital assets	(956,593)	(803,020)
Proceeds from passenger facility charges	151,815	139,777
Proceeds from customer facility charges	31,734	29,749
Capital contributed by federal agencies	38,445	31,798
Net cash used for capital and related financing activities	<u>(325,418)</u>	<u>(513,896)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	20,162	20,249
Net change in fair value of investments	13,776	(2,021)
Cash collateral received under securities lending transactions	21,188	7,641
Sales of investments	16,876	2,959
Purchases of investments held by fiscal agents	(6,145)	—
Net cash provided by investing activities	<u>65,857</u>	<u>28,828</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	264,129	(19,681)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,241,338	2,261,019
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,505,467</u>	<u>\$ 2,241,338</u>



	<u>2016</u>	<u>2015</u>
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	\$ 775,059	\$ 572,908
Investments with fiscal agents- unrestricted	16,465	100,913
Cash and pooled investments held in City Treasury- restricted	886,107	913,788
Investments with fiscal agents- restricted	827,836	653,729
Total cash and cash equivalents	<u>\$ 2,505,467</u>	<u>\$ 2,241,338</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED		
BY OPERATING ACTIVITIES		
Operating income	\$ 316,294	\$ 222,367
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	226,439	178,035
Change in provision for uncollectible accounts	287	(722)
Other nonoperating revenues (expenses), net	6,076	(6,219)
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	(10,940)	19,770
Unbilled receivables	(9,345)	(1,959)
Prepaid expenses and inventories	262	830
Contracts and accounts payable	(19,023)	8,296
Accrued salaries	2,367	1,328
Accrued employee benefits	709	1,220
Other liabilities	(6,951)	4,141
Net pension liability and related changes in deferred outflows and inflows of resources	1,403	5,743
Total adjustments	<u>191,284</u>	<u>210,463</u>
Net cash provided by operating activities	<u>\$ 507,578</u>	<u>\$ 432,830</u>
SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	\$ 125,284	\$ 80,815
Revenue bonds proceeds received in escrow trust fund	—	216,174
Debt defeased and related costs paid through escrow trust fund with revenue bonds	—	(216,174)

See accompanying notes to the financial statements.



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Index to the Notes to the Financial Statements

The notes to the financial statements include disclosures that are necessary for a better understanding of the accompanying financial statements. An index to the notes follows:

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Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Notes to the Financial Statements

June 30, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA owns property consisting of approximately 17,750 acres of land in the City of Palmdale and retains the rights for future development of the Palmdale property.

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop, and operate all property, plant, and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated, or controlled by the City; and (c) fix, regulate, and collect rates and charges for the use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The accompanying financial statements present the net position and changes in net position and cash flows of LAX. These financial statements are not intended to present the financial position and changes in financial position of LAWA or the City, or cash flows of LAWA or the City's enterprise funds.

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each of the three airports referred to above and the Palmdale property.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

c. Cash, Cash Equivalents, and Investments

LAX's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. LAX's portion of the pool is presented on the statements of net position as "Cash and Pooled Investments Held in City Treasury." LAX's investments, including its share in the City's investment pool, are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code, the City engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net position.

LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore these amounts are reported as cash equivalents. LAX has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

d. Accounts Receivable and Unbilled Receivables

LAX recognizes revenue in the period earned. Receivables outstanding beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus 80% of all bankruptcy accounts and all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

Unbilled receivables balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal year period might not get processed through the billing system for up to sixty days into the next fiscal year.

e. Inventories

LAX's inventories consist primarily of general custodial supplies and are recorded at cost on a first-in, first-out basis.



f. Capital Assets

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of \$5,000 for all capital assets other than internally generated computer software where the threshold is \$500,000.

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds). Net interest capitalized in fiscal years 2016 and 2015 were \$28.2 million and \$33.8 million, respectively.

Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; airfield and other improvements, 10 to 35 years; equipment, 5 to 20 years; and computer software, 5 to 10 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service. Also, no depreciation is taken on air easements and emission reduction credits because they are considered inexhaustible.

g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

h. Operating and Nonoperating Revenues and Expenses

LAX distinguishes between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with LAX's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services including professional services, parking operations and shuttle services, and other expenses including depreciation and amortization, maintenance, insurance, and utilities.

i. Landing Fees

Landing fee rates determine the charges to the airlines each time that a qualified aircraft lands at LAX. The landing fee is calculated annually to recover the costs of constructing, maintaining and operating airfield facilities. Costs recovered through these fees are identified using allocation methods of relevant costs attributable to those facilities. Landing fees are initially set using estimates of cost and activity and are reconciled to actual results following each fiscal year.

j. Terminal Rates and Charges

On September 17, 2012, the Board approved a methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The rates, which will recover the costs of acquiring, constructing, operating and maintaining terminal facilities, are as follows: terminal building rate, federal inspection services area (FIS) rate, common use holdroom rate, common use baggage claim rate, common use outbound baggage system rate, common use ticket counter rate, and terminal special charges for custodial services, outbound baggage system maintenance, terminal airline support systems, and loading bridge capital and maintenance.

The rates were effective January 1, 2013 to airlines and airline consortia (signatory airlines) agreeing to the methodology and executing a rate agreement with LAWA. Agreements with signatory airlines terminate on December 31, 2022. The rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period. In addition, signatory airlines will share in the concession revenue derived from the terminals based on prescribed two-tiered formulae. Tier One Revenue Sharing had the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing was distributed to signatory airlines in the form of a credit at the end of each calendar year beginning in 2014, subject to certain conditions.

Airlines with existing leases that opt not to sign an agreement under the methodology (non-signatory tenant airlines) will continue to pay rates and charges based on their current leases until they sign the rate agreement. Airlines with no existing leases that opt not to sign the rate agreement (non-signatory tariff airlines) are charged the tariff rates effective January 1, 2013. Non-signatory airlines are not eligible to participate in the STP and revenue sharing programs.



k. Concession Revenue

Concession revenues are generated through LAX terminal concessionaires, tenants or airport service providers who pay monthly fees or rents for using or accessing airport facilities to offer their goods and services to the general public and air transportation community. Payments to LAX are based on negotiated agreements with these parties to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAX in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when or if accruals are required for each tenant agreement.

l. Unearned Revenue

Unearned revenue consists of concessionaire rentals and payments received in advance, which will be amortized to revenue on the straight-line basis over the applicable period.

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leaves. Accrued employee benefits as of June 30, 2016 and 2015 are as follows (amounts in thousands):

Type of benefit	2016	2015
Accrued vacation leave	\$ 21,545	\$ 21,259
Accrued sick leave	20,970	20,547
Total	<u>\$ 42,515</u>	<u>\$ 41,806</u>



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

n. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, LAX reports a separate section for deferred outflows of resources and deferred inflows of resources, respectively. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and won't be recognized as an outflow of resources until then. Deferred inflows of resources represent an acquisition of resources that is applicable to future reporting period(s) that won't be recognized as an inflow of resources until then.

LAX reported deferred charges on refunding of \$24.2 million and \$25.3 million for fiscal years 2016 and 2015, respectively, as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

As a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, LAX reported the following deferred outflows and inflows of resources:

Deferred outflows of resources at June 30:

- Changes of assumptions related to pension of \$65.1 million and \$82.1 million for fiscal years 2016 and 2015, respectively.
- Contribution after measurement date related to pension of \$56.0 million and \$49.0 million for fiscal years 2016 and 2015, respectively.
- Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of \$6.3 million for fiscal year 2016 and none for fiscal year 2015.

Deferred inflows of resources at June 30:

- Differences between projected and actual investment earnings related to pension of \$18.4 million and \$103.5 million for fiscal years 2016 and 2015, respectively.
- Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of \$13.9 million and \$17.7 million for fiscal years 2016 and 2015, respectively.
- Differences between expected and actual experience related to pension of \$27.7 million and \$16.9 million for fiscal years 2016 and 2015, respectively.



o. Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as nonoperating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.

p. Bond Premiums and Discounts

Bond premiums, discounts, and gains and losses on extinguishment of debt are deferred and amortized over the life of the bonds. At the time of bond refunding, the unamortized premiums or discounts are amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. Bonds payable is reported net of the applicable bond premium or discount.

In fiscal year 2015, LAX changed the method of amortizing bond premiums or discounts from straight-line method to effective interest method. The effective interest method allocates bond interest expense over the life of the bonds in such a way that it yields a constant rate of interest, which in turn is the market rate of interest at the date of issue of bonds. With effective interest method, the amortization of bond premiums or discounts is calculated using the effective market interest rate versus the coupon rate used in straight-line method.

q. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- *Net Investment in Capital Assets* - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* - This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2016 and 2015, net positions of \$686.1 million and \$742.7 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Position* - This category represents net position of LAX that is not restricted for any project or other purpose.

r. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes of which both restricted and unrestricted resources are available, LAX's policy is to apply restricted resources first.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

s. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

t. Restatement of Net Position

The net position at July 1, 2014 was restated by \$567.9 million to adjust for the change in accounting principle as a result of the implementation of GASB Statements No. 68 and 71:

	2015
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	\$ 4,345,029
Change in accounting principle as a result of implementation of GASB Statement No. 68	<u>(567,894)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>\$ 3,777,135</u>

The beginning of the year net position for fiscal year 2014 was not restated because all of the information available to restate prior year amounts was not readily available.

u. Reclassifications

Certain reclassifications have been made to fiscal year 2015 amounts in order to conform to the fiscal year 2016 presentation. Such presentations had no effect on the previously reported change in net position.



2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2016.

Issued in February 2015, GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Additional information can be found in Note 3(c) of the notes to financial statements beginning on page 54.

Issued in June 2015, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments*, consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement has no impact on LAX's financial statements.

Issued in December 2015, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. This statement has no impact on LAX's financial statements.

The GASB has issued several pronouncements that have effective dates that may impact future presentations. LAX is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in June 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, this statement also clarifies the application of certain provisions of GASB Statement No. 68 with regard to the information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported. Implementation of this statement is effective fiscal year 2017.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

Issued in June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. Implementation of this statement is effective fiscal year 2017.

Issued in June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and financial reporting for other postemployment benefit (OPEB) that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Implementation of this statement is effective fiscal year 2018.

Issued in August 2015, GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. Implementation of this statement is effective fiscal year 2017.

Issued in December 2015, GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, to exclude pensions provided to employees of state or local governmental employers through certain cost-sharing multiple-employer defined benefit pension plan. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics as defined. Implementation of this statement is effective fiscal year 2017.

Issued in January 2016, GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. Implementation of this statement is effective fiscal year 2017.

Issued in March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements* requires that a government that receives resources pursuant to an irrevocable split interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Implementation of this statement is effective fiscal year 2018.



Issued in March 2016, GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Implementation of this statement is effective fiscal year 2017.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

3. Cash and Investments

a. Pooled Investments

Pursuant to the California Government Code and the Los Angeles City Council File No. 94-2160, the City Treasurer provides an Annual Statement of Investment Policy (the Policy) to the City Council. The Policy governs the City's pooled investment practices with the following objectives, in order of priority, safety of principal, liquidity, and rate of return. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted under California law.

Each investment transaction and the entire portfolio must comply with the California Government Code and the Policy. Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund (LAIF).

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of the Pool of \$1.7 billion and \$1.5 billion as of June 30, 2016 and 2015 respectively, represented approximately 19.8% and 17.8%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated shares for fiscal years 2016 and 2015 were \$34.0 million and \$17.1 million, respectively, and were reported as other current liabilities in the statement of net position. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

The Securities Lending Program (SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.



Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash, U.S. government securities, and federal agency issued securities as collateral on loaned securities. The cash collateral is reinvested in securities permitted under the policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 90 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. At June 30, 2016, LAX's portion of the cash collateral and the related obligation in the City's program was \$31.3 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2016 was \$31.3 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAX's portion of the noncash collateral at June 30, 2016 was \$110.8 million. At June 30, 2015, LAX's portion of the cash collateral and the related obligation in the City's program was \$10.1 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2015 was \$10.1 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAX's portion of the noncash collateral at June 30, 2015 was \$126.8 million.

During the fiscal years, collateralizations on all loaned securities were within the required 102.0% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the years. There was no credit risk exposure to the City at June 30, 2016 and 2015 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

c. Investments with Fiscal Agents

The investment practices of the fiscal agents that relate to LAX's portfolio are similar as those of the City Treasurer, and have similar objectives. LAX's investments held by fiscal agents are for the following purposes (amounts in thousands):

	2016	2015
Unrestricted, current		
Commercial paper and cash at bank	\$ 16,465	\$ 100,913
Restricted, current and noncurrent		
Bond security funds	418,783	368,130
Construction funds	415,198	285,599
Subtotal	833,981	653,729
Total	\$ 850,446	\$ 754,642

The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments. The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.

At June 30, 2016, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities	
		1 to 60 days	61 to 365 days
Money market mutual funds	\$ 318,439	\$ 318,439	\$ —
State of California LAIF	508,832	—	508,832
US Treasury Certificates	6,145	—	6,145
Subtotal	833,416	\$ 318,439	\$ 514,977
Bank deposit accounts	17,030		
Total	\$ 850,446		



At June 30, 2015, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities	
		1 to 60 days	61 to 365 days
Money market mutual funds	\$ 226,765	\$ 226,765	\$ —
State of California LAIF	423,614	—	423,614
Subtotal	650,379	\$ 226,765	\$ 423,614
Bank deposit accounts	104,263		
Total	\$ 754,642		

Fair Value Measurements

The investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and.
- Level 3: Investments reflect prices based upon unobservable sources.

At June 30, 2016, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1
Money Market Funds	\$ 318,439	\$ 318,439
U.S. Government securities	6,145	6,145
Total investments by fair value level	324,584	\$ 324,584
Investments not subject to fair value hierarchy		
State of California LAIF	508,832	
Bank deposit accounts	17,030	
Total investments	\$ 850,446	



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

At June 30, 2015, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1
Money Market Funds by fair value level	\$ 226,765	\$ 226,765
Investments not subject to fair value hierarchy		
State of California LAIF	423,614	
Bank deposit accounts	104,263	
Total investments	\$ 754,642	

Interest Rate Risk. LAX adopts the City's policy that limits the maturity of investments to five years for U.S. Treasury and government agency securities. The policy allows funds with longer term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2016 and 2015, the money market mutual funds were rated AAAM by Standard and Poor's, and Aaa by Moody's.

As of June 30, 2016, LAX's investments in the LAIF held by fiscal agents totaled \$508.8 million. The total amount invested by all public agencies in LAIF at that date was \$22.7 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2016, the investments in the PMIA totaled \$75.5 billion, of which 97.2% is invested in non-derivative financial products and 2.8% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 167 days as of June 30, 2016. LAIF is not rated.

As of June 30, 2015, LAX's investments in the LAIF held by fiscal agents totaled \$423.6 million. The total amount invested by all public agencies in LAIF at that date was \$21.5 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2015, the investments in the PMIA totaled \$69.7 billion, of which 97.9% is invested in non-derivative financial products and 2.1% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 239 days as of June 30, 2015. LAIF is not rated.

The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The Pooled Money Investment Board whose members are the State Treasurer, Director of Finance, and State Controller, has oversight responsibility for PMIA. The value of the pool shares in LAIF, which may be withdrawn anytime, is determined on a historical basis, which is different than the fair value of LAX's position in the pool.

The bank deposit accounts are covered by Federal depository insurance up to a certain amount. Financial institutions are required under California law to collateralize the uninsured portion of the deposits by pledging government securities or first trust deed mortgage notes. The collateral is held by the pledging institution's trust department and is considered held in LAX's name.



4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2016 (amounts in thousands):

	Balance at July 1, 2015	Additions	Retirement & disposals	Transfers	Balance at June 30, 2016
Capital assets not depreciated					
Land and land clearance	\$ 840,530	\$ —	\$ (346)	\$ 90,237	\$ 930,421
Air easements	44,346	—	—	—	44,346
Emission reduction credits	5,918	—	—	(3,065)	2,853
Construction work in progress	2,449,829	1,020,763	(760)	(1,823,731)	1,646,101
Total capital assets not depreciated	3,340,623	1,020,763	(1,106)	(1,736,559)	2,623,721
Capital assets depreciated					
Buildings	2,254,956	—	—	748,052	3,003,008
Improvements	3,043,955	2,020	—	777,068	3,823,043
Equipment and vehicles	215,518	8,250	(2,616)	20,374	241,526
Total capital assets depreciated	5,514,429	10,270	(2,616)	1,545,494	7,067,577
Less accumulated depreciation					
Buildings	(385,745)	(67,632)	—	(51,135)	(504,512)
Improvements	(1,314,084)	(147,493)	—	240,215	(1,221,362)
Equipment and vehicles	(163,723)	(11,314)	2,615	—	(172,422)
Total accumulated depreciation	(1,863,552)	(226,439)	2,615	189,080	(1,898,296)
Capital assets depreciated, net	3,650,877	(216,169)	(1)	1,734,574	5,169,281
Total capital assets	\$ 6,991,500	\$ 804,594	\$ (1,107)	\$ (1,985)	\$ 7,793,002



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

LAX had the following activities in capital assets during fiscal year 2015 (amounts in thousands):

	Balance at July 1, 2014	Additions	Retirement & disposals	Transfers	Balance at June 30, 2015
Capital assets not depreciated					
Land and land clearance	\$ 840,530	\$ —	\$ —	\$ —	\$ 840,530
Air easements	44,346	—	—	—	44,346
Emission reduction credits	5,918	—	—	—	5,918
Construction work in progress	1,912,240	706,474	—	(168,885)	2,449,829
Total capital assets not depreciated	2,803,034	706,474	—	(168,885)	3,340,623
Capital assets depreciated					
Buildings	2,112,285	—	(12,413)	155,084	2,254,956
Improvements	3,028,121	5,335	—	10,499	3,043,955
Equipment and vehicles	206,939	7,511	(2,234)	3,302	215,518
Total capital assets depreciated	5,347,345	12,846	(14,647)	168,885	5,514,429
Less accumulated depreciation					
Buildings	(380,974)	(14,396)	9,625	—	(385,745)
Improvements	(1,164,248)	(149,836)	—	—	(1,314,084)
Equipment and vehicles	(151,905)	(13,803)	1,985	—	(163,723)
Total accumulated depreciation	(1,697,127)	(178,035)	11,610	—	(1,863,552)
Capital assets depreciated, net	3,650,218	(165,189)	(3,037)	168,885	3,650,877
Total capital assets	\$ 6,453,252	\$ 541,285	\$ (3,037)	\$ —	\$ 6,991,500



5. Commercial Paper

As of June 30, 2016 and 2015, LAX had outstanding commercial paper (CP) notes of \$50.3 million and \$50.1 million, respectively. The respective average interest rates in effect as of June 30, 2016 and 2015 were 0.55% and 0.20%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

LAX entered into a letter of credit (LOC) and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Bank of the West for \$54.5 million to expire on October 2, 2017; Sumitomo Mitsui Bank for \$109.0 million to expire on October 2, 2017; Wells Fargo Bank for \$218.0 million to expire on October 2, 2017; and Barclays Bank PLC for \$163.5 million to expire on January 16, 2018. LAX paid the LOC banks an annual commitment fee ranging from 0.27% and 0.35% on the stated amount of the LOC. LOC fees of \$1.5 million and \$1.8 million were paid for fiscal years 2016 and 2015, respectively.

LAX had the following CP activity during fiscal year 2016 (amounts in thousands):

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Series C	\$ 50,123	\$ 187	\$ —	\$ 50,310

LAX had the following CP activity during fiscal year 2015 (amounts in thousands):

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Series B	\$ —	\$ 200,000	\$ (200,000)	\$ —
Series C	52,160	65	(2,102)	50,123
Total	\$ 52,160	\$ 200,065	\$ (202,102)	\$ 50,123



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

6. Bonded Debt

Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City.

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2016 and 2015 are as follows (amounts in thousands):

Bond issues	Issue Date	Interest rate	Fiscal year of last scheduled	Original principal	Outstanding principal	
					2016	2015
Issue of 2008, Series A	8/6/08	3.750% - 5.500%	2038	\$ 602,075	\$ 506,300	\$ 518,115
Issue of 2008, Series C	8/6/08	3.000% - 5.250%	2038	243,350	16,925	22,100
Issue of 2009, Series A	12/3/09	2.000% - 5.250%	2039	310,410	277,570	284,770
Issue of 2009, Series C	12/3/09	5.175% - 6.582%	2039	307,350	299,045	307,350
Issue of 2009, Series E	12/3/09	2.000% - 5.000%	2020	39,750	17,015	20,805
Issue of 2010, Series A	4/8/10	3.000% - 5.000%	2040	930,155	888,025	905,090
Issue of 2010, Series B	11/4/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/4/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	846,125	854,555
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	87,235	94,380
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	136,385	139,180
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	21,755	27,460
Issue of 2013, Series A	11/19/13	5.000%	2043	170,685	170,685	170,685
Issue of 2013, Series B	11/19/13	4.625% - 5.000%	2038	71,175	69,455	71,175
Issue of 2015, Series A	2/24/15	3.230% - 5.000%	2045	267,525	265,780	267,525
Issue of 2015, Series B	2/24/15	2.920% - 5.000%	2045	47,925	47,925	47,925
Issue of 2015, Series C	2/24/15	3.000% - 5.000%	2035	181,805	180,995	181,805
Issue of 2015, Series D	11/24/15	5.000%	2041	296,475	296,475	—
Issue of 2015, Series E	11/24/15	2.000% - 5.000%	2041	27,850	27,850	—
Issue of 2016, Series A	6/1/16	3.000% - 5.000%	2042	289,210	289,210	—
Total principal amount				<u>\$ 5,134,695</u>	4,638,795	4,106,960
Unamortized premium					285,980	198,252
Unamortized discount					(5,675)	(5,950)
Net revenue bonds					4,919,100	4,299,262
Less - current portion of debt					(96,200)	(81,700)
Net noncurrent debt					<u>\$ 4,822,900</u>	<u>\$ 4,217,562</u>



b. Pledged Revenue

The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. LAX has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that LAX's pledged revenues, as defined in the master senior and subordinate indentures, shall be the security and source of payment for the bonds.

LAX has received approval from the FAA to collect and use passenger facility charges (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal (TBIT) Renovations, Bradley West projects and Terminal 6 improvements. Board of Airport Commissioners authorized amounts of \$124.0 million and \$91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.

The total principal and interest remaining to be paid on the bonds is \$8.3 billion. Principal and interest paid during fiscal year 2016 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the \$124.0 million PFCs funds discussed in the preceding paragraph), were \$300.8 million and \$698.1 million, respectively. Principal and interest paid during fiscal year 2015 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the \$91.0 million PFCs funds discussed in the preceding paragraph), were \$275.5 million and \$512.0 million, respectively. Based on provisions of the bond indenture in calculating debt service coverage, PFCs reimbursements are excluded from senior lien bonds debt service, and interest expenses from commercial papers are included in the subordinate lien bonds debt service.

c. Bond Issuances

On November 24, 2015, LAX issued senior lien LAX revenue bonds Series 2015D of \$296.5 million and Series 2015E of \$27.8 million, and on June 1, 2016, LAX subordinate revenue bonds Series 2016A of \$289.2 million. The premium for these issuances totaled \$99.9 million. The bonds were issued to pay for certain capital projects at LAX.

On February 24, 2015, LAX issued senior lien LAX revenue bonds Series 2015A of \$267.5 million, Series 2015B of \$47.9 million, and LAX subordinate revenue bonds Series 2015C of \$181.8 million. The premium for these issuances totaled \$86.9 million. The bonds were issued to pay for certain capital projects at LAX and to advance refund and defease a portion of the Series 2008C subordinate revenue bonds in the amount of \$190.6 million. These transactions resulted in a cash flow savings of \$25.7 million and economic gain of \$16.9 million.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

d. Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

Fiscal year(s) ending	Principal	Interest	Total
2017	\$ 96,200	\$ 237,429	\$ 333,629
2018	105,145	233,650	338,795
2019	110,740	228,570	339,310
2020	116,005	223,133	339,138
2021	118,405	217,425	335,830
2022 - 2026	703,805	988,953	1,692,758
2027 - 2031	921,065	783,319	1,704,384
2032 - 2036	1,184,825	519,563	1,704,388
2037 - 2041	1,184,245	187,219	1,371,464
2042 - 2045	98,360	10,953	109,313
Total	<u>\$ 4,638,795</u>	<u>\$ 3,630,214</u>	<u>\$ 8,269,009</u>

e. Build America Bonds

LAX Subordinate Revenue Bonds 2009 Series C and 2010 Series C with par amounts of \$307.4 million and \$59.4 million, respectively, were issued as federally taxable Build America Bonds (BABs) under the American Recovery and Reinvestment Act of 2009. LAX receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as "sequestration") for the federal fiscal years ending September 30, 2016 and September 30, 2015 reduced the subsidy. The interest subsidy on the BABs was \$7.8 million in fiscal year 2016 and \$7.7 million in fiscal year 2015. The subsidy is recorded as a non-capital grant, a component of other nonoperating revenue.



7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2016 (amounts in thousands):

	Balance at			Balance at		Current
	July 1, 2015	Additions	Reduction	June 30, 2016	Portion	
Revenue bonds	\$ 4,106,960	\$ 613,535	\$ (81,700)	\$ 4,638,795	\$ 96,200	
Add unamortized premium	198,252	99,858	(12,130)	285,980	—	
Less unamortized discount	(5,950)	—	275	(5,675)	—	
Net revenue bonds	4,299,262	713,393	(93,555)	4,919,100	96,200	
Accrued employee benefits	41,806	5,307	(4,598)	42,515	5,357	
Estimated claims payable	75,559	7,149	(8,332)	74,376	7,899	
Liability for environmental/ hazardous materials cleanup	12,783	—	—	12,783	—	
Net pension liability	566,613	75,818	—	642,431	—	
Other long-term liabilities	886	—	—	886	—	
Total long-term liabilities	\$ 4,996,909	\$ 801,667	\$ (106,485)	\$ 5,692,091	\$ 109,456	

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2015 (amounts in thousands):

	Balance at			Balance at		Current
	July 1, 2014	Additions	Reduction	June 30, 2015	Portion	
Revenue bonds	\$ 3,872,650	\$ 497,255	\$ (262,945)	\$ 4,106,960	\$ 81,700	
Add unamortized premium	117,890	91,717	(11,355)	198,252	—	
Less unamortized discount	(7,729)	—	1,779	(5,950)	—	
Net revenue bonds	3,982,811	588,972	(272,521)	4,299,262	81,700	
Accrued employee benefits	40,586	5,684	(4,464)	41,806	4,598	
Estimated claims payable	68,871	14,158	(7,470)	75,559	8,332	
Liability for environmental/ hazardous materials cleanup	12,783	—	—	12,783	—	
Net pension obligation	9,062	—	(9,062)	—	—	
Net pension liability	—	566,613	—	566,613	—	
Other long-term liabilities	886	—	—	886	—	
Total long-term liabilities	\$ 4,114,999	\$ 1,175,427	\$ (293,517)	\$ 4,996,909	\$ 94,630	



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June 30, 2016 and 2015

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8. Leases and Agreements

a. Operating Leases and Agreements As Lessor

LAX has entered into numerous rental agreements with concessionaires for food and beverage, gift and news, duty-free, rental car facilities, and advertisements. In general, the agreements provide for cancellation on a 30-day notice by either party; however, they are intended to be long-term in nature with renewal options. Accordingly, these agreements are considered operating leases for purposes of financial reporting.

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2016 and 2015, revenues from such agreements were approximately \$291.3 million and \$257.2 million, respectively. The respective amounts over MAG were \$76.6 million and \$56.1 million.

Minimum future rents or payments under these agreements over the next five years, assuming no material changes from concessionaires' current levels of gross sales, and that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ 190,052
2018	156,852
2019	112,484
2020	38,365
2021	24,333
Total	<u>\$ 522,086</u>

On March 1, 2012, LAWA and Westfield Concession Management, LLC (Westfield) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT) and Terminal 2 at LAX for a term of 17 years consisting of two-year development period and fifteen-year operational period. Since then, the Terminal 2 portion has been amended with an expiration date the same as the TBIT portion, which is no later than January 31, 2032. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than \$81.9 million in initial improvements and \$16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.



Under the 3-1-12 Agreement, the MAG will be adjusted each year by the greater of (a) \$210 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA beginning January 1, 2014. For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and Westfield entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Under this agreement, the expiration dates of Terminal 1, 3 and 6 are June 30, 2032, June 30, 2029 and September 30, 2030, respectively. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than \$78.6 million in initial improvements and \$15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 6-22-12 Agreement, the MAG will be adjusted each year by the greater of (a) \$240 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis beginning January 1, 2014. .

Minimum future rents under these two agreements with Westfield over the next five years assuming no material changes from concessionaires' current levels of gross sales are estimated as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ 36,447
2018	37,358
2019	38,292
2020	39,249
2021	40,727
Total	<u>\$ 192,074</u>



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LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from less than 10 years to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the fiscal years ended June 30, 2016 and 2015, revenues from these leases were \$558.8 million and \$455.8 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the assumption that current agreements are carried to contractual termination. The future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ 506,182
2018	488,335
2019	466,595
2020	447,865
2021	431,589
Total	<u>\$ 2,340,566</u>

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2016 and 2015 are as follows (amounts in thousands):

	2016	2015
Buildings and facilities	\$ 4,022,026	\$ 3,270,702
Less- Accumulated depreciation	(697,070)	(510,978)
Net	3,324,956	2,759,724
Land	556,951	555,997
Total	<u>\$ 3,881,907</u>	<u>\$ 3,315,721</u>



b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2016 and 2015 were \$7.6 million and \$6.3 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2017	\$ 6,838
2018	6,832
2019	6,832
2020	5,453
2021	3,522
2022-2026	17,612
2027-2031	10,155
2032	1,820
Total	<u>\$ 59,064</u>



Notes to the Financial Statements

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9. Passenger Facility Charges

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. The current PFCs is \$4.50 per enplaned passenger. PFCs collection authorities approved by FAA are \$3.1 billion at LAX as of June 30, 2016. LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of \$124.0 million and \$91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.

The following is a summary of projects approved by FAA as of June 30, 2016 (amounts in thousands):

Terminal development	\$	2,148,395
Noise mitigation		863,745
Airfield development and equipment		83,620
Total	\$	<u>3,095,760</u>

PFCs collected and the related interest earnings through June 30, 2016 and 2015 were as follows (amounts in thousands):

	2016	2015
Amount collected	\$ 2,118,505	\$ 1,968,096
Interest earnings	203,570	197,226
Total	\$ <u>2,322,075</u>	\$ <u>2,165,322</u>

As of June 30, 2016 and 2015, cumulative expenditures to date on approved PFCs projects totaled \$1.9 billion and \$1.6 billion, respectively.



10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charge (CFCs) from car rental agencies serving LAX. State law allows airports to collect a fee of \$10.00 per on-airport rental car agency transaction to fund the development of a consolidated car rental facility and common-use transportation system. CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2016 and 2015 were as follows (amounts in thousands):

	2016	2015
Amount collected	\$ 234,124	\$ 202,128
Interest earnings	14,404	11,789
Total	<u>\$ 248,528</u>	<u>\$ 213,917</u>

As of June 30, 2016 and 2015, cumulative expenditures to date on approved CFCs projects totaled \$3.0 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled \$49.3 million and \$31.0 million in fiscal years 2016 and 2015, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.



Notes to the Financial Statements

June 30, 2016 and 2015

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12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for fiscal years ended June 30, 2016 and 2015 were \$94.1 million and \$89.7 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2016 and 2015 were \$9.3 million and \$8.8 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD including, but not limited to, legal, human services, and financial services. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent for fiscal years 2016 and 2015 was \$1.11 million and \$1.10 million, respectively. The details are as follows (amounts in thousands):

	FY 2016	FY 2015
Allocated administrative costs		
ONT	\$ 6,866	\$ 6,932
VNY	2,120	1,747
PMD	370	348
Total	9,356	9,027
Land rental	(1,112)	(1,103)
Net	<u>\$ 8,244</u>	<u>\$ 7,924</u>

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of \$43.0 million out of approximately \$58.0 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway. The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling \$17.7 million plus 3.0% interest for a total of \$21.3 million. The installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2016 and 2015, the respective outstanding principal amount of \$5.8 million and \$8.5 million payable beyond one year were reported under other noncurrent assets while the balance of \$2.8 million and \$2.7 million payable within one year were reported under unrestricted current assets.



13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328. As a City department, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the completion date of LAX's financial statements, LACERS financial statements and the plan's actuarial valuation study for fiscal year 2016 are not yet available.

Pension and other postemployment benefits are established pursuant to the City ordinance. The City Council may, by an ordinance adopted pursuant to specific requirements (approved by not less than 2/3 of the City Council, subject to the veto of the Mayor and override by City Council by 3/4 of City Council), modify or add to the benefits set forth in the Los Angeles Administrative Code or change conditions of entitlement. However, the City Council may not increase or modify benefits if doing so would violate limitations imposed by federal or state law. As a further condition to the final adoption of benefit modifications, it shall be required that the City Council be advised in writing by an enrolled actuary as to the cost of benefit increases.

i) Pension Plan

Benefits

LACERS provides service retirement, disability, death and survivor benefits to eligible employees. Employees of the City become members of LACERS on the first day of employment in a position with the City in which the employee is not excluded from membership. Members employed prior to July 1, 2013 are designated as Tier 1 and those employed on or after July 1, 2013 are designated as Tier 2⁵ (unless a specific exemption applies to the employee, providing a right to Tier 1 status). Effective February 20, 2016, active members who were Tier 2 members were transferred to Tier 1. Membership to Tier 1 is now closed to new entrants. All employees who become members of LACERS on or after February 21, 2016 are members of Tier 3 membership under Los Angeles Administrative Code, with limited exceptions. Members of LACERS have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member who has five or more years of continuous City service terminates employment,

⁵ It should be noted that since the measurement date as of June 30, 2015, the City has rescinded Tier 2 and directed LACERS to transfer all the current Tier 2 members retroactively to Tier 1. As Segal Consulting have not yet measured the financial impact of those changes, they have continued to refer to those members as Tier 2 members and included their liabilities as measured under Tier 2 in their report.



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the member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

Tier 1 members

LACERS' Tier 1 members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the member's average monthly salary during the member's last 12 months of service, or during any other 12 consecutive months of service designated by the member, multiplied by the member's years of service credit. For Tier 1 members, the maximum monthly retirement allowance is 100% of the final average monthly compensation.

Tier 1 members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater. Upon an active member's death, refund of the member's contributions plus a limited pension benefit equal to 50% of monthly salary will be paid up to 12 months, or survivor benefits will be paid to an eligible spouse or qualified domestic partner if such member was eligible to retire. Upon a retired member's death, modified or unmodified allowance is continued to a eligible spouse or qualified domestic partner in addition to payment of a funeral allowance.

Tier 3 members

LACERS' Tier 3 members are eligible for normal retirement if they have 10 or more years of city service (5 years must be continuous service) at age 60, with retirement benefits determined as 1.5% of the member's 36-month final average compensation per year of service credit. Tier 3 members are also eligible for normal retirement if they have 30 or more years of city service (5 years must be continuous service) at age 60, with retirement benefits determined as 2.0% of the member's 36-month final average compensation per year of service credit.

Tier 3 members are eligible for enhanced retirement after reaching age 63 with 10 or more years of city service (5 years must be continuous service), with retirement benefits determined as 2.0% of the member's 36-month final average compensation per year of service credit. Tier 3 members are also eligible for enhanced retirement after reaching age 63 with 30 or more years of city service (5 years must be continuous service), with retirement benefits determined as 2.1% of the member's 36-month final average compensation per year of service credit.

Tier 3 members are also eligible for early retirement to retire with any age prior to age 60 with 30 or more years of city service (5 years must be continuous service), with retirement benefits determined as 2.0% of the member's 36-month final average compensation per year of service credit, adjusted for an early retirement adjustment factor. If the member is age 55 or older at the date of retirement, the retirement allowance shall not be subject to reduction on account of age. If the member is younger than age 55 at the date of retirement, a reduction factor will be applied based on age. For Tier 3 members, the maximum monthly retirement allowance is 80% of the final average monthly compensation.



Tier 3 members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater. Upon an active member's death, refund of the member's contributions plus a limited pension benefit equal to 50% of monthly salary will be paid up to 12 months, or survivor benefits will be paid to an eligible spouse or qualified domestic partner if such member was eligible to retire. Upon a retired member's death, modified or unmodified allowance is continued to a eligible spouse or qualified domestic partner in addition to payment of a funeral allowance.

Retirement allowances are indexed annually for inflation. The Board of Administration has authority to determine the average annual percentage change in the CPI for the purpose of providing a COLA to the benefits of eligible members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 members or 2.0% for Tier 3 members. The excess over the maximum will be banked for Tier 1 members only.

Membership

As of June 30, 2015, LACERS had 20,906 and 2,989 active vested and nonvested members, respectively; 4,408 and 17,932 inactive nonvested and inactive retired members, respectively; and 2,099 inactive terminated members entitled to but not yet receiving benefits (Note: information for fiscal year 2016 not yet available on this report issue date).

Member contributions

For Tier 1 members, as a result of the 2009 Early Retirement Incentive Program (ERIP) ordinance, which stipulates a 1% increase in the member contribution rate for all employees for a period of 15 years (or until the ERIP cost obligation is fully recovered, whichever comes first), and the new ordinances adopted by the City Council in 2011 requiring additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy, most of the members contribute 11% of pay as of June 30, 2016 and June 30, 2015. For Tier 3 members, the contribution rate is 11% of their pensionable salary and no part of the members contribution is attributable to the ERIP obligations.

Employer contributions

The City contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Administration. Employer contribution rates are adopted annually based upon recommendations received from LACERS' actuary after the completion of the annual actuarial valuation. The average employer contribution rates were 20.76% and 19.84% of compensation⁶ as of June 30, 2015 (based on the June 30, 2013 valuation) and June 30, 2014 (based on the June 30, 2012 valuation), respectively. As of the completion date of LAX's financial statements, the average employer contribution rate for the fiscal year ended June 30, 2016 is not yet available.

⁶ After adjustments to phase in over five years the impact of new actuarial assumptions (as a result of the June 30, 2011 Triennial Experience Study) on the City's contributions.



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(continued)

The total City contributions to LACERS of \$652.0 million and \$588.9 million for the years ended June 30, 2016 and June 30, 2015, respectively, consisted of the following (amounts in thousands):

	2016	2015
Required contributions	\$ 440,546	\$ 381,141
Family death benefit Plan	158	158
Total City contributions	440,704	381,299
Member contributions	211,345	207,564
Total contributions	\$ 652,049	\$ 588,863

The required City contribution of \$440.5 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$211.3 million were made toward the retirement and voluntary family death benefits for fiscal year 2016.

The required City contribution of \$381.1 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$207.6 million were made toward the retirement and voluntary family death benefits for fiscal year 2015.

LAX's Contributions to the Pension Plan

LAX's contributions to the Pension Plan for the year ended June 30 (amounts in thousands):

	2016	2015
LAX's required contributions to the Pension Plan	\$ 55,972	\$ 49,043

The LAX contributions made for the Pension Plan under the required contribution category in the amounts of \$56.0 million and \$49.0 million for fiscal years 2016 and 2015, respectively, were equal to 100% of the actuarially determined contribution of the employer.

ii) Other Postemployment Benefit Healthcare Plan (OPEB)

LACERS provides postemployment health care benefits to eligible retirees of OPEB, and, if the member retires under Tier 1 membership, to their spouses/domestic partners as well. Prior to the retirement effective date of July 1, 2011, the benefits of this single employer postemployment benefit health care plan were available to all employees who 1) participate in the Pension Plan; 2) have at least 10 years of service with LACERS; and 3) enrolled in a system-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). The retiree or Tier 1 surviving spouse/domestic partner can choose from the health plans that are available, which include medical, vision, and dental benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. The retiree or Tier 1 surviving spouse/domestic partner receives medical subsidies based on service years. The dental subsidies are provided to the retirees only, based on years of service. The maximum subsidies are set annually by the LACERS Board of Administration.



During the 2011 fiscal year, the City adopted an ordinance to limit the maximum medical subsidy at \$1,190 for those LACERS' members who retire on or after July 1, 2011. However, LACERS' members, who at any time prior to retirement, contribute the additional 2% or 4% of pay are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2015, approximately 99% of non-retired members were making the additional contributions, and therefore were not subject to the medical subsidy cap. Postemployment healthcare benefits for the Tier 3 members differ from those for the Tier 1 members in that all Tier 3 members contribute towards the cost of this benefit.

Funding Policy for OPEB

The City Charter requires periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for OPEB for the fiscal year ended June 30, 2015, was 5.61% of covered payroll, determined by the June 30, 2013 valuation. As of the completion date of LAX's financial statements, the required contribution rate for OPEB for the fiscal year ended June 30, 2016 is not yet available.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns, and the health care cost trends. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB asset (liability) for fiscal year 2015 and the two preceding years for each of the plans are as follows (amounts in thousands):

Year ended	Annual OPEB Cost (AOC)	Percentage of AOC contributed	Net OPEB Asset (Liability)
6/30/2013	\$ 72,916	100%	—
6/30/2014	\$ 97,841	100%	—
6/30/2015	\$ 100,467	100%	—



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Funded Status and Funding Progress

The following is funded status information for LACERS OPEB as of June 30, 2015 (amounts in thousands) (Note: information for fiscal year 2016 not yet available on this report issue date):

	2015
Actuarial Accrued Liability (AAL)	\$ 2,646,989
Actuarial value of assets	2,108,925
Unfunded AAL	<u>\$ 538,064</u>
Funded ratio	79.67%
Covered Payroll	\$ 1,907,665
Unfunded AAL as a percentage of covered payroll	28.21%

LAX's Contributions to OPEB

LAX's contributions to OPEB for the year ended June 30 (amounts in thousands):

	2016	2015
LAX's required contributions to OPEB	<u>\$ 13,875</u>	<u>\$ 13,043</u>

LAX's contributions made for OPEB, in the amounts of \$13.9 million and \$13.0 million for fiscal years 2016 and 2015, respectively, represent 100% of the Annual Required Contribution (ARC) as defined by GASB Statements No. 43⁷ and No. 45⁸.

⁷ GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued in April 2004.

⁸ GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension*, issued in June 2004.



b. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions for Fiscal Year 2016

LACERS' Net Pension Liability (NPL) for fiscal year 2016 was measured as of June 30, 2015 and determined based upon the Plan Fiduciary Net Position (FNP) and Total Pension Liability (TPL) from actuarial valuation as of June 30, 2015. LACERS' NPL for fiscal year 2015 was measured as of June 30, 2014 and determined based upon the FNP and TPL from actuarial valuation as of June 30, 2014.

As of the reporting date June 30, 2016 (measurement date of June 30, 2015) and reporting date June 30, 2015 (measurement date of June 30, 2014), LAX reported its proportionate shares of TPL, FNP and NPL as follows (amounts in thousands):

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
LAX's proportionate share:		
Total Pension Liability	\$ 2,177,306	\$ 2,065,347
Plan Fiduciary Net Position	(1,534,875)	(1,498,734)
Net Pension Liability	<u>\$ 642,431</u>	<u>\$ 566,613</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	70.49%	72.57%

LAX's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAX during fiscal year 2015. The NPL was measured as of June 30, 2015 and determined based upon the Pension Plan's FNP (plan assets) and TPL from actuarial valuations as of June 30, 2015.

Change in LAX's proportionate share of the NPL as of June 30, 2016 (measurement date June 30, 2015) and 2015 (measurement date June 30, 2014) was as follows (amounts in thousands):

	NPL	Proportion
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	\$ 642,431	12.87%
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	\$ 566,613	12.71%
Change - Increase	\$ 75,818	0.16%

Change in LAX's proportionate share of the NPL as of June 30, 2015 (measurement date June 30, 2014) and 2014 (measurement date June 30, 2013) was as follows (amounts in thousands):

	NPL	Proportion (%)
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	\$ 566,613	12.71 %
Proportion - Reporting date June 30, 2014 (measurement date June 30, 2013)	\$ 622,416	13.17 %
Change - Decrease	\$ (55,803)	(0.46)%



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

For the year ended June 30, 2016, LAX recognized pension expense of \$57.4 million. At June 30, 2016, LAX reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	\$ 55,972	\$ —
Differences between expected and actual experience	—	27,695
Changes of assumptions	65,097	—
Net difference between projected and actual earnings on pension plan investments	—	18,375
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,273	13,881
Total	<u>\$ 127,342</u>	<u>\$ 59,951</u>

\$56.0 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ (2,562)
2018	(2,562)
2019	(2,562)
2020	19,872
2021	(767)



For the year ended June 30, 2015, LAX recognized pension expense of \$45.7 million. At June 30, 2015, LAX reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	\$ 49,043	\$ —
Differences between expected and actual experience	—	16,914
Changes of assumptions	82,071	—
Net difference between projected and actual earnings on pension plan investments	—	103,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	17,723
Total	<u>\$ 131,114</u>	<u>\$ 138,138</u>

\$49.0 million reported as deferred outflows of resources related to contributions subsequent to the measurement date were recognized as a reduction of the NPL in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

Fiscal year ending	Amount
2016	\$ (15,608)
2017	(15,608)
2018	(15,608)
2019	(15,608)
2020	6,365



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

c. Actuarial Assumptions for the June 30, 2015 Measurement Date for Fiscal Year 2016

The total pension liabilities as of June 30, 2015 and June 30, 2014 determined by actuarial valuations as of June 30, 2015 and June 30, 2014, respectively, using the following actuarial assumptions⁹, applied to all periods included in the measurement:

Inflation:	3.25%
Discount rate:	7.5%
Salary increases:	Ranges from 4.40% to 10.50% based on years of service, including inflation
Investment rate of return:	7.50%, net of pension plan investment expense, including inflation
Post-Retirement Mortality Rates:	
Healthy Members and all Beneficiaries:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
Disabled Members:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward seven years for males and set forward eight years for females.
Termination Rates before Retirement: Pre-Retirement Mortality:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
Retirement Age and Benefit for Inactive Vested Participants:	Pension benefit paid at the later of age 58 or the current attained age. For reciprocals, 4.40% compensation increases per annum.
Exclusion of Inactive Members:	All inactive participants are included in the valuation.
Definition of Active Members:	First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.
Unknown Data for Members:	Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.
Percent Married/Domestic Partner:	76% of male participants; 50% of female participants.
Age of Spouse:	Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.
Service:	Employment service is used for eligibility determination purposes. Benefit service is used for benefit calculation purposes.
Future Benefit Accruals:	1.0 year of service per year.
Other Reciprocal Service:	5% of future inactive vested members will work at a reciprocal system.
Consumer Price Index:	Increase of 3.25% per year; benefit increases due to CPI subject to 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.
Employee Contribution Crediting Rate:	Based on average of 5-year Treasury note rate. An assumption of 3.25% is used to approximate that crediting rate in this valuation.
Actuarial Cost Method:	Entry Age Cost Method.

⁹ The actuarial assumptions used in this June 30, 2015 valuation were based on the results of an experience study for the period from July 1, 2011 through June 30, 2014. They are the same as the assumptions used in the June 30, 2015 funding actuarial valuation for LACERS



d. Discount Rate for Fiscal Year 2016

The discount rate used to measure the total pension liability was 7.50% as of June 30, 2015 and June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2015 and June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation, and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term (Arithmetic) Expected Real Rate of Return</u>
U.S. Large Cap Equity	20.40%	5.94%
U.S. Small Cap Equity	3.60%	6.64%
Developed	21.75%	6.98%
Emerging Market	7.25%	8.48%
Core Bonds	16.53%	0.71%
High Yield Bonds	2.47%	2.89%
Private Real Estate	5.00%	4.69%
Cash	1.00%	-0.46%
Credit Opportunities	5.00%	3.07%
Public Real Assets	5.00%	3.41%
Private Equity	12.00%	10.51%
Total	100.00%	



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents LAX's proportionate share of the NPL as of June 30, 2015 and June 30, 2014, calculated using the discount rate of 7.50%, as well as what LAX's proportionate share of NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate (amounts in thousands):

	June 30, 2015	June 30, 2014
1% decrease	6.50%	6.50%
Net Pension Liability	\$932,617	\$845,900
Current discount rate	7.50%	7.50%
Net Pension Liability	\$642,431	\$566,613
1% increase	8.50%	8.50%
Net Pension Liability	\$400,940	\$334,512

Pension Plan Fiduciary Net Position

The Pension Plan's fiduciary net position has been determined on the same basis used by the Pension Plan and the plans basis of accounting, including policies with respect to benefit payments and valuation of investments. Detailed information about LACERS' net position is available in the separately issued LACERS' financial reports, which can be found on the LACERS website.

e. Payable to the Pension Plan for Fiscal Year 2016

The City annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. LAX paid 100% of its annual contributions of \$56.0 million and \$49.0 million to the Pension Plan for fiscal years ended June 30, 2016 and June 30, 2015, respectively. At June 30, 2016 and June 30, 2015, LAX did not have any payable to be reported for the outstanding amount of contributions to the pension plan required for the year end.



14. Risk Management

The Risk Management Division (RMD) administers LAWA's risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAWA's ability to meet its business goals and objectives.

LAWA maintains insurance coverage of \$1.3 billion for general aviation liability and \$1.0 billion for war and allied perils. Additional insurance coverage is carried for general all risk property insurance for \$2.5 billion, that includes \$250.0 million for boiler and machinery, and \$25.0 million for earthquake. Deductibles for these policies are \$10,000 per claim with a \$500,000 annual aggregate for general liability, and \$100,000 per occurrence and no aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits.

Additionally, LAX maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits or where insurance is not available or viable. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2016, 2015, and 2014, no claims were in excess of LAX's insurance coverage.

A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities with a probability of occurring from these lawsuits. The probability weighted liability for litigation and other claims at June 30, 2016 and 2015 was \$11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liabilities at June 30, 2016 and 2015 were \$62.7 million and \$63.9 million, respectively.



Notes to the Financial Statements

June 30, 2016 and 2015

(continued)

The changes in LAX's estimated claims payable are as follows (amounts in thousands):

	June 30		
	2016	2015	2014
Balance at beginning of year	\$ 75,559	\$ 68,871	\$ 67,665
Provision for current year's events and changes in provision for prior years' events	7,149	14,158	7,470
Claims payments	(8,332)	(7,470)	(6,264)
Balance at end of year	\$ 74,376	\$ 75,559	\$ 68,871
Current portion	\$ 7,899	\$ 8,332	\$ 7,470

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were \$124.7 million and \$127.7 million as of June 30, 2016 and 2015, respectively. Significant amounts were committed for terminals and facilities, airfield and runways, as well as noise mitigation program.

b. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns. Intensified security precautions have been instituted by government agencies, airlines, and airport operators since the September 11, 2001 terrorist attacks. Intelligence reports have indicated that LAX was a target of a terrorist bombing plot and continues to be a potential terrorist target. LAX is unable to predict: (a) the likelihood of future incidents of terrorism and other airline travel disruptions; (b) the impact of the aforementioned security issues on its operations and revenues; and (c) financial impact to the airlines operating at LAX.

c. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy.

As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2016 and 2015 was \$12.8 million. LAX does not expect any recoveries reducing this obligation.



The State Water Resources Control Board (SWRCB) issued a Notice of Violation (NOV) to LAWA generally alleging violations of underground storage tank (UST) construction, monitoring, and testing laws at facilities where LAWA owns and operates USTs. LAWA owns and/or operates six USTs at LAX. The Board approved a consent judgment settlement with the SWRCB in October 2015 with a total civil penalty amount of \$2.3 million to be paid or suspended on condition that LAWA complies with the terms of the consent judgment.

The California Regional Water Quality Control Board, Lahontan Region (Water Board) issued a Notice of Revised Proposed Cleanup and Abatement Order (Order) to Los Angeles County Sanitation District No. 20 (District) and the City of Los Angeles (City), as Dischargers, with respect to discharges to underground water from the Palmdale Reclamation Plant (Reclamation Plant) owned by the District. The Order states that the discharges have resulted in violations of waste discharge requirements for the Reclamation Plant and prohibitions contained in the Water Quality Control Plan for the Lahontan Region, and that discharges from the Reclamation Plant to unlined ponds and to the Effluent Management Site (owned by the City and now known as the Agricultural Site) have adversely affected and polluted groundwater in the area of the discharges. The Water Board issued an order to the District and LAWA to submit technical reports that include feasibility and costs to remove nitrate from groundwater to certain acceptable levels. The costs and timeframe to perform the Order, along with the apportionment of liability, are uncertain at this time.

16. Other Matter

City Financial Challenges

According to the City Administrative Officer, the City continues making progress towards fiscal sustainability; however, as a result of low investment returns from the pension systems, and increasing employee related costs, the City's structural deficit projected last year to be eliminated in fiscal year 2019 is now expected to last through fiscal year 2021. The City's enhanced focus on fiscal responsibility in the coming years will continue to play a critical role in addressing this challenge.

LAWA, as a proprietary department under the City Charter, is vested with the management and control of its assets. The budgetary challenges of the City's General Fund as well as the mitigating measures implemented by the Mayor and City Council do not directly affect LAX's operations. However, auxiliary services provided to LAWA by other City departments may be impacted. In addition, the City's budget challenges may have an adverse effect on the trading value of LAX's outstanding and future bond issues.

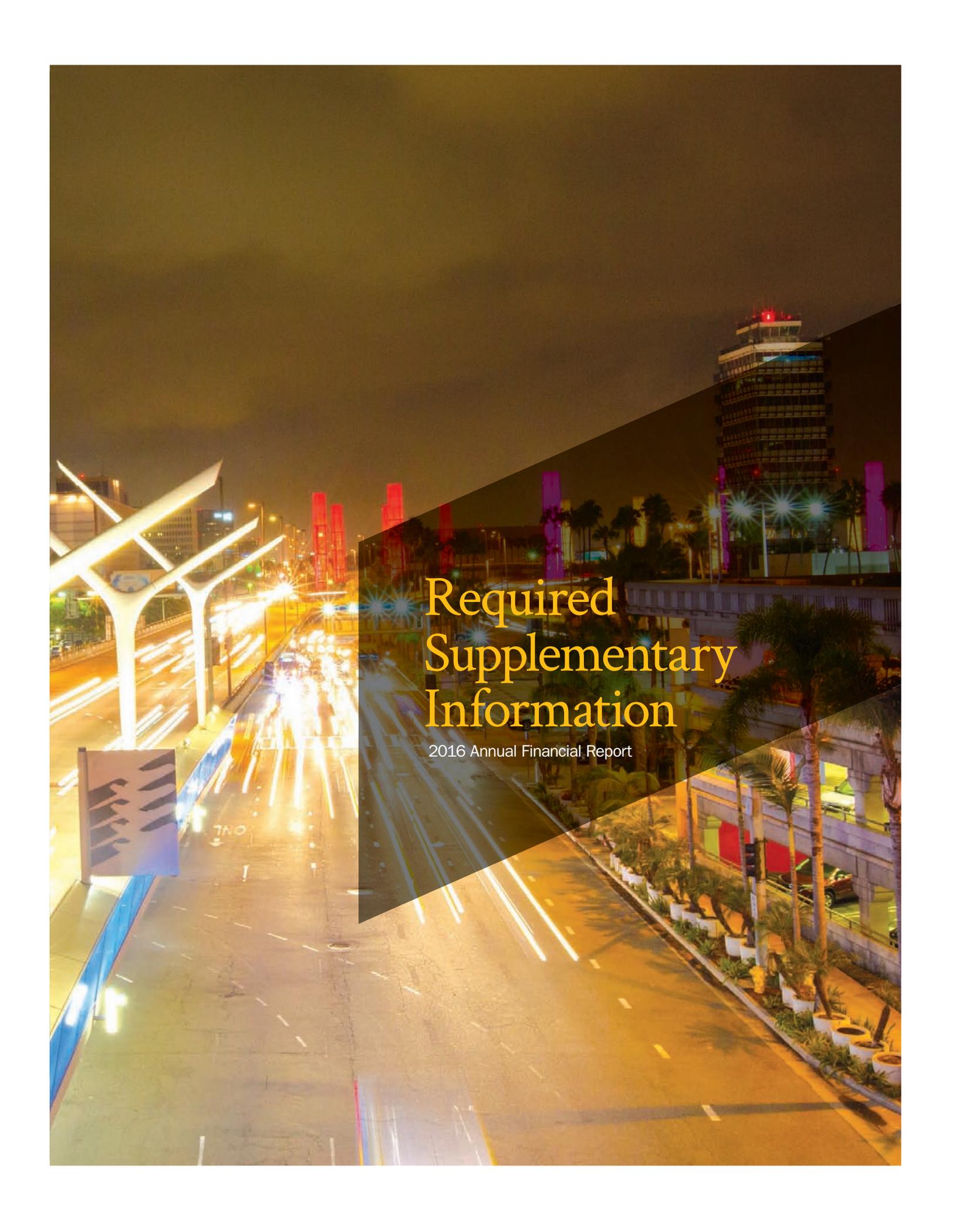
17. Subsequent Event

Revenue Bonds Issuance

On October 20, 2016, the Board authorized the issuance of the LAX subordinate revenue bonds, 2016 Series B in an aggregate principal amount not to exceed \$550.0 million, and LAX senior revenue bonds, 2016 Series C in an aggregate principal amount not to exceed \$229.9 million. Proceeds from the LAX 2016 Series B subordinate bonds will be used to pay and/or reimburse LAX for capital expenditures incurred or to be incurred by LAX. Proceeds from the LAX 2016 Series C senior bonds will be used to advance refund a portion of outstanding LAX senior revenue bonds, 2008 Series A.



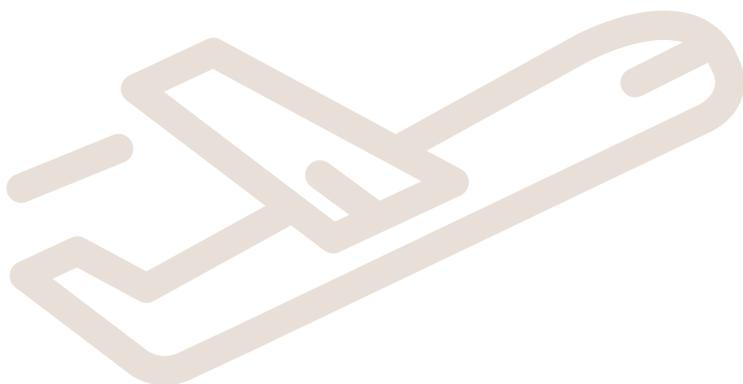
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A nighttime photograph of a city street. The street is illuminated by streetlights, and there are long light trails from cars moving through the frame. On the left, there are modern, white, Y-shaped light structures. In the background, there are several tall buildings, some with red and purple lighting. The sky is dark. A semi-transparent dark triangle is overlaid on the right side of the image, containing the text.

Required Supplementary Information

2016 Annual Financial Report

Required Supplementary Information





Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Required Supplementary Information
Last Ten Fiscal Years Ended June 30*
(amounts in thousands)

Schedule of LAX's Proportionate Share of the Net Pension Liability

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
Proportion of the Net Pension Liability	12.87%	12.71%
Proportionate share of the Net Pension Liability	\$ 642,431	\$ 566,613
Covered-employee payroll ⁽¹⁰⁾	\$ 235,176	\$ 229,535
Proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	273.17%	246.85%
Proportionate share of Pension Plan's Fiduciary Net Position	\$ 1,534,875	\$ 1,498,734
Proportionate share of Pension Plan's Total Pension Liability	\$ 2,177,306	\$ 2,065,347
Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability	70.49%	72.57%

Notes to schedule:

1. Changes of assumptions for measurement date June 30, 2014:

The June 30, 2014 calculations reflected various assumptions changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of the Pension Plan's Total Pension Liability is primarily due to the lowered assumed investment rate of return, from 7.75% in fiscal year 2013 to 7.50% in fiscal year 2014, and longer assumed life expectancies for members and beneficiaries.

* Since fiscal year 2015 was the first year of implementation, only two years are shown.

¹⁰ Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.



Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Required Supplementary Information
Last Ten Fiscal Years Ended June 30*
(amounts in thousands)

Schedule of Contributions - Pension

	2016	2015
Contractually required contribution (actuarially determined)	\$ 55,972	\$ 49,043
Contributions in relation to the actuarially determined contributions	55,972	49,043
Contribution deficiency (excess)	\$ —	\$ —
LAX's covered-employee payroll ⁽¹¹⁾	\$ 235,176	\$ 229,535
LAX's Contributions as a percentage of covered-employee payroll	23.80%	21.37%

* Since fiscal year 2015 was the first year of implementation, only two years are shown.

¹¹ Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.



Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Required Supplementary Information

Last Ten Fiscal Years Ended June 30*

(amounts in thousands)

Notes to schedule:

Valuation date: Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates

Actuarial cost method Entry age actuarial cost method, level percent of salary.

Amortization method Level percent of payroll - assuming a 4.0% increase in total covered payroll.

Amortization period Multiple layers - closed amortization period. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over five years. Actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years.

Asset Valuation Method Market value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets. An ad hoc change was made in 2014 to combine the unrecognized returns and losses of prior years as of June 30, 2013 into one layer and recognize it evenly over six years from fiscal year 2013-14 through fiscal year 2018-19.

* Since fiscal year 2015 was the first year of implementation, only two years are shown.



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

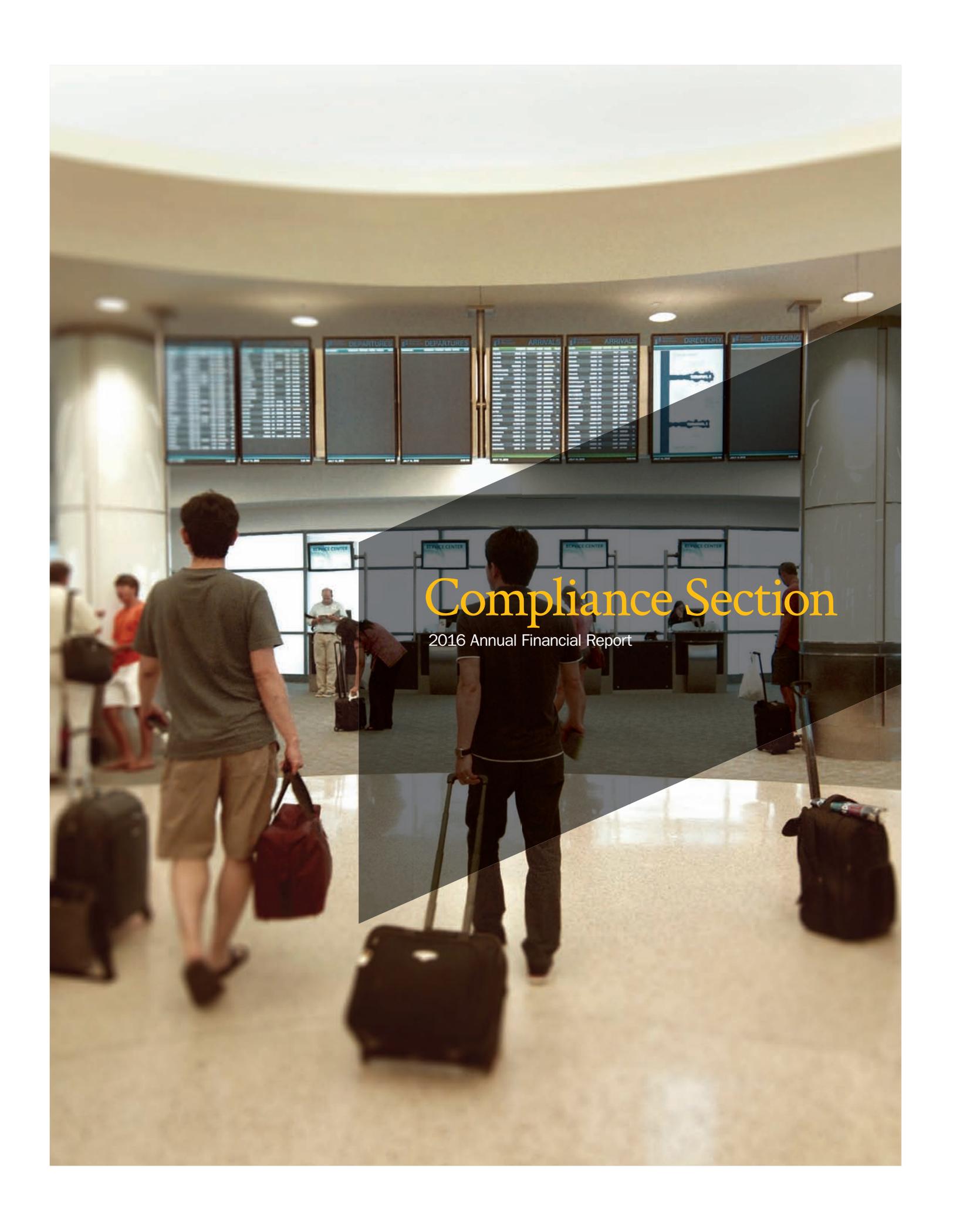
Required Supplementary Information
Last Ten Fiscal Years Ended June 30*
 (amounts in thousands)

Notes to schedule (continued):

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
Investment rate of return	7.50%	7.75%
Inflation rate	3.25%	3.50%
Real across-the-board salary increase	0.75%	0.75%
Projected salary increases	Ranges from 10.50% to 4.40% based on years of service	Ranges from 11.25% to 6.50% for members with less than 5 years of service. Ranges from 6.50% to 4.65% for members with 5 or more years of service
Cost of living adjustment ⁽¹⁾	Tier 1: 3.00% Tier 2: 2.00%	Tier 1: 3.00% Tier 2: 2.00%
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no set back for females	Healthy: RP-2000 Combined Healthy Mortality Table, set back two years for males and with set back one year for females

1. Actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1 and a 2.00% maximum for Tier 2.

* Since fiscal year 2015 was the first year of implementation, only two years are shown.

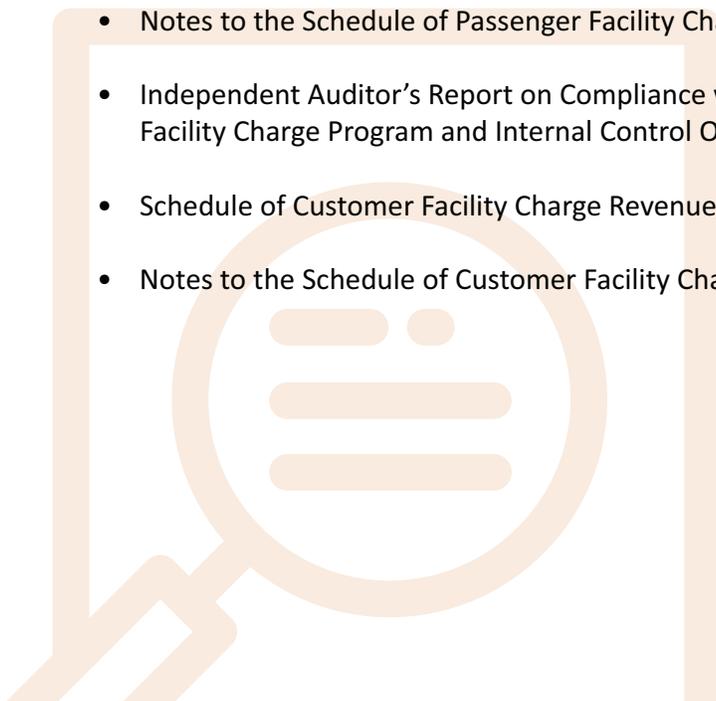
A photograph of an airport terminal with a curved ceiling and several flight information screens. The screens display flight schedules under categories like 'DEPARTURES', 'ARRIVALS', 'DIRECTORY', and 'MESSAGING'. In the foreground, two men are walking away from the camera, one pulling a suitcase and the other carrying a bag. Other travelers and a 'SERVICE CENTER' sign are visible in the background.

Compliance Section

2016 Annual Financial Report

Compliance Section Contents

- Independent Auditor’s Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance
- Schedule of Passenger Facility Charge Revenues and Expenditures
- Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
- Independent Auditor’s Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance
- Schedule of Customer Facility Charge Revenues and Expenditures
- Notes to the Schedule of Customer Facility Charge Revenues and Expenditures





Independent Auditor's Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, applicable to its passenger facility charge program for the fiscal year ended June 30, 2016.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the fiscal year ended June 30, 2016.



Independent Auditor's Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance

(continued)

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the Guide. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP
Los Angeles, California
October 26, 2016



Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2016 and 2015

(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of June 30, 2014	\$ 1,830,242	\$ 189,565	\$ 2,019,807	\$ 1,311,776	\$ 708,031
Fiscal year 2014-15 transactions					
Quarter ended September 30, 2014	31,368	2,123	33,491	25,456	8,035
Quarter ended December 31, 2014	29,618	1,954	31,572	25,025	6,547
Quarter ended March 31, 2015	37,759	1,996	39,755	21,181	18,574
Quarter ended June 30, 2015	39,109	1,588	40,697	254,837	(214,140)
Program to date as of June 30, 2015	1,968,096	197,226	2,165,322	1,638,275	527,047
Fiscal year 2015-16 transactions					
Quarter ended September 30, 2015	34,293	1,436	35,729	139,017	(103,288)
Quarter ended December 31, 2015	33,026	1,747	34,773	35,952	(1,179)
Quarter ended March 31, 2016	38,704	1,517	40,221	40,132	89
Quarter ended June 30, 2016	44,386	1,644	46,030	39,011	7,019
Unexpended passenger facility charge revenues and interest earned June 30, 2016	<u>\$ 2,118,505</u>	<u>\$ 203,570</u>	<u>\$ 2,322,075</u>	<u>\$ 1,892,387</u>	<u>\$ 429,688</u>

Note: LAX changed the basis of presentation of this schedule from cash basis to accrual basis in fiscal year 2015. The prior year amounts were adjusted to reflect this change.

See accompanying notes to the schedule of passenger facility charge revenues and expenditures.



Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (continued)

1. General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects.

The current PFC rate is \$4.50 per enplaned passenger. The PFCs collection authority approved by FAA is \$3.1 billion as of June 30, 2016. The details are as follows (amounts in thousands):

Application number	Charge effective date	Approval of use date	Amount approved for use
96-02-U-00-LAX, closed 6/2/03	3/26/1993	5/6/1996	\$ 116,371
96-03-C-00-LAX, closed 10/1/08	5/10/1996	5/10/1996	50,223
97-04-C-02-LAX	11/28/1997	11/28/1997	610,000
97-04-C-02-LAX	10/31/1998	10/31/1998	90,000
05-05-C-00-LAX	12/1/2005	12/1/2005	229,750
05-05-C-01-LAX	12/1/2005	12/1/2005	468,030
07-06-C-00-LAX	1/1/2008	1/1/2008	85,000
10-07-C-00-LAX	6/1/2012	6/1/2012	855,000
11-08-C-00-LAX	3/1/2019	3/1/2019	27,801
13-09-C-00-LAX	6/1/2019	6/1/2019	44,379
14-10-C-00-LAX	10/1/2019	10/1/2019	516,091
15-11-U-00-LAX	3/1/2019	3/1/2019	3,115
Total			<u>\$ 3,095,760</u>

Note:

- In May 1996, FAA approved LAWA's request to transfer a portion of PFCs revenues collected at LAX to fund certain projects at ONT. Accordingly, PFCs revenues totaling \$126.1 million collected at LAX were transferred to ONT.
- In April 2008, FAA approved LAWA's amendment request that increased application number 05-05-C-01-LAX to \$468.0 million to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of \$124.0 million and \$91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.



Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (continued)

The general description of the approved projects and the expenditures to date are as follows (amounts in thousands):

Approved projects	Amount approved for collection	Expenditures to date	
		June 30	
		2016	2015
ONT- Terminal Development Program	\$ 116,371	\$ 116,371	\$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	—	—
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	302,351	266,034
Implementation of IT Security Master Plan	56,573	32,816	33,463
Noise Mitigation - Land Acquisitions	485,000	412,814	350,530
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	34,327	33,756
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	51,086	51,086
Bradley West	855,000	243,522	180,000
Lennox Schools Soundproofing Program	30,916	15,294	15,294
Inglewood USD Soundproofing Program	44,379	10,000	—
Terminal 6 Improvements	210,131	24,115	—
Elevators/Escalators/Moving Walkways Replacement	110,000	88,350	30,400
Midfield Satellite Concourse North Project	5,960	5,960	5,960
Central Utility Plant Replacement	190,000	190,000	190,000
Total	\$ 3,095,760	\$ 1,892,388	\$ 1,638,276



Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (continued)

2. Basis of Accounting - Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (Schedule) represents amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports. The Schedule was prepared using the accrual basis of accounting.

3. Excess Project Expenditures

The expenditures for Aircraft Noise Monitoring and Management System project were in excess of the authorized amount. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFCs application in which the authority was approved, the public agency may elect to increase the total approved PFCs revenue in that application by 15% or less.

Independent Auditor's Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *California Civil Code Section 1936, as amended by Senate Bill (SB) 1192 and Assembly Bill (AB) 359*, applicable to its customer facility charge program for the fiscal year ended June 30, 2016.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*. Those standards and the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the fiscal year ended June 30, 2016.



Independent Auditor's Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance

(continued)

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *California Civil Code Section 1936, as amended by SB1192 and AB359*. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California

October 26, 2016



Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Schedule of Customer Facility Charge Revenues and Expenditures

For the Fiscal Years Ended June 30, 2016 and 2015

(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
Program to date as of June 30, 2014	\$ 172,781	\$ 9,660	\$ 182,441	\$ 3,026	\$ 179,415
Fiscal year 2014-15 transactions					
Quarter ended September 30, 2014	7,891	535	8,426	—	8,426
Quarter ended December 31, 2014	6,791	542	7,333	—	7,333
Quarter ended March 31, 2015	6,607	560	7,167	—	7,167
Quarter ended June 30, 2015	8,058	492	8,550	—	8,550
Program to date as of June 30, 2015	202,128	11,789	213,917	3,026	210,891
Fiscal year 2015-16 transactions					
Quarter ended September 30, 2015	8,358	560	8,918	—	8,918
Quarter ended December 31, 2015	7,551	703	8,254	—	8,254
Quarter ended March 31, 2016	7,358	550	7,908	—	7,908
Quarter ended June 30, 2016	8,729	802	9,531	—	9,531
Unexpended passenger facility charge revenues and interest earned June 30, 2016	<u>\$ 234,124</u>	<u>\$ 14,404</u>	<u>\$ 248,528</u>	<u>\$ 3,026</u>	<u>\$ 245,502</u>

Note: LAX changed the basis of presentation of this schedule from cash basis to accrual basis in fiscal year 2015. The prior year amounts were adjusted to reflect this change.

See accompanying notes to the schedule of customer facility charge revenues and expenditures.



Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015

1. General

Assembly Bill 491 of the 2001-2002 California Legislature (codified in California Civil Code Section 1936 et seq.) (Code) authorized the imposition of Customer Facility Charges (CFCs) and use of CFC revenue to plan, finance, design, and construct on-airport consolidated rental car facilities (CRCF).

On March 5, 2007, the Board found that the CRCF proposed by management was sufficiently definitive and authorized the collection of CFCs of \$10.00 on each car rental transaction at LAX. The authorization included a two-year collection period of July 1, 2007 through June 30, 2009. On June 22, 2009, the Board resolved to extend the collection period until a determination is made that the project will not proceed.

The proposed CRCF at LAX will enhance efforts to reduce traffic congestion while also providing an efficient, secure, safe, and reliable transportation system.

CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	2016	2015
Amount collected	\$ 234,124	\$ 202,128
Interest earnings	14,404	11,789
Subtotal	248,528	213,917
Expenditures		
CRCF planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	\$ 245,502	\$ 210,891

2. Basis of Accounting - Schedule of Customer Facility Charge Revenues and Expenditures

The accompanying Schedule of Customer Facility Charge Revenues and Expenditures was prepared using the accrual basis of accounting.

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Administrative Offices**

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Internet: www.lawa.aero

Los Angeles International Airport

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Los Angeles, CA 90045-5803
Telephone: (310) 646-5252

LA/Ontario International Airport

1923 East Avion Street
Ontario, CA 91761
Telephone: (909) 937-2700

Van Nuys Airport

16461 Sherman Way, Suite 300
Van Nuys, CA 91406
Telephone: (818) 442-6500



As a covered entity under Title II of the Americans With Disability Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure access to its programs, services and activities.

APPENDIX C-1

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Subordinate Indenture and the Twelfth Supplemental Subordinate Indenture found in Appendices C-2 and C-3.

“Accreted Value” means (a) with respect to any Capital Appreciation Subordinate Obligations, as of any date of calculation, the sum of the amount set forth in a Supplemental Subordinate Indenture, as the amount representing the initial principal amount of such Capital Appreciation Subordinate Obligations, plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Subordinate Obligations, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Subordinate Obligations, plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Subordinate Indenture authorizing the issuance of such Capital Appreciation Subordinate Obligation or Original Issue Discount Subordinate Obligation.

“Aggregate Required Deposits” means, for any month, the sum of the Required Deposits under all Supplemental Subordinate Indentures becoming due in such month.

“Airport Revenue Fund” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and maintained separate and apart from all other funds and accounts of the City Treasury.

“Airport System” means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce belonging to or pertaining to the City and under the jurisdiction and control of the Department, including Los Angeles International Airport, LA/Ontario International Airport, Van Nuys Airport and LA/Palmdale Regional Airport and any successor entities thereto; and including or excluding, as the case may be, such property as the Board may either acquire or which will be placed under its control, or divest or have removed from its control.

“Authorized Representative” means the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer or such other officer or employee of the Board or the Department or other person which other officer, employee or person has been designated by the Board or the Department as an Authorized Representative by written notice delivered by the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer to the Subordinate Trustee.

“Balloon Indebtedness” means, with respect to any Series of Subordinate Obligations twenty five percent (25%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Subordinate Obligations of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any preceding Fiscal Year. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such Subordinate Obligations scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Subordinate Commercial Paper Program and the Commercial Paper constituting part of such Subordinate Program will not be Balloon Indebtedness.

“Board” means the Board of Airport Commissioners of the City of Los Angeles, California, created under the provisions of the Charter, and any successor to its function.

“Bond Counsel” means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Subordinate Indenture and which are acceptable to the Department.

“Bondholder,” “holder,” “owner” or “registered owner” means the person in whose name any Subordinate Obligation or Subordinate Obligations are registered on the books maintained by the Subordinate Registrar and will include any Credit Provider or Liquidity Provider to which a Subordinate Repayment Obligation is then owed, to the extent that such Subordinate Repayment Obligation is deemed to be a Subordinate Obligation under the provisions of the Subordinate Indenture.

“*Business Day*” means a day on which banks located in New York, New York, in Los Angeles, California and in the city in which the principal corporate trust office of the Subordinate Trustee is located are open, provided that such term may have a different meaning for any specified Series of Subordinate Obligations if so provided by Supplemental Subordinate Indenture.

“*Capital Appreciation Subordinate Obligations*” means Subordinate Obligations all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Subordinate Indenture and is payable only upon redemption or on the maturity date of such Subordinate Obligations. Subordinate Obligations which are issued as Capital Appreciation Subordinate Obligations, but later convert to Subordinate Obligations on which interest is paid periodically will be Capital Appreciation Subordinate Obligations until the conversion date and from and after such conversion date will no longer be Capital Appreciation Subordinate Obligations, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

“*Charter*” means the Charter of the City of Los Angeles, as amended from time to time, and any other article or section of the Charter of the City of Los Angeles, as amended from time to time, in which the provisions relating to the Board and the Department are set forth or may hereafter be set forth, and any predecessor provisions thereof which will be deemed to continue in force.

“*Chief Financial Officer*” means the person at a given time who is the chief financial officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Subordinate Trustee by the Department.

“*Chief Operating Officer*” means the person at a given time who is the chief operating officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Subordinate Trustee by the Department.

“*City*” means The City of Los Angeles, California.

“*City Attorney*” means legal counsel to the Board and staff of the Department who otherwise acts as provided for in the Charter.

“*City Treasury*” means the official depository of the City established pursuant to the Charter which is under the control of the Treasurer.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

“*Commercial Paper*” means notes of the Department with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Subordinate Program adopted by the Board.

“*Consultant*” means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, or other expert recognized to be well-qualified for work of the character required and retained by the Department to perform acts and carry out the duties provided for such consultant in the Subordinate Indenture.

“*Costs*” or “*Costs of a Project*” means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Subordinate Obligations, costs of Credit Facilities, Liquidity Facilities, Subordinate Capitalized Interest, any Subordinate Debt Service Reserve Fund,

and Subordinate Trustee's fees and expenses; (6) any Subordinate Swap Termination Payments due in connection with a Series of Subordinate Obligations or the failure to issue such Series of Subordinate Obligations, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. Costs of a Project will also include (i) the acquisition or refunding of outstanding revenue bonds and obligations of the Department, RAIC bonds and California Statewide Communities Development Authority bonds, including any financing costs with respect thereto, and (ii) the financing and/or refinancing of any other lawful purpose relating to the Department.

"Credit Facility" means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, a Subordinate Debt Service Reserve Fund Surety Policy, or other financial instrument which obligates a third party to make payment of or provide funds to the Subordinate Trustee for the payment of the principal of and/or interest on Subordinate Obligations whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

"Credit Provider" means the party obligated to make payment of principal of and interest on the Subordinate Obligations under a Credit Facility.

"Customer Facility Charges" means all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

"Department" means the Department of Airports of the City of Los Angeles, or any successor thereto performing the activities and functions of the department under the Charter.

"Executive Director" means the person at a given time who is the executive director of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Subordinate Trustee by the Department.

"Facilities Construction Credit" and *"Facilities Construction Credits"* means the amounts further described in the Master Subordinate Indenture resulting from an arrangement embodied in a written agreement of the Department and another person or entity pursuant to which the Department permits such person or entity to make a payment or payments to the Department which is reduced by the amount owed by the Department to such person or entity under such agreement, resulting in a net payment to the Department by such person or entity. The *"Facilities Construction Credit"* will be deemed to be the amount owed by the Department under such agreement which is *"netted"* against the payment of such person or entity to the Department. *"Facilities Construction Credits"* will include any credits extended to airlines or other users of LAX Airport Facilities related to RAIC projects.

"Fiscal Year" means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Department designates as its fiscal year.

"Fitch" means Fitch, Inc. and its successors and its assigns, and, if Fitch for any reason no longer performs the functions of a Nationally Recognized Rating Agency, *"Fitch"* will be deemed to refer to any Nationally Recognized Rating Agency designated by the Department (other than Moody's or S&P).

"Fourth Supplemental Subordinate Indenture" means the Fourth Supplemental Subordinate Trust Indenture, dated as of August 1, 2008, by and between the Department and the Subordinate Trustee.

"Government Obligations" means (a) United States Obligations (including obligations issued or held in book-entry form); (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest Rating Category by one or more of the Rating Agencies; and (c) any other type of security or obligation which the Rating Agencies that then maintain ratings on the Subordinate Obligations to be defeased have determined to be permitted defeasance securities.

“*Implemented*” means a Subordinate Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Subordinate Program, the provisions of the Master Subordinate Indenture have been complied with.

“*Independent*” means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Department or the City, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Department, the City or the Board as an official, officer or employee.

“*LAX Airport Facilities*” or “*LAX Airport Facility*” means a facility or group of facilities or category of facilities which constitute or are part of Los Angeles International Airport (excluding privately owned or leased property, except for any portion thereof which is governmentally owned or leased and which is a source of Pledged Revenues).

“*LAX Maintenance and Operation Expenses*” means, for any given period, the total operation and maintenance expenses of Los Angeles International Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of Los Angeles International Airport payable from moneys other than Pledged Revenues.

“*LAX Maintenance and Operation Reserve Account*” means the Los Angeles International Airport Maintenance and Operation Reserve Account authorized to be created by Ordinance No. 173,232 and established pursuant to Section 23.10(d)(2) of the Los Angeles Administrative Code.

“*LAX Revenue Account*” means the account established pursuant to the Master Senior Indenture and Section 23.10(a) of the Los Angeles Administrative Code.

“*LAX Revenues*” means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Department from the Los Angeles International Airport, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (1) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at Los Angeles International Airport, (2) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at Los Angeles International Airport, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of Los Angeles International Airport (or any LAX Airport Facilities or activities and undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto, all of which is required to be deposited in the Airport Revenue Fund pursuant to the Charter and the LAX Revenue Account pursuant to the Master Senior Indenture. “LAX Revenues” include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Subordinate Construction Fund allowed to be pledged by the terms of a Supplemental Subordinate Indenture, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund and allocated earnings on the Maintenance and Operation Reserve Fund.

“*LAX Special Facilities*” or “*LAX Special Facility*” means, with respect to Los Angeles International Airport, a facility or group of facilities or improvements or category of facilities or improvements which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Master Senior Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

“*LAX Special Facilities Revenue*” means the contractual payments and all other revenues derived by or available to or receivable by the Department from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

“*LAX Special Facility Obligations*” means bonds or other debt instruments issued pursuant to an indenture other than the Senior Indenture or the Subordinate Indenture to finance LAX Special Facilities and which, except as otherwise provided in the Master Senior Indenture, are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

“*Liquidity Facility*” means a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Subordinate Obligations.

“*Liquidity Provider*” means the entity, including the Credit Provider, which is obligated to provide funds to purchase Subordinate Obligations under the terms of a Liquidity Facility.

“*Los Angeles International Airport*” and “*LAX*” means that portion of the Airport System commonly known by such name which is located in the City of Los Angeles and generally bounded by Westchester Parkway on the north, the San Diego (405) Freeway on the east, Imperial Highway on the south and the Pacific Ocean on the west; including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Department at such location or in which the Department has other rights or from which the Department derives revenues at such location.

“*Mail*” means by first-class United States mail, postage prepaid.

“*Maintenance and Operation Expenses of the Airport System*” means, for any given period, the total operation and maintenance expenses, exclusive of depreciation expense, of the Airport System as determined in accordance with generally accepted accounting principles as modified from time to time.

“*Maintenance and Operation Reserve Fund*” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and the provisions of the Master Senior Indenture.

“*Master Senior Indenture*” means the Master Trust Indenture, dated as of April 1, 1995, by and between the Department and the Senior Trustee, as amended.

“*Master Subordinate Indenture*” means the Master Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and the Subordinate Trustee, as amended.

“*Moody’s*” means Moody’s Investors Service, and its successors and its assigns, and, if Moody’s for any reason no longer performs the functions of a Nationally Recognized Rating Agency, “*Moody’s*” will be deemed to refer to any other Nationally Recognized Rating Agency designated by the Department (other than Fitch or S&P).

“*Nationally Recognized Rating Agency*” means a nationally recognized statistical rating organization identified by the United States Securities and Exchange Commission.

“*Net Pledged Revenues*” means, for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses.

“*Net Proceeds*” means insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Department from the sale of LAX Airport Facilities under the threat of condemnation less expenses (including attorneys’ fees and expenses and any fees and expenses of the Subordinate Trustee) incurred in the collection of such proceeds or award.

“*Non-Qualified Swap*” means any Swap which is not a senior qualified swap or a Subordinate Qualified Swap.

“*Ordinance No. 173,232*” means the City of Los Angeles Ordinance No. 173,232 which became effective on June 19, 2000.

“*Original Issue Discount Subordinate Obligations*” means Subordinate Obligations which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Subordinate Obligations by the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued.

“*Outstanding*” means all Subordinate Obligations which have been authenticated and delivered under the Subordinate Indenture, except:

(a) Subordinate Obligations cancelled or purchased by the Subordinate Trustee for cancellation or delivered to or acquired by the Subordinate Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Subordinate Obligations deemed to be paid in accordance with the Master Subordinate Indenture;

(c) Subordinate Obligations in lieu of which other Subordinate Obligations have been authenticated under the provisions of the Master Subordinate Indenture;

(d) Subordinate Obligations that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Subordinate Trustee or a Subordinate Paying Agent;

(e) Subordinate Obligations which, under the terms of the Supplemental Subordinate Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Subordinate Repayment Obligations deemed to be Subordinate Obligations under the Master Subordinate Indenture to the extent such Subordinate Repayment Obligations arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Subordinate Obligations acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Subordinate Obligations under the Master Subordinate Indenture, Subordinate Obligations held by or for the account of the Department or by any person controlling, controlled by or under common control with the Department, unless such Subordinate Obligations are pledged to secure a debt to an unrelated party.

“*Passenger Facility Charges*” or “*PFCs*” means all or a designated portion of charges collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508), the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) and 14 CFR Part 158, all as amended from time to time, or any other applicable federal law, in respect of any component of LAX and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

“*Payment Date*” means, with respect to any Subordinate Obligations, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

“*Pledged Revenues*” means, except to the extent specifically excluded herein or under the terms of any Supplemental Senior Indenture (only with respect to the Series of Senior Bonds issued pursuant to such Supplemental Senior Indenture), LAX Revenues. “Pledged Revenues” will also include such additional revenues, if any, as are designated as “Pledged Revenues” under the terms of any Supplemental Senior Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Department from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of “LAX Revenues” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from “Pledged Revenues,” unless designated as “Pledged Revenues” under the terms of a Supplemental Senior Indenture: (a) any senior swap termination payments paid to the Department pursuant to a senior qualified swap or any Subordinate Swap Termination Payments paid to the Department pursuant to a Subordinate Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture, (d) Customer Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture (provided that only Customer Facility Charges in respect of LAX may be so pledged), (e) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (f) Released LAX Revenues. Further, interest earnings or other investment earnings on any senior construction fund or Subordinate Construction Fund established by any Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be, are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be.

“*President*” or “*President of the Board*” means the president of the Board or such other title as the Board may from time to time assign for such position.

“*Project*” means any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of a Series of Subordinate Obligations.

“*RAIC*” means the Regional Airports Improvement Corporation, a California nonprofit corporation.

“*Rating Agency*” and “*Rating Agencies*” means Fitch, Moody’s or S&P, or any other Nationally Recognized Rating Agency.

“*Rating Category*” and “*Rating Categories*” means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier, and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“*Rebate Fund*” means any fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of the Subordinate Obligations or any Series of Subordinate Obligations for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

“*Record Date*” means, with respect to any Series of Subordinate Obligations, the record date as specified in the Supplemental Subordinate Indenture which provides for the issuance of such Series of Subordinate Obligations. With respect to the Series 2016B Subordinate Bonds, “*Record Date*” means for a May 15 Interest Payment Date the preceding May 1 and for a November 15 Interest Payment Date the preceding November 1.

“*Refunding Subordinate Obligations*” means any Subordinate Obligations issued pursuant to the Master Subordinate Indenture to refund or defease all or a portion of any Series of Outstanding Subordinate Obligations, any Senior Bonds or any Third Lien Obligations.

“*Regularly Scheduled Swap Payments*” means the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

“*Released LAX Revenues*” means LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS—Flow of Funds” in the forepart of this Official Statement, or (B) an amount not less than 150% of the average aggregate annual debt service on the Senior Bonds for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS—Flow of Funds” in the forepart of this Official Statement, or (B) an amount not less than 150% of the average aggregate annual debt service on the Senior Bonds for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of the Master Senior Indenture will not, in and of itself, cause the interest on any outstanding Senior Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody's (provided such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds and such Rating Agencies are then maintaining a rating on any of the Senior Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of the Master Senior Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Senior Bonds.

For purposes of subparagraph (b) above, no Transfer will be taken into account in the computation of Net Pledged Revenues.

Additionally, the Department will give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Senior Bonds and S&P is then maintaining a rating on any of the Senior Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of the Master Senior Indenture as proved in this definition of "*Released LAX Revenues*."

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board will no longer be included in Pledged Revenues and will be excluded from the pledge and lien of the Master Senior Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of the Master Senior Indenture pursuant to a Supplemental Senior Indenture.

"*Required Deposits*" means, with respect to any Series of Subordinate Obligations, the amount determined in accordance with the terms of the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued and/or incurred, required to be deposited into funds and accounts created under such Supplemental Subordinate Indenture for the purpose of paying principal and interest on Subordinate Obligations or accumulating funds from which to make such payments and to pay other obligations specifically secured by the Subordinate Pledged Revenues under such Supplemental Subordinate Indenture. On or before the Payment Date, if any, in each month, the Subordinate Trustee will determine the aggregate Required Deposits from the Required Deposits described under each Supplemental Subordinate Indenture.

"*Responsible Officer*" means an officer or assistant officer of the Subordinate Trustee assigned by the Subordinate Trustee to administer the Subordinate Indenture.

"*S&P*" means Standard & Poor's Ratings Services, and its successors and assigns, and if S&P for any reason no longer performs the functions of a Nationally Recognized Rating Agency, "*S&P*" will be deemed to refer to any other Nationally Recognized Rating Agency designated by the Department (other than Fitch or Moody's).

"*Senior Bond*" or "*Senior Bonds*" means any debt obligation of the Department issued under and in accordance with the provisions of the Master Senior Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Senior Repayment Obligations to the extent provided in the Master Senior Indenture. The term "*Senior Bond*" or "*Senior Bonds*" does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Senior Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth pursuant to the Master Senior Indenture having the terms applicable to the Senior Bonds, except that such Subordinated Obligations or Third Lien Obligations will be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Net Pledged Revenues. The term "*Senior Bond*" and "*Senior Bonds*" includes Senior Program Bonds.

"*Senior Indenture*" means the Master Senior Indenture, together with all Supplemental Senior Indentures.

"*Senior Repayment Obligations*" means an obligation arising under a written agreement of the Department and a credit provider pursuant to which the Department agrees to reimburse the credit provider for amounts paid through a credit facility to be used to pay debt service on any Senior Bonds or an obligation arising under a written agreement of the Department and a liquidity provider pursuant to which the Department agrees to reimburse the liquidity provider for amounts paid through a Liquidity Facility to be used to purchase Senior Bonds.

"*Senior Trustee*" means The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee until a successor replaces it and, thereafter, means such successor.

“*Serial Subordinate Obligations*” means Subordinate Obligations for which no sinking installment payments are provided.

“*Series*” or “*series*” means Subordinate Obligations designated as a separate Series by a Supplemental Subordinate Indenture and, with respect to Subordinate Program Obligations or a Subordinate Commercial Paper Program, means the full Subordinate Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Subordinate Indenture, designated as a separate Series.

“*Series 2016B Subordinate Bonds*” means the \$451,170,000 original principal amount of Subordinate Obligations issued under the Master Subordinate Indenture and the Twelfth Supplemental Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series B.”

“*Significant Portion*” means any LAX Airport Facilities or portions thereof which, if such facilities had been sold or disposed of by the Department at the beginning of an annual period which includes the month of commencement of the 12-month period ending on the day of such disposition would have resulted in a reduction in Net Pledged Revenues for such annual period of more than 4% when the actual Net Pledged Revenues for such annual period are decreased by the Pledged Revenues directly attributable to such LAX Airport Facilities and increased by the expenses of the Department directly attributable to such LAX Airport Facilities. The Department will notify Moody’s, if Moody’s then maintains a rating on any of the Senior Bonds or Subordinate Obligations, and S&P, if S&P then maintains a rating on any of the Senior Bonds or Subordinate Obligations, prior to the selling or disposing of a Significant Portion of any LAX Airport Facilities or portions thereof.

“*Specified LAX Project*” means a Project at Los Angeles International Airport or a group of alternative Projects which are described in a certificate of an Authorized Representative delivered to the Consultant preparing the certificates described in the additional bonds tests under the Master Subordinate Indenture, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate described in the additional bonds tests under the Master Subordinate Indenture.

“*State*” means the State of California.

“*Subordinate Aggregate Annual Debt Service*” means for any Fiscal Year the aggregate amount of Subordinate Annual Debt Service on all Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations. For purposes of calculating Subordinate Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(a) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations in accordance with any amortization schedule established by the governing documents setting forth the terms of such Subordinate Obligations, including, as a principal payment, the Accreted Value of any Capital Appreciation Subordinate Obligations or Original Issue Discount Subordinate Obligations maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent subsection (b), (c) or (d) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Subordinate Obligations will be excluded to the extent such payments are to be paid from Subordinate Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series of Subordinate Obligations or Unissued Subordinate Program Obligations constitute Balloon Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index,

that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Subordinate Obligations, Unissued Subordinate Program Obligations or Subordinate Program Obligations, only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (a) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Subordinate Program Obligations or Subordinate Program Obligations, or that portion of a Series thereof which constitutes Balloon Indebtedness, all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (a) above or such other provision of this definition as will be applicable;

(c) any maturity of Subordinate Obligations which constitutes Balloon Indebtedness as described in provision (b) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Subordinate Aggregate Annual Debt Service is made, will be assumed to become due and payable on the stated maturity date and provision (b) above will not apply thereto unless there is delivered to the entity making the calculation of Subordinate Aggregate Annual Debt Service a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Subordinate Aggregate Annual Debt Service, provided that such assumption will not result in an interest rate lower than that which would be assumed under provision (b) above and will be amortized over a term of not more than 30 years from the date of refinancing;

(d) if any Outstanding Subordinate Obligations (including Subordinate Program Obligations) or any Subordinate Obligations which are then proposed to be issued constitute Subordinate Tender Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, Subordinate Tender Indebtedness will be treated as if (i) the principal amount of such Subordinate Obligations were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Subordinate Annual Debt Service payments and extending not later than 30 years from the date such Subordinate Tender Indebtedness was originally issued, provided, however, notwithstanding the previous provisions of this clause (i), any principal amortization schedule set forth in a Supplemental Subordinate Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) will be applied to determine the principal amortization of such Subordinate Obligations; (ii) the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; and (iii) with respect to all principal and interest payments becoming due prior to the year in which such Subordinate Tender Indebtedness is first subject to tender, such payments will be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (e) or (f) below, as appropriate;

(e) if any Outstanding Subordinate Obligations constitute Variable Rate Indebtedness, including obligations described in subsection (h)(ii) to the extent it applies (except to the extent subsection (b) or (c) relating to Balloon Indebtedness or (d) relating to Subordinate Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate used for such computation will be the rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of

such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Subordinate Program Obligations or Unissued Subordinate Program Obligations (other than a Subordinate Commercial Paper Program) (i) debt service on such Subordinate Program Obligations then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (ii) with respect to Unissued Subordinate Program Obligations, it will be assumed that the full principal amount of such Unissued Subordinate Program Obligations will be amortized over a term certified by an Authorized Representative at the time the initial Subordinate Program Obligations of such Subordinate Program are issued to be the expected duration of such Subordinate Program or, if such expectations have changed, over a term certified by an Authorized Representative to the expected duration of such Subordinate Program at the time of such calculation, but not to exceed 30 years from the date of the initial issuance of such Subordinate Program Obligations and it will be assumed that debt service will be paid in substantially level Subordinate Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(g) debt service on Subordinate Repayment Bonds, to the extent such obligations constitute Subordinate Obligations under the Master Subordinate Indenture, will be calculated as provided in the Master Subordinate Indenture;

(h) (i) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations which constitute Synthetic Fixed Rate Debt, the interest payable thereon will, if the Department elects, be that rate payable by the Department as provided for by the terms of the Swap or the net interest rate payable by the Department pursuant to offsetting indices, as applicable, or if the Department does not elect such rate, then it will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Master Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(ii) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Obligations to which such Swap pertains will be included in the calculation of Subordinate Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Obligations will be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Subordinate Designated Debt and the rate received from the Swap Provider;

(iii) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap in the form of an "interest rate cap" (or a similarly structured financial arrangement) has been entered into by the Department, the interest payable thereon will be the lower of (A) the effective capped rate provided by the terms of the Swap and (B) the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate

determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Master Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(i) with respect to any Subordinate Commercial Paper Program which has been Implemented and not then terminated or with respect to any Subordinate Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Subordinate Authorized Amount of such Implemented Subordinate Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Subordinate Commercial Paper Program is Implemented and with substantially level annual debt service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(j) if moneys, Subordinate Permitted Investments or any other amounts not included in Subordinate Pledged Revenues have been used to pay or have been irrevocably deposited with and are held by the Subordinate Trustee or another fiduciary to pay or Subordinate Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such moneys, Subordinate Permitted Investments, other amounts not included in Subordinate Pledged Revenues or Subordinate Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Subordinate Aggregate Annual Debt Service; and;

(k) if Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Subordinate Pledged Revenues have been irrevocably committed or are held by the Subordinate Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Subordinate Pledged Revenues or from earnings thereon will be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in Pledged Revenues) and not included in calculating Subordinate Aggregate Annual Debt Service.

“*Subordinate Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Subordinate Aggregate Annual Debt Service for a Subordinate Debt Service Reserve Fund with respect to all Outstanding Subordinate Obligations participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Obligations, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in a Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Obligations containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Subordinate Annual Debt Service*” means, with respect to any Subordinate Obligation, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Subordinate Qualified Swap is in effect for such Subordinate Obligation, plus the amount payable by the Department (or the Subordinate Trustee) under the Subordinate Qualified Swap in accordance with the terms thereof, less any amount to be received

by the Department from the Subordinate Qualified Swap Provider pursuant to the Subordinate Qualified Swap, calculated using the principles and assumptions set forth in the definition of Subordinate Aggregate Annual Debt Service. Principal of and/or interest on Subordinate Obligations paid during any Fiscal Year with Passenger Facility Charges, Customer Facility Charges, state and/or federal grants, Capitalized Interest or other moneys not included in Subordinate Pledged Revenues, or from earnings thereon, shall be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants, Capitalized Interest or other moneys are included in Pledged Revenues) and not included in calculating Annual Debt Service.

“Subordinate Authorized Amount” means, when used with respect to Subordinate Obligations, including Subordinate Program Obligations, the maximum Subordinate Principal Amount of Subordinate Obligations which is then authorized by a resolution or Supplemental Subordinate Indenture adopted by the Board pursuant to the Master Subordinate Indenture to be Outstanding at any one time under the terms of such Subordinate Program or Supplemental Subordinate Indenture. If the maximum Subordinate Principal Amount of Subordinate Obligations or Subordinate Program Obligations authorized by a preliminary resolution or form of Supplemental Subordinate Indenture approved by the Board pursuant to the Master Subordinate Indenture exceeds the maximum Subordinate Principal Amount of Subordinate Obligations set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Subordinate Indenture executed and delivered by the Department pursuant to which such Subordinate Obligations are issued or such Subordinate Program is established, the Subordinate Principal Amount of such Subordinate Obligations or Subordinate Program Obligations as is set forth in said final resolution of sale or in the definitive Supplemental Subordinate Indenture as executed and delivered by the Department will be deemed to be the “Subordinate Authorized Amount.” Notwithstanding the provisions of this definition of “Subordinate Authorized Amount,” in connection with the issuance of additional Subordinate Obligations and the calculation of Subordinate Maximum Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service with respect to a Subordinate Commercial Paper Program, “Subordinate Authorized Amount” means the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Subordinate Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Subordinate Commercial Paper Program.

“Subordinate Capitalized Interest” means proceeds of Subordinate Obligations or other moneys not included in Subordinate Pledged Revenue that are deposited with the Trustee in a Debt Service Fund as shall be described in a Supplemental Subordinate Indenture upon issuance of such Subordinate Obligations that are to be used to pay interest on Subordinate Obligations.

“Subordinate Commercial Paper Notes” means the commercial paper notes issued on parity with the other Subordinate Obligations from time to time under the terms of the Subordinate Indenture, designated the “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity - AMT), Series C (Federally Taxable) and Series D (Private Activity – Non-AMT),” which may be issued from time to time pursuant to the Subordinate Indenture in an aggregate principal amount not to exceed \$500,000,000 at any one time.

“Subordinate Commercial Paper Program” means a Subordinate Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Subordinate Program.

“Subordinate Construction Fund” means any of the Subordinate Construction Funds authorized to be created as provided by the Master Subordinate Indenture.

“Subordinate Debt Service Fund” or *“Subordinate Debt Service Funds”* means a Subordinate Debt Service Fund or any of the Subordinate Debt Service Funds required to be created as provided in the Master Subordinate Indenture.

“Subordinate Debt Service Reserve Fund” means any Subordinate Debt Service Reserve Fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of any Series of Subordinate Obligations and that is required to be funded for the purpose of providing additional security for such Series of Subordinate Obligations and under certain circumstances to provide additional security for such other designated Series of Subordinate Obligations issued pursuant to the terms of the Master Subordinate Indenture and as specified in any Supplemental Subordinate Indenture.

“Subordinate Debt Service Reserve Fund Surety Policy” means an insurance policy or surety bond, or a letter of credit, deposited with the Subordinate Trustee for credit to a Subordinate Debt Service Reserve Fund

created for one or more Series of Outstanding Subordinate Obligations in lieu of or partial substitution for cash or securities on deposit therein. Except as otherwise provided in a Supplemental Subordinate Indenture, the entity providing such Subordinate Debt Service Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

“*Subordinate Designated Debt*” means a specific indebtedness designated by the Department in which such debt will be offset with a Swap, such specific indebtedness to include all or any part of a Series or multiple Series of Subordinate Obligations.

“*Subordinated Obligation*” means any bond, note or other debt instrument issued or otherwise entered into by the Department which ranks junior and subordinate to the Senior Bonds and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operations Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds whether by maturity, redemption or acceleration have been paid in full and the Department is current on all payments, if any, required to be made to replenish any senior debt service reserve fund. “*Subordinated Obligations*” are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Department may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations will be secured on a junior and subordinate basis to the Senior Bonds from the Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a “*Subordinated Obligation*” for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Department as a “*Subordinated Obligation*” in a Supplemental Senior Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “*Subordinated Obligation*” includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Department under each such Swap, as the context requires. The term “*Subordinated Obligations*” also includes a Swap or the obligations of the Department under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. The term “*Subordinated Obligation*” includes any senior swap termination payment under a senior qualified swap with respect to any Senior Bonds payable on parity with Subordinated Obligations. Subordinate Obligations issued under the Master Subordinate Indenture are Subordinated Obligations.

“*Subordinate Event of Default*” means any occurrence or event specified as a “Subordinate Event of Default” in the Subordinate Indenture. See “APPENDIX C-2—SUMMARY OF THE MASTER SUBORDINATE INDENTURE—Subordinate Events of Default and Remedies.”

“*Subordinate Indenture*” means the Master Subordinate Indenture, together with all Supplemental Subordinate Indentures.

“*Subordinate Investment Agreement*” means an investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term Rating Category (if the term of the Subordinate Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Subordinate Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in items (a) and (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

“*Subordinate Maximum Aggregate Annual Debt Service*” means the maximum amount of Subordinate Aggregate Annual Debt Service with respect to all Subordinate Obligations, Unissued Subordinate Program Obligations, and the Subordinate Authorized Amount of all Subordinate Obligations then proposed to be issued in the then current or any future Fiscal Year.

“*Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Subordinate Maximum Aggregate Annual Debt Service for a Subordinate Debt Service Reserve Fund with

respect to all Outstanding Subordinate Obligations participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Obligations the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in an identified Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Obligations containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Subordinate Notes*” means Subordinate Obligations issued under the provisions of the Master Subordinate Indenture which have a maturity of one year or less from their original date of issue and which are not part of a Subordinate Commercial Paper Program.

“*Subordinate Obligation*” or “*Subordinate Obligations*” means any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Master Subordinate Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Subordinate Repayment Obligations to the extent provided in the Master Subordinate Indenture. The terms “*Subordinate Obligation*” and “*Subordinate Obligations*” do not include any Third Lien Obligation; provided, however, the Department may provide in a Supplemental Subordinate Indenture that Third Lien Obligations may be issued thenceforth pursuant to the Master Subordinate Indenture having the terms applicable to the Subordinate Obligations, except that such Third Lien Obligations will be junior and subordinate in payment of such Third Lien Obligations from the Subordinate Pledged Revenues. The terms “*Subordinate Obligation*” and “*Subordinate Obligations*” include Subordinate Program Obligations. The Series 2016B Subordinate Bonds are Subordinate Obligations.

“*Subordinate Paying Agent*” or “*Subordinate Paying Agents*” means, with respect to the Subordinate Obligations or any Series of Subordinate Obligations, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Subordinate Indenture or a resolution of the Department as the place where such Subordinate Obligations will be payable.

“*Subordinate Permitted Investments*” means to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

- (a) Government Obligations;
- (b) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;
- (c) direct and general long-term obligations of any state, which obligations are rated in either of the two highest Rating Categories by two or more Rating Agencies;
- (d) direct and general short-term obligations of any state, which obligations are rated in the highest Rating Category by two or more Rating Agencies;
- (e) interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation (“FDIC”) or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (i) continuously and fully insured by FDIC and with banks that are rated in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies or (ii) fully secured by obligations described in items (a) or (b) of this definition of Permitted Investments

which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (B) held by the Subordinate Trustee (who cannot be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (C) subject to a perfected first lien in favor of the Subordinate Trustee, and (D) free and clear from all third party liens;

(f) long-term or medium-term corporate debt guaranteed by any corporation that is rated by two or more Rating Agencies in either of the two highest Rating Categories;

(g) repurchase agreements which are (i) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from two or more of the Rating Agencies; and (ii) fully secured by investments specified in items (a) or (b) of this definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements; (B) held by the Subordinate Trustee (who cannot be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee; (C) subject to a perfected first lien in favor of the Subordinate Trustee; and (D) free and clear from all third-party liens;

(h) prime commercial paper of a United States corporation, finance company or banking institution rated in the highest short-term Rating Category by two or more Rating Agencies;

(i) shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (i) a money market fund that has been rated in one of the two highest Rating Categories by one or more of the Rating Agencies, or (ii) a money market fund or account of the Subordinate Trustee or any state or federal bank that is rated in (A) the highest short-term Rating Category by two or more Rating Agencies or (B) either of the two highest long-term Rating Categories by two or more Rating Agencies, or whose own bank holding company parent is rated in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies, or that has a combined capital and surplus of not less than \$50,000,000;

(j) Investment Agreements; and

(k) any other type of investment consistent with City policy in which the Department directs the Subordinate Trustee to invest; provided that there is delivered to the Subordinate Trustee a certificate of an Authorized Representative stating that each of the Rating Agencies then maintaining a rating on the Subordinate Obligations has been informed of the proposal to invest in such investment.”

“*Subordinate Pledged Revenues*” means for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the aggregate annual debt service on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Senior Indenture as described under the paragraph labeled THIRD described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS—Flow of Funds” in the forefront of this Official Statement.

“*Subordinate Principal Amount*” or “*Subordinate principal amount*” means, as of any date of calculation, (a) with respect to any Capital Appreciation Subordinate Obligations, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (b) with respect to any Original Issue Discount Subordinate Obligations, the Accreted Value thereof, unless the Supplemental Subordinate Indenture under which such Subordinate Obligation was issued will specify a different amount, in which case, the terms of the Supplemental Subordinate Indenture will control, and (c) with respect to any other Subordinate Obligations, the principal amount of such Subordinate Obligation payable at maturity.

“*Subordinate Program*” means a financing program identified in a Supplemental Subordinate Indenture, including but not limited to a Subordinate Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Subordinate Indenture have

been filed with the Subordinate Trustee, (b) wherein the Board has authorized the issuance, from time to time, of notes, bonds, commercial paper or other indebtedness in a Subordinate Authorized Amount, and (c) the Subordinate Authorized Amount of which has met the additional bonds test set forth in the Master Subordinate Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Subordinate Authorized Amount.

“*Subordinate Program Obligations*” means Subordinate Obligations issued and Outstanding pursuant to a Subordinate Program, other than Unissued Subordinate Program Obligations.

“*Subordinate Qualified Swap*” means any Swap (a) whose Subordinate Designated Debt is all or part of a particular Series of Subordinate Obligations; (b) whose Swap Provider is a Subordinate Qualified Swap Provider or has been a Subordinate Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Subordinate Annual Debt Service or Subordinate Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Subordinate Designated Debt or to a specified mandatory tender or redemption of such Subordinate Designated Debt; (d) which has been designated in writing to the Subordinate Trustee by the Department as a Subordinate Qualified Swap with respect to such Subordinate Obligations; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Obligations, and Moody’s, if Moody’s has an outstanding rating on the Subordinate Obligations.

“*Subordinate Qualified Swap Provider*” means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Subordinate Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least “Aa,” in the case of Moody’s and “AA,” in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) whose obligations under a Subordinate Qualified Swap are fully secured by obligations described in items (a) or (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

“*Subordinate Registrar*” means, with respect to the Subordinate Obligation or any Series of Subordinate Obligations, the bank, trust company or other entity designated in a Supplemental Subordinate Indenture or a resolution of the Board to perform the function of Subordinate Registrar under the Master Subordinate Indenture or any Supplemental Subordinate Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Subordinate Indenture. The Subordinate Trustee will act as the Subordinate Registrar with respect to the Series 2016B Subordinate Bonds.

“*Subordinate Repayment Obligations*” means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Subordinate Obligations and all other amounts due and owing to a Credit Provider under a Credit Facility, or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Subordinate Obligations and all other amounts due and owing to a Liquidity Provider under a Liquidity Facility.

“*Subordinate Reserve Fund*” means the Subordinate Debt Service Reserve Fund of such designation created under the Fourth Supplemental Subordinate Indenture as security for any Subordinate Obligations which may participate in the Subordinate Reserve Fund as provided in Fourth Supplemental Subordinate Indenture. The Department will specify in the Twelfth Supplemental Subordinate Indenture that the Series 2016B Subordinate Bonds will participate in the Subordinate Reserve Fund.

“*Subordinate Reserve Requirement*” means an amount equal to the least of (a) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Obligations participating in the Subordinate Reserve Fund, (b) 10% of the principal amount of the Subordinate Obligations that have been issued and are participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to such Subordinate Obligations if such original issue discount exceeded 2% on such Subordinate Obligations at the time of their original sale, and (c) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Obligations participating in the Subordinate Reserve Fund.

“*Subordinate Swap Termination Payment*” means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Subordinate Qualified Swap, to compensate the other party to the Subordinate Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Subordinate Qualified Swap.

“*Subordinate Tender Indebtedness*” means any Subordinate Obligations or portions of Subordinate Obligations a feature of which is an option and/or an obligation on the part of the holders, under the terms of such Subordinate Obligations, to tender all or a portion of such Subordinate Obligations to the Department, the Subordinate Trustee, the Subordinate Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Subordinate Obligations or portions of Subordinate Obligations be purchased if properly presented.

“*Subordinate Trustee*” means U.S. Bank National Association, also known as U.S. Bank, N.A., until a successor replaces it and, thereafter, means such successor

“*Supplemental Senior Indenture*” means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Senior Bonds and entered into as provided in the Master Senior Indenture.

“*Supplemental Subordinate Indenture*” means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Subordinate Obligations and entered into as provided in the Master Subordinate Indenture.

“*Swap*” means any financial arrangement between the Department and a Swap Provider which provides that (a) each of the parties will pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Subordinate Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid *before* it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid *after* it is deemed to have accrued will reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement. Swap includes, but is not be limited to, (i) caps, floors and collars, (ii) forward rate, future rate, swap (such swap may be based on an amount equal either to the principal amount of such Subordinate Obligations as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Subordinate Obligations), asset, index, price or market-linked transactions or agreements, (iii) other exchange or rate protection transaction agreements, (iv) other similar transactions (however designated), or (v) any combination thereof, or any option with respect thereto, in each case executed by the Department for the purpose of moderating interest rate fluctuations, reducing debt service costs or creating either fixed interest rate Subordinate Obligations or Variable Rate Indebtedness on a synthetic basis or otherwise.

“*Swap Provider*” means a party to a Swap with the Department.

“*Synthetic Fixed Rate Debt*” means indebtedness issued by the Department which: (a) is combined, as Subordinate Designated Debt, with a Subordinate Qualified Swap, and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (b) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

“*Tax Compliance Certificate*” means the certificate of the Department prepared by Bond Counsel and delivered by the Department at the time of issuance and delivery of any Series of Subordinate Obligations, the interest on which is excluded from gross income for federal income tax purposes pursuant to a favorable opinion of such Bond Counsel, making certifications and representations of the Department as to the status of such Subordinate Obligations under the Code.

“*Term Subordinate Obligations*” means Subordinate Obligations of a Series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Subordinate Indenture for such Series for that purpose and calculated to retire the Subordinate Obligations on or before their specified maturity dates.

“*Third Lien Obligation*” means any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Senior Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operation Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish any senior debt service reserve fund and any debt service reserve fund(s) established for the Subordinated Obligations. “*Third Lien Obligations*” are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Board may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations will be secured on a junior and subordinate basis to the Senior Bonds and the Subordinated Obligations from the Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a “*Third Lien Obligation*” for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Board as a “*Third Lien Obligation*” in a Supplemental Senior Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “*Third Lien Obligation*” includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term “*Third Lien Obligations*” also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term “*Third Lien Obligation*” includes any senior swap termination payment under a senior qualified swap with respect to any Senior Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

“*Transfer*” means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through NINTH described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS—Flow of Funds” in the forepart of this Official Statement have been made as of the last day of the immediately preceding Fiscal Year).

“*Treasurer*” means the Treasurer of the City as set forth in the Charter.

“*Twelfth Supplemental Subordinate Indenture*” means the Twelfth Supplemental Subordinate Trust Indenture, to be dated as of January 1, 2017, by and between the Department and the Subordinate Trustee.

“*Unenhanced Subordinate Commercial Paper Program*” will be a Subordinate Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Subordinate Commercial Paper Program has received at least an investment grade short-term rating from two or more of the Rating Agencies.

“*Unissued Subordinate Program Obligations*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Subordinate Program and payable from Subordinate Pledged Revenues, issuable in an amount up to the Subordinate Authorized Amount relating to such Subordinate Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Subordinate Program the items required pursuant to the Master Subordinate Indenture have been filed with the Subordinate Trustee but which have not yet been authenticated and delivered pursuant to the Subordinate Program documents.

“*United States Bankruptcy Code*” means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

“*United States Obligations*” means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (1) a bank or trust company acts as custodian and holds the underlying United States Obligations; (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (3) the underlying United States Obligations are held in a special account separate from the custodian’s general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. “*United States Obligations*” will include any

stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

“*Variable Rate Indebtedness*” means any Subordinate Obligation or Subordinate Obligations the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

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APPENDIX C-2

SUMMARY OF THE MASTER SUBORDINATE INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2016B SUBORDINATE BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Subordinate Indenture.

Grant to Secure Subordinate Obligations; Pledge of Subordinate Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Subordinate Obligations and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Subordinate Indenture or contained in the Subordinate Obligations, the Department has pledged and assigned to the Subordinate Trustee and granted to the Subordinate Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provided that such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Subordinate Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Subordinate Rebate Fund) held from time to time by the Subordinate Trustee under the Subordinate Indenture, and to the extent provided in any Supplemental Subordinate Indenture moneys and securities held in any Subordinate Construction Fund whether or not held by the Subordinate Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause, and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Subordinate Trustee as additional security under the Master Subordinate Indenture, for the equal and proportionate benefit and security of all Subordinate Obligations, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Subordinate Obligation over any other Subordinate Obligation or Subordinate Obligations, except as to the timing of payment of the Subordinate Obligations. Any Subordinate Debt Service Reserve Fund and any Subordinate Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Subordinate Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Subordinate Obligations, a specific Series of Subordinate Obligations or one or more Series of Subordinate Obligations may, as provided by a Supplemental Subordinate Indenture, secure only such specific Subordinate Obligations, Series of Subordinate Obligations or one or more Series of Subordinate Obligations and, therefore, will not be included as security for all Subordinate Obligations under the Master Subordinate Indenture unless otherwise provided by a Supplemental Subordinate Indenture and moneys and securities held in trust as provided in the Master Subordinate Indenture exclusively for Subordinate Obligations which have become due and payable and moneys and securities which are held exclusively to pay Subordinate Obligations which are deemed to have been paid under the Master Subordinate Indenture will be held solely for the payment of such specific Subordinate Obligations. All amounts held in the funds and accounts created under the Senior Indenture will not be included as security for any Subordinate Obligations under the Master Subordinate Indenture.

Subordinate Repayment Obligations Afforded Status of Subordinate Obligations

If a Credit Provider or Liquidity Provider makes payment of principal and/or interest on a Subordinate Obligation or advances funds to purchase or provide for the purchase of Subordinate Obligations and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department’s Subordinate Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Subordinate Obligation issued under the Master Subordinate Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Holder of such Subordinate Obligation, and such Subordinate Obligation will be deemed to have been issued at the time of the original Subordinate Obligation for which the Credit Facility or Liquidity Facility was provided and will not be subject to the additional bonds test set forth in the Master Subordinate Indenture; provided, however, the payment terms of the Subordinate Obligation held by the Credit Provider or Liquidity Provider hereunder will be as follows (unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which the Subordinate Obligations are issued or in the agreement with the Credit Provider or Liquidity Provider): (a) interest will be due and payable semiannually and (b)

principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, if shorter, (ii)(A) a term extending to the maturity date of the enhanced Subordinate Obligations or (B) if later, the final maturity of the Subordinate Repayment Obligation under the written agreement, and providing substantially level annual debt service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Subordinate Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Subordinate Repayment Obligation. Any amount which comes due on the Subordinate Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Obligation will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund). This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Subordinate Indenture. The Subordinate Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Subordinate Repayment Obligation is to be afforded the status of a Subordinate Obligation under the Master Subordinate Indenture.

Obligations Under Subordinate Qualified Swap; Non-Qualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Subordinate Qualified Swap with respect to a Series of Subordinate Obligations may be on a parity with the obligation of the Department to make payments with respect to such Series of Subordinate Obligations and other Subordinate Obligations under the Master Subordinate Indenture, except as otherwise provided by Supplemental Subordinate Indenture and elsewhere in the Master Subordinate Indenture with respect to any Subordinate Swap Termination Payments. The Department may provide in any Supplemental Subordinate Indenture that Regularly Scheduled Swap Payments under a Subordinate Qualified Swap will be secured by a pledge of or lien on the Subordinate Pledged Revenues on a parity with the Subordinate Obligations of such Series and all other Subordinate Obligations, regardless of the principal amount, if any, of the Subordinate Obligations of such Series remaining Outstanding. The Subordinate Trustee will take all action consistent with the other provisions of the Master Subordinate Indenture as will be requested in writing by the Subordinate Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Subordinate Trustee either to exercise the remedies granted in the Master Subordinate Indenture or to institute any action, suit or proceeding in its own name, the Subordinate Qualified Swap Provider will provide to the Subordinate Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Subordinate Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Subordinate Qualified Swap, such Subordinate Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Obligations of the Department to make payments, including termination payments, under a Non-Qualified Swap will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Deposits and Withdrawals from the Subordinate Debt Service Funds

Deposits into the Subordinate Debt Service Funds. The Subordinate Trustee will, at least fifteen Business Days prior to each Payment Date on any Subordinate Obligation, give the Department notice by telephone, promptly confirmed in writing, of the amount, after taking into account Subordinate Capitalized Interest, if any, on deposit in the Subordinate Debt Service Funds, required to be deposited with the Subordinate Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Subordinate Indenture will control.

So long as any of the Subordinate Obligations are Outstanding, the Authorized Representative will deliver to the Treasurer, at least ten Business Days prior to each Payment Date, as to each Series of Subordinate Obligations Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than five Business Days prior to each Payment Date, transfer from the LAX Revenue Account to the Subordinate Trustee for deposit in the Subordinate Debt Service Funds established in respect of each Series of Outstanding Subordinate Obligations the full amount required to pay the principal of and/or interest on Subordinate Obligations of that Series due on such Payment Date.

On any day on which the Subordinate Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Obligations, the Subordinate Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Subordinate Debt Service Funds for the Series of Subordinate Obligations for which such payments were made and any excess funds will be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Subordinate Debt Service Fund for any Series of Subordinate Obligations for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Subordinate Obligations on the next succeeding Payment Date.

The Department may provide in any Supplemental Subordinate Indenture that, as to any Series of Subordinate Obligations Outstanding, any amounts required to be transferred to and paid into a Subordinate Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Subordinate Debt Service Fund, and in that event any subsequently scheduled transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (a price not greater than par) prior to notice of redemption of such Series. Such Subordinate Obligations so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Subordinate Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate Obligations of such Series and any excess over the sinking installment payment deposit required on that date will be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Subordinate Obligations to be redeemed by operation of such sinking installment payments will be accordingly modified in such manner as the Department may determine and as specified to the Subordinate Trustee in writing.

Money set aside and placed in a Subordinate Debt Service Fund for any Series of Subordinate Obligations will remain therein from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Subordinate Debt Service Fund may be temporarily invested as provided in the Master Subordinate Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this Section to be available in a Subordinate Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate Obligations of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of a Subordinate Event of Default, such earnings will remain in the Subordinate Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Subordinate Debt Service Fund established to pay principal of and interest on any Series of Subordinate Obligations will be held by the Subordinate Trustee or any agent of the Subordinate Trustee, and

amounts to be used to pay principal and interest on such Series, as received by the Subordinate Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Subordinate Trustee or any agent of the Subordinate Trustee in the various Subordinate Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Subordinate Trustee or such agents as will be provided by the Supplemental Subordinate Indenture.

The moneys in each Subordinate Debt Service Fund established for any issue, Series will be held in trust and applied as provided in the Master Subordinate Indenture and in the Supplemental Subordinate Indenture, and pending the application of such amounts in accordance with the Master Subordinate Indenture and with the provisions of such Supplemental Subordinate Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Obligations of such Series.

Withdrawals From Subordinate Debt Service Funds. On each Payment Date for any Outstanding Subordinate Obligations, the Subordinate Trustee will pay to the Owners of the Subordinate Obligations of a given Series from the appropriate Subordinate Debt Service Fund or Subordinate Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Subordinate Obligations.

On or before a mandatory redemption date from sinking installment payments for Term Subordinate Obligations of a Series of Subordinate Obligations, the Subordinate Trustee will transfer from the Subordinate Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Subordinate Obligations of a Series are to be mandatorily redeemed from sinking installment payments, the Subordinate Trustee will pay to the Owners of Subordinate Obligations of such Series from the Redemption Account for such Series, an amount equal to the amount of interest and the principal amount of Term Subordinate Obligations of such Series to be mandatorily redeemed on such date.

On each date on which Subordinate Obligations of any Series will otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Subordinate Indenture, the Subordinate Trustee will pay to the Owners of such Subordinate Obligations from the redemption account, an amount of interest and principal, and premium, if any, on such Subordinate Obligations to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate Obligations are issued, the Department will have or will have caused to be deposited in the redemption account for such Series, an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to pay the redemption price of such Subordinate Obligations on such redemption date.

The payments made by the Subordinate Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Subordinate Debt Service Fund.

All money remaining in a Subordinate Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Subordinate Obligations of the Series for which that Subordinate Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Subordinate Obligations of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Subordinate Trustee will, at least two Business Days prior to each Payment Date on any Subordinate Obligation, or as otherwise directed in any Supplemental Subordinate Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Subordinate Trustee to pay the amount required to be paid on such Payment Date in respect of such Subordinate Obligation, in the event the amount then on deposit in any Subordinate Debt Service Fund is insufficient to pay the amounts due on any Series of Subordinate Obligations on such Payment Date. With respect to any Series of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Subordinate Indenture will control.

If, on any Payment Date, the Subordinate Trustee does not have sufficient amounts in the Subordinate Debt Service Funds (without regard to any amounts which may be available in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) to pay in full with respect to Subordinate Obligations of all Series all

amounts of principal and/or interest due on such date, the Subordinate Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) as follows: first, to the payment of past due interest on Subordinate Obligations of any Series, in the order in which such interest came due, then to the payment of past due principal on Subordinate Obligations of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Subordinate Obligations of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Subordinate Obligations then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Subordinate Obligations and, if the amount available will not be sufficient to pay in full all principal on the Subordinate Obligations then due, then pro rata among the Series according to the Principal Amount then due on the Subordinate Obligations.

If the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Subordinate Obligations secured thereby, then the Department may be required by a Supplemental Subordinate Indenture to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider from Subordinate Pledged Revenues provided that (a) no amount from Subordinate Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Subordinate Obligations which have become due and payable have been paid in full, (b) the required payments to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund exceeds the amount available for such purpose, the payments made to the Subordinate Trustee for such purpose will be allocated among the Subordinate Reserve Fund or the various Subordinate Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Subordinate Obligations secured thereby.

Notwithstanding the foregoing, the Department may, in the Supplemental Subordinate Indenture authorizing such Series of Subordinate Obligations, provide for different provisions and timing of deposits with the Subordinate Trustee and different methods of paying principal of or interest on such Subordinate Obligations depending upon the terms of such Subordinate Obligations and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Subordinate Debt Service Fund created for the Series of Subordinate Obligations for which such Credit Facility is provided.

If the Subordinate Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Subordinate Obligations, the Department may, at its election, pay to the Subordinate Trustee funds from any available sources with the direction that such funds be deposited into the Subordinate Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Subordinate Pledged Revenues and the other security provided in the Granting Clauses of the Master Subordinate Indenture, secure all Subordinate Obligations issued under the terms of the Maser Subordinate Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Subordinate Obligations or Series of Subordinate Obligations with no obligation to provide such additional security or credit enhancement to other Subordinate Obligations.

Payment of Principal and Interest

The Department covenants and agrees that it will duly and punctually pay or cause to be paid from the Subordinate Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Subordinate Obligation at the place and on the dates and in the manner set forth herein, and in the Supplemental Subordinate Indentures and in the Subordinate Obligations specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Master Subordinate Indenture and in the Subordinate Obligations contained, provided that the Department's obligation to make payments of the principal of, premium, if any, and interest on the Subordinate Obligations will be limited to payment from the Subordinate Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master

Subordinate Indenture and any other source which the Department may specifically provide for such purpose and no Holder will have any right to enforce payment from any other funds of the Department.

Junior and Subordinated Obligations

The Department may, from time to time, incur indebtedness with a lien on Subordinate Pledged Revenues ranking junior and subordinate to the lien of the Subordinate Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that: (a) any resolution or indenture of the Department authorizing the issuance of any subordinate obligations (including, but not limited to, Third Lien Obligations) will specifically state that such lien on or security interest granted in the Subordinate Pledged Revenues is junior and subordinate to the lien on and security interest in such Subordinate Pledged Revenues and other assets granted to secure the Subordinate Obligations; and (b) payment of principal of and interest on such subordinated obligations (including, but not limited to, Third Lien Obligations) will be permitted, provided that all deposits required to be made to the Subordinate Trustee to be used to pay debt service on the Subordinate Obligations and to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund, if any, are then current in accordance with the Master Subordinate Indenture.

Maintenance and Operation of LAX Airport Facilities

Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any part of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of the LAX Airport Facilities.

Insurance; Application of Insurance Proceeds

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(1) the Department will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self-Insurance with respect to the facilities constituting Los Angeles International Airport and public liability insurance in the form of commercial insurance or Qualified Self-Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Department, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self-insured programs provided by similar airports;

(2) the Department will procure and maintain reasonable fidelity insurance or bonds on the position of Chief Financial Officer and on any other employees of the Board or the Department who handle or are responsible for funds of the Department; and

(3) the Department will place on file with the Subordinate Trustee annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Representative containing a summary of all insurance policies and self-insured programs then in effect with respect to Los Angeles International Airport and the operations of the Department. The Subordinate Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required in the Master Subordinate Indenture or obtained by the Department.

“Qualified Self-Insurance” means insurance maintained through a program of self-insurance or insurance maintained with a fund, company or association in which the Department may have a material interest and of which the Department may have control, either singly or with others. Each plan of Qualified Self-Insurance will be established in accordance with law, will provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Department determines to be reasonable to protect against risks assumed under the Qualified Self-Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self-Insurance, and such self-insurance program will be reviewed at least once every 12 months by a Consultant who will deliver to the Department a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he will make a recommendation as to the amount of reserves that should be established and maintained, and the Department will comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Department.

If, as a result of any event, any part of an LAX Airport Facility or any LAX Airport Facilities is destroyed or severely damaged, the Department will create within the LAX Revenue Account a special subaccount and will credit the Net Proceeds received as a result of such event of damage or destruction to such subaccount and such Net Proceeds will, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to: (1) repair or replace the LAX Airport Facilities, or portion thereof, which were damaged or destroyed, (2) provide additional revenue-producing LAX Airport Facilities, (3) redeem Senior Bonds, (4) create an escrow fund pledged to pay specified Senior Bonds and thereby cause such Senior Bonds to be deemed to be paid as provided in the Master Senior Indenture; provided, however, that the Department will first deliver to the Senior Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Senior Bonds, the rate covenant set forth in the Master Senior Indenture would, nevertheless, be met, (5) redeem Subordinate Obligations, or (6) create an escrow fund pledged to pay specified Subordinate Obligations and thereby cause such Subordinate Obligations to be deemed to be paid as provided in the Master Subordinate Indenture; provided, however, that the Department will first deliver to the Subordinate Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Subordinate Obligations, the rate covenant set forth in the Master Subordinate Indenture would, nevertheless, be met.

Transfer of LAX Airport Facility or LAX Airport Facilities

The Department will not, except as permitted below transfer, sell or otherwise dispose of an LAX Airport Facility or LAX Airport Facilities. For purposes of this section, any transfer of an asset over which the Department retains substantial control in accordance with the terms of such transfer will not, for so long as the Department has such control, be deemed a disposition of an LAX Airport Facility or LAX Airport Facilities.

The Department may transfer, sell or otherwise dispose of LAX Airport Facilities only if such transfer, sale or disposition complies with one or more of the following provisions:

- (a) The property being disposed of is inadequate, obsolete or worn out; or
- (b) The property proposed to be disposed of and all other LAX Airport Facilities disposed of during the 12-month period ending on the day of such transfer (but excluding property disposed of under (a) above), will not, in the aggregate, constitute a Significant Portion, the proceeds are deposited into the LAX Revenue Account to be used as described below and the Department believes that such disposal will not prevent it from fulfilling its obligations under the Senior Indenture; or
- (c) Prior to the disposition of such property, there is delivered to the Senior Trustee and the Subordinate Obligations a certificate of a Consultant to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Department as evidenced by a certificate of an Authorized Representative, the Consultant estimates that Department will be in compliance with the rate covenants set forth in the Master Senior Indenture and the Master Subordinate Indenture during each of the five Fiscal Years immediately following such disposition.

LAX Airport Facilities which were financed with the proceeds of obligations the interest on which is then excluded from gross income for federal income tax purposes will not be disposed of, except under the terms of provision (a) above, unless the Department has first received a written opinion of Bond Counsel to the effect that such disposition and the application of any disposition proceeds thereof will not cause the interest on such obligations to become includable in gross income for federal income tax purposes.

No such disposition will be made which would cause the Department to be in default of any other covenant contained in the Master Senior Indenture or the Master Subordinate Indenture.

Investments

Moneys held by the Subordinate Trustee in the funds and accounts created in the Master Subordinate Indenture and under any Supplemental Subordinate Indenture will be invested and reinvested as directed by the Department, in Subordinate Permitted Investments subject to the restrictions set forth in the Master Subordinate Indenture and such Supplemental Subordinate Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Subordinate Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Subordinate Trustee will, to the extent practicable, invest in Subordinate Permitted Investments specified in (i) of the definition thereof.

The Subordinate Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Subordinate Permitted Investment is held.

The Subordinate Trustee may buy or sell any Subordinate Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Subordinate Obligations or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture except for the purposes of payment from moneys or Government Obligations held by the Subordinate Trustee or a Subordinate Paying Agent for such purpose. When all Subordinate Obligations which have been issued under the Master Subordinate Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Subordinate Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Subordinate Trustee, the Subordinate Registrar and the Subordinate Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues and the other assets pledged to secure the Subordinate Obligations under the Master Subordinate Indenture will thereupon cease, terminate and become void, and thereupon the Subordinate Trustee will cancel, discharge and release the Master Subordinate Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Subordinate Indenture which may then be in the Subordinate Trustee's possession, except funds or securities in which such funds are invested and are held by the Subordinate Trustee or the Subordinate Paying Agent for the payment of the principal of, premium, if any, and interest on the Subordinate Obligations.

A Subordinate Obligation will be deemed to be paid within the meaning of the Master Subordinate Indenture when payment of the principal, interest and premium, if any, either (a) has been made or caused to be made in accordance with the terms of the Subordinate Obligations and the Master Subordinate Indenture or (b) has been provided for by depositing with the Subordinate Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Subordinate Obligations will be deemed to be paid under the Master Subordinate Indenture, such Subordinate Obligations will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Subordinate Obligations. Once such deposit has been made, the Subordinate Trustee will notify all Holders of the affected Subordinate Obligations that the deposit required by (b) above has been made with the Subordinate Trustee and that such Subordinate Obligations are deemed to have been paid in accordance with the Master Subordinate Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Subordinate Indenture under which such Subordinate Obligations were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Subordinate Indenture under which such Subordinate Obligations were issued, modify or otherwise change the scheduled date

for the redemption or payment of any Subordinate Obligation deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Subordinate Obligations or the Master Subordinate Indenture subject to (i) receipt of an approving opinion of Bond Counsel that such action will not adversely affect the tax-exemption of any Subordinate Obligation or Subordinate Obligations then Outstanding and (ii) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Subordinate Obligations. Notwithstanding anything in this section to the contrary, moneys from the trust or escrow established for the defeasance of Subordinate Obligations may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (i) and (ii) above are met prior to or concurrently with any such withdrawal.

Subordinate Events of Default and Remedies

Subordinate Events of Default. Each of the following events will constitute and is referred to as a “*Subordinate Event of Default*”:

- (a) a failure to pay the principal of or premium, if any, on any of the Subordinate Obligations, when the same will become due and payable at maturity or upon redemption;
- (b) a failure to pay any installment of interest on any of the Subordinate Obligations when such interest will become due and payable;
- (c) failure to pay the purchase price of any Subordinate Obligation when such purchase price will be due and payable upon an optional or mandatory tender date as provided in a Supplemental Subordinate Indenture;
- (d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Subordinate Indenture or a Supplemental Subordinate Indenture, which failure, except for a violation under the rate covenant set forth in the Master Subordinate Indenture which will be controlled by the provisions set forth therein, will continue for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Subordinate Trustee, which notice may be given at the discretion of the Subordinate Trustee and will be given at the written request of Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding, unless the Subordinate Trustee, or the Subordinate Trustee and the Holders of Subordinate Obligations in a Principal Amount not less than the Principal Amount of Subordinate Obligations the Holders of which requested such notice, agree in writing to an extension of such period prior to its expiration; provided, however, that the Subordinate Trustee or the Subordinate Trustee and the Holders of such principal amount of Subordinate Obligations will be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;
- (e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution;
- (f) the occurrence of any other Subordinate Event of Default as is provided in a Supplemental Subordinate Indenture; or
- (g) a default in the payment of principal of or interest on any Senior Bonds.

Remedies.

(a) Upon the occurrence and continuance of any Subordinate Event of Default, the Subordinate Trustee in its discretion may, and upon the written direction of the Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Subordinate Trustee of an express trust:

- (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Subordinate Holders, and require the Department to carry out any agreements with or

for the benefit of the Subordinate Holders and to perform its or their duties under the Charter or any other law to which it is subject and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Master Subordinate Indenture;

(ii) bring suit upon the Subordinate Obligations;

(iii) commence an action or suit in equity to require the Department to account as if it were the trustee of an express trust for the Subordinate Holders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Subordinate Holders.

(b) The Subordinate Trustee will be under no obligation to take any action with respect to any Subordinate Event of Default unless the Subordinate Trustee has actual knowledge of the occurrence of such Subordinate Event of Default.

(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Subordinate Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider (subject to the prior lien on Pledged Revenues granted to the Senior Bonds pursuant to the Senior Indenture), in no event, upon the occurrence and continuation of a Subordinate Event of Default, will the Subordinate Trustee, the Holders of Subordinate Obligations, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Obligations Outstanding.

Holder's Right To Direct Proceedings. Anything in the Master Subordinate Indenture to the contrary notwithstanding, Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Subordinate Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Subordinate Trustee under the Master Subordinate Indenture to be taken in connection with the enforcement of the terms of the Master Subordinate Indenture or exercising any trust or power conferred on the Subordinate Trustee by the Master Subordinate Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Subordinate Indenture and that there will have been provided to the Subordinate Trustee security and indemnity satisfactory to the Subordinate Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Subordinate Trustee.

Limitation on Right To Institute Proceedings. No Subordinate Holder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy under the Master Subordinate Indenture or on such Subordinate Obligations, unless such Subordinate Holder or Holders previously has given to the Subordinate Trustee written notice of a Subordinate Event of Default as hereinabove provided and unless also Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding has made written request of the Subordinate Trustee to do so, after the right to institute such suit, action or proceeding under the Master Subordinate Indenture will have accrued, and will have afforded the Subordinate Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Subordinate Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Subordinate Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Subordinate Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Subordinate Holders will have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Master Subordinate Indenture, or to enforce any right under the Master Subordinate Indenture or under the Subordinate Obligations, except in the manner provided in the Master Subordinate Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Subordinate Indenture and for the equal benefit of all Subordinate Holders.

Application of Moneys. If a Subordinate Event of Default will occur and be continuing, all amounts then held or any moneys received by the Subordinate Trustee, by any receiver or by any Subordinate Holder pursuant to any right given or action taken under the provisions of the Master Subordinate Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of

such moneys and of the expenses, liabilities and advances incurred or made by the Subordinate Trustee (including attorneys' fees and disbursements), will be applied as follows: (a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Subordinate Obligations, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Subordinate Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (b) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Subordinate Obligations which have become due with interest on such Subordinate Obligations at such rate as provided in a Supplemental Subordinate Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Subordinate Obligations on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Subordinate Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Subordinate Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Subordinate Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Subordinate Holders and will not be required to make payment to any Subordinate Holder until such Subordinate Obligations will be presented to the Subordinate Trustee for appropriate endorsement or for cancellation if fully paid.

The Subordinate Trustee

Duties. If a Subordinate Event of Default has occurred and is continuing, the Subordinate Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Subordinate Trustee will perform the duties set forth in the Subordinate Indenture and no implied duties or obligations will be read into the Subordinate Indenture against the Subordinate Trustee. Except during the continuance of a Subordinate Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Subordinate Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Subordinate Trustee and conforming to the requirements of the Master Subordinate Indenture. However, the Subordinate Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Master Subordinate Indenture.

The Subordinate Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Subordinate Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Subordinate Trustee was negligent in ascertaining the pertinent facts; and (b) the Subordinate Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Subordinate Holders or the Department in the manner provided in the Master Subordinate Indenture.

The Subordinate Trustee will not, by any provision of the Master Subordinate Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Master Subordinate Indenture, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Notice of Defaults. If (a) a Subordinate Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be a Subordinate Event of Default and, with respect to such events for which notice to the Department is required before such events will become Subordinate Events of Default, such notice has been given, then the Subordinate Trustee will promptly, after obtaining actual notice of such Subordinate Event of Default or event described in (b) above, give notice thereof to each Subordinate Holder. Except in the case of a default in payment or purchase on any Subordinate Obligations, the Subordinate Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Subordinate Holders.

Eligibility of Subordinate Trustee. The Master Subordinate Indenture will always have a Subordinate Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Subordinate Trustee. The Subordinate Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may remove the Subordinate Trustee by notifying the removed Subordinate Trustee and may appoint a successor Subordinate Trustee with the Department's consent. The Department may remove the Subordinate Trustee, by notice in writing delivered to the Subordinate Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Subordinate Trustee during any time when a Subordinate Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Subordinate Event of Default.

No resignation or removal of the Subordinate Trustee will be effective until a new Subordinate Trustee has taken office and delivered a written acceptance of its appointment to the retiring Subordinate Trustee and to the Department. Immediately thereafter, the retiring Subordinate Trustee will transfer all property held by it as Subordinate Trustee to the successor Subordinate Trustee, the resignation or removal of the retiring Subordinate Trustee will then (but only then) become effective and the successor Subordinate Trustee will have all the rights, powers and duties of the Subordinate Trustee under the Subordinate Indenture.

If the Subordinate Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Subordinate Indenture, the Department will promptly appoint a successor Subordinate Trustee.

If a Subordinate Trustee is not performing its duties under the Subordinate Indenture and a successor Subordinate Trustee does not take office within 60 days after the retiring Subordinate Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Subordinate Trustee, the Department or the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may petition any court of competent jurisdiction for the appointment of a successor Subordinate Trustee.

Amendments and Supplements

Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations. The Department may, from time to time and at any time, without the consent of or notice to the Holders of the Subordinate Obligations, execute and deliver Supplemental Subordinate Indentures supplementing and/or amending the Master Subordinate Indenture or any Supplemental Subordinate Indenture, as follows:

- (a) to provide for the issuance of a Series or multiple Series of Subordinate Obligations under the provisions of the Master Subordinate Indenture and to set forth the terms of such Subordinate Obligations and the special provisions which will apply to such Subordinate Obligations;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Subordinate Indenture or any Supplemental Subordinate Indenture, provided such supplement or amendment is not materially adverse to the Subordinate Holders;
- (c) to add to the covenants and agreements of the Department in the Master Subordinate Indenture or any Supplemental Subordinate Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Subordinate Holders;
- (d) to confirm, as further assurance, any interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues or in and to the funds and accounts held by the Subordinate Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Subordinate Indenture or to otherwise add additional security for the Subordinate Holders;
- (e) to evidence any change made in the terms of any Series of Subordinate Obligations if such changes are authorized by a Supplemental Subordinate Indenture at the time the Series of Subordinate

Obligations is issued and such change is made in accordance with the terms of such Supplemental Subordinate Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(g) to provide for uncertificated Subordinate Obligations or for the issuance of coupons and bearer Subordinate Obligations or Subordinate Obligations registered only as to principal;

(h) to qualify the Subordinate Obligations or a Series of Subordinate Obligations for a rating or ratings from a Rating Agency;

(i) to accommodate the technical, operational and structural features of Subordinate Obligations which are issued or are proposed to be issued or of a Subordinate Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Subordinate Obligations or a specific Series of Subordinate Obligations, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Subordinate Obligations, including, without limitation, the segregation of Pledged Revenues, Net Pledged Revenues and Subordinate Pledged Revenues into different funds; and

(l) to modify, alter, amend or supplement the Master Subordinate Indenture or any Supplemental Subordinate Indenture in any other respect which is not materially adverse to the Subordinate Holders.

Before the Department executes, pursuant to this section, any Supplemental Subordinate Indenture, there will be delivered to the Department and Subordinate Trustee an opinion of Bond Counsel to the effect that such Supplemental Subordinate Indenture is authorized or permitted by the Master Subordinate Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Subordinate Obligations which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations.

(a) Except for any Supplemental Subordinate Indenture entered into pursuant to the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations” above and any Supplemental Subordinate Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this section and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Subordinate Indenture or in a Supplemental Subordinate Indenture; provided, however, that, unless approved in writing by the Holders of all the Subordinate Obligations then Outstanding or unless such change affects less than all Series of Subordinate Obligations and the following subsection (b) is applicable, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Obligations or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Obligations or the rate of interest thereon; and provided that nothing contained in the Master Subordinate Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Subordinate Obligations then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Subordinate Indenture) upon or pledge of the Subordinate Pledged Revenues created by the Master

Subordinate Indenture, ranking prior to or on a parity with the claim created by the Master Subordinate Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Subordinate Obligations, a preference or priority of any Subordinate Obligation or Subordinate Obligations over any other Subordinate Obligation or Subordinate Obligations with respect to the security granted therefor under the Granting Clauses of the Master Subordinate Indenture, or (v) a reduction in the aggregate Principal Amount of Subordinate Obligations the consent of the Subordinate Holders of which is required for any such Supplemental Subordinate Indenture. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Subordinate Holders of the execution of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations” above, including the granting, for the benefit of particular Series of Subordinate Obligations, security in addition to the pledge of the Subordinate Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Subordinate Indenture which amends the provisions of an earlier Supplemental Subordinate Indenture under which a Series or multiple Series of Subordinate Obligations were issued. If such Supplemental Subordinate Indenture is executed for one of the purposes described under “—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations” above, no notice to or consent of the Subordinate Holders will be required. If such Supplemental Subordinate Indenture contains provisions which affect the rights and interests of less than all Series of Subordinate Obligations Outstanding and the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations” are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations of all Series of Subordinate Obligations Outstanding which are affected by such changes will have the right from time to time to consent to any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Subordinate Indenture and affecting only the Subordinate Obligations of such Series; provided, however, that, unless approved in writing by the Holders of all the Subordinate Obligations of all the affected Series then Outstanding, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Obligations of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Obligations of such Series or the rate of interest thereon. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Holders of the adoption of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations” above, including the granting, for the benefit of particular Series of Subordinate Obligations, security in addition to the pledge of the Subordinate Pledged Revenues.

Amendments to the Senior Indenture

The Holders of the Subordinate Obligations have no right to consent to or reject any amendments to the Senior Indenture that require the consent of the holders of the Senior Bonds, except for amendments to the flow of funds that require the consent of the holders of the Senior Bonds.

Rights of Credit Provider

The Master Subordinate Indenture provides that if a Credit Facility is provided for a Series of Subordinate Obligations or for specific Subordinate Obligations, the Department may in the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued, provide any or all of the following rights to the Credit Provider as the Department deems to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Subordinate Trustee or to otherwise direct proceedings all as provided in the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Obligations which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Subordinate Obligations; (b) the right to act in place of the owners of the Subordinate Obligations which are secured by the Credit Facility for purposes of removing a Subordinate Trustee or appointing a Subordinate Trustee under the

Subordinate Indenture; and (c) the right to consent to Supplemental Subordinate Indentures, which would otherwise require the consent of the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations, entered into pursuant to the provisions set forth under the caption “—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations” above, except with respect to any amendments described in subsections (a)(i) through (iv) and (b)(i) or (ii) under the caption “—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations” above, which consent of the actual Subordinate Holders will still be required, of the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Obligations which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Holder of such Subordinate Obligations.

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APPENDIX C-3

SUMMARY OF THE TWELFTH SUPPLEMENTAL SUBORDINATE INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2016B SUBORDINATE BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Twelfth Supplemental Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Twelfth Supplemental Subordinate Indenture.

Terms of the Series 2016B Subordinate Bonds

The Twelfth Supplemental Subordinate Indenture sets forth the terms of the Series 2016B Subordinate Bonds, most of which terms are described in the forepart of this Official Statement under “DESCRIPTION OF THE SERIES 2016B SUBORDINATE BONDS.”

Establishment of Funds and Accounts

Pursuant to the Twelfth Supplemental Subordinate Indenture the Subordinate Trustee will establish and maintain the following funds and accounts: the Series 2016B Subordinate Debt Service Fund, (and within such Series 2016B Subordinate Debt Service Fund, an Interest Account, a Principal Account and a Redemption Account), the Series 2016B Subordinate Construction Fund, the Series 2016B Subordinate Costs of Issuance Fund, the Series 2016B Subordinate Reserve Account to be established in the Subordinate Reserve Fund and the Series 2016B Subordinate Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2016B Subordinate Bonds as described in the forepart of this Official Statement under “ESTIMATED SOURCES AND USES OF FUNDS.”

Series 2016B Subordinate Debt Service Fund. The Subordinate Trustee will deposit in the Interest Account of the Series 2016B Subordinate Debt Service Fund a portion of the proceeds of the Series 2016B Subordinate Bonds representing capitalized interest on the Series 2016B Subordinate Bonds. Additionally, the Subordinate Trustee will deposit in the Interest Account of the Series 2016B Subordinate Debt Service Fund amounts received from the Department, as provided in the Master Subordinate Indenture, to be used to pay interest on the Series 2016B Subordinate Bonds. The Subordinate Trustee will also deposit into the Interest Account of the Series 2016B Subordinate Debt Service Fund any other amounts deposited with the Subordinate Trustee for deposit in the Interest Account or transferred from other funds and accounts for deposit therein. Earnings on the Interest Account will be withdrawn and paid to the Department on the Business Day following an Interest Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Subordinate Trustee will deposit into the Principal Account of the Series 2016B Subordinate Debt Service Fund amounts received from the Department to be used to pay principal of the Series 2016B Subordinate Bonds at maturity or mandatory sinking fund redemption, if any. The Subordinate Trustee will also deposit into the Principal Account of the Series 2016B Subordinate Debt Service Fund any other amounts deposited with the Subordinate Trustee for deposit into the Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the Principal Account will be withdrawn and paid to the Department on the Business Day following an principal Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Subordinate Trustee will deposit into the Redemption Account of the Series 2016B Subordinate Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of and interest on the Series 2016B Subordinate Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of mandatory sinking fund redemption, if any). Earnings on the Redemption Account will be retained in such account or paid to the Department for deposit into the LAX Revenue Account in accordance with instructions given to the Subordinate Trustee by an Authorized Representative at the time of such deposit.

The Series 2016B Subordinate Debt Service Fund will be invested and reinvested in Subordinate Permitted Investments as directed by an Authorized Representative.

Series 2016B Subordinate Construction Fund. Amounts in the Series 2016B Subordinate Construction Fund will be disbursed from time to time, upon requisition of the Department, to pay the costs or to reimburse the Department for costs incurred in connection with the portion of the projects for which the Series 2016B Subordinate Bonds were issued. While held by the Subordinate Trustee, amounts in the Series 2016B Subordinate Construction Fund will not secure the Outstanding Series 2016B Subordinate Bonds. Amounts in the Series 2016B Subordinate Construction Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such fund will be credited to such fund.

Series 2016B Subordinate Costs of Issuance Fund. The proceeds of the Series 2016B Subordinate Bonds deposited into the Series 2016B Subordinate Costs of Issuance Fund will be disbursed by the Subordinate Trustee, from time to time, to pay costs of issuance of the Series 2016B Subordinate Bonds. Amounts in the Series 2016B Subordinate Costs of Issuance Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Subordinate Reserve Fund and Series 2016B Subordinate Reserve Account. For a description of the Subordinate Reserve Fund and the Series 2016B Subordinate Reserve Account, see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016B SUBORDINATE BONDS—Subordinate Reserve Fund” in the forepart of this Official Statement.

Series 2016B Subordinate Rebate Fund. The Twelfth Supplemental Subordinate Indenture creates the Series 2016B Subordinate Rebate Fund for the Series 2016B Subordinate Bonds established for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Subordinate Trustee with respect to the Series 2016B Subordinate Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Series 2016B Subordinate Bonds. Such excess is to be deposited into the Series 2016B Subordinate Rebate Fund and periodically paid to the United States of America. The Series 2016B Subordinate Rebate Fund while held by the Subordinate Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2016B Subordinate Bonds.

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APPENDIX D-1

AMENDMENTS TO THE MASTER SENIOR INDENTURE

Following is a description of certain amendments that are being made to the Master Senior Indenture. This description is for informational purposes only. These amendments do not require the consent of any of the Bondholders of the Subordinate Obligations (including the Series 2016B Subordinate Bonds), and the Department is not requesting consent from any of the Bondholders of the Subordinate Obligations (including the Series 2016B Subordinate Bonds).

Master Senior Indenture Amendments Requiring CP Bank Consent

The Master Senior Indenture Amendments Requiring CP Bank Consent are set forth below. Additions to the Master Senior Indenture are shown in **bold and double underline** and deletions are shown in ~~strike through~~.

Section 2.11

(a) Section 2.11(b)(1) is to be amended to read as follows:

(1) the Net Pledged Revenues, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds or the establishment of a Program, were at least equal to 125% of the sum of the ~~Aggregate~~ Annual Debt Service due and payable with respect to all Outstanding Bonds (not including the proposed Series of Bonds or the proposed Program Bonds) for such Fiscal Year or other applicable period; and

(b) The second paragraph of Section 2.11 is to be amended to read as follows:

For purposes of subparagraphs (a) and (b) above, the amount of any Transfer taken into account shall not exceed 25% of the **Annual Debt Service or** Aggregate Annual Debt Service, **as applicable**, on the Outstanding Bonds, Unissued Program Bonds, the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds, as applicable, for such applicable Fiscal Year or such other applicable period.

Section 5.04(b)

Section 5.04(b) is to be amended to read as follows:

(b) The Board further agrees that it will establish, fix, prescribe and collect tolls, fees, rentals and charges in connection with Los Angeles International Airport and for services rendered in connection therewith, so that during each Fiscal Year the Net Pledged Revenues, together with any Transfer, will be equal to at least 125% of ~~Aggregate~~ Annual Debt Service on the Outstanding Bonds **for such Fiscal Year**. For purposes of this subsection (b), the amount of any Transfer taken into account shall not exceed 25% of ~~Aggregate~~ Annual Debt Service on the Outstanding Bonds in such Fiscal Year.

Master Senior Indenture Amendments Requiring Bondholder Consent

The Master Senior Indenture Amendments Requiring Bondholder Consent are set forth below. Additions to the Master Senior Indenture are shown in **bold and double underline** and deletions are shown in ~~strike through~~.

ARTICLE I- Definitions

(a) The definition of “Debt Service Reserve Fund Surety Policy”

“Debt Service Reserve Fund Surety Policy” shall mean an insurance policy or surety bond, or a letter of credit (other than a Reserve Fund Surety Policy) deposited with the Trustee for the credit of a Debt Service Reserve Fund created for one or more series of Outstanding Bonds in lieu of or partial substitution for cash or securities on deposit therein. Except as otherwise provided in a Supplemental Indenture, the entity providing such Debt Service Reserve Fund Surety Policy shall be rated, at the time such instrument is provided, in one of the ~~two~~ **three** highest long-term Rating Categories by ~~both Moody’s if Moody’s is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds~~ **one or more Rating Agencies, provided that such entity shall not be rated by any Rating Agency in a long-term Rating Category that is lower than the three highest long-term Rating Categories.**

(b) The definition of “Qualified Swap”

“Qualified Swap” shall mean any Swap (a) whose Designated Debt is all or part of a particular Series of Bonds; (b) whose Swap Provider is currently a Qualified Swap Provider or ~~has been~~ was a Qualified Swap Provider ~~within the 60 day period preceding the date on which the calculation of Annual Debt Service or Aggregate Annual Debt Service is being made~~ at the time the Swap was originally entered into by the Board; (c) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; and (d) which has been designated in writing to the Trustee by the ~~Department~~ Board as a Qualified Swap with respect to such Bonds; ~~and (e) which has been approved by S&P, if S&P has an outstanding rating on any Bonds, and Moody’s, if Moody’s has an outstanding rating on the Bonds.~~

(c) The definition of “Qualified Swap Provider”

“Qualified Swap Provider” shall mean a financial institution (a) whose senior long-term debt obligations, ~~or whose~~ financial program rating, counterparty rating or claims paying ability, or whose payment obligations under any Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, financial program rating, counterparty rating or claims paying ability, are rated at least “Aa,” in the case of Moody’s and “AA,” in the case of S&P, ~~or the equivalent thereto in the case of any successor thereto~~ in one of the top three Rating Categories by each of the Rating Agencies then rating such financial institution, or (b) whose obligations under any Qualified Swap are fully secured by obligations described in items (1) or (2) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

(d) The definition of “Released LAX Revenues”

“Released LAX Revenues” shall mean LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH of Section 4.04 hereof, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH of Section 4.04 hereof, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; and

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of this Indenture will not, in and of itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax; ~~and (d) written confirmation from each of Fitch and Moody’s (provided such Rating Agencies have been requested by the~~

~~Department to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of this Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Bonds.~~

For purposes of subparagraph (b) above, no Transfer shall be taken into account in the computation of Net Pledged Revenues.

Additionally, the Department shall give written notice to S&P ~~(provided S&P has~~ **each of the Rating Agencies that have** been requested by the Department to maintain a rating on the Bonds and S&P ~~is~~ **that are** then maintaining a rating on ~~any of the Bonds~~) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of this Indenture as proved in this definition of “Released LAX Revenues.”

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board shall no longer be included in Pledged Revenues and shall be excluded from the pledge and lien of this Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of this Indenture pursuant to a Supplemental Indenture.

(e) The definition of “Reserve Fund Surety Policy”

“Reserve Fund Surety Policy” shall mean an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Reserve Fund in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Reserve Fund Surety Policy shall be rated, at the time such instrument is provided, in one of the ~~two~~ **three** highest **long-term** Rating Categories by ~~both Moody’s if Moody’s is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds~~ **one or more Rating Agencies, provided that such entity shall not be rated by any Rating Agency in a long-term Rating Category that is lower than the three highest long-term Rating Categories.**

Section 10.03(g)

Section 10.03(g) is amended to read as follows:

(g) For the purposes of this Section 10.03, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Board, may consent to a modification or amendment permitted by this Section 10.03 in the manner provided herein and with the same effect as a consent given by the Bondholder of such Bonds, except that no proof of ownership shall be required; provided, that this provision of Section 10.03 shall be disclosed prominently in the offering document, if any, for each Series of Bonds issued pursuant to this Indenture, provided that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the offering document prepared in connection with the primary offering of the Bonds of such Series by the Board.

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APPENDIX D-2

AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE

Master Subordinate Indenture Amendments Requiring CP Bank Consent

The Master Subordinate Indenture Amendments Requiring CP Bank Consent are set forth below. Additions to the Master Subordinate Indenture are shown in **bold and double underline** and deletions are shown in ~~strikethrough~~.

ARTICLE I – Definitions

The definition of “Subordinate Pledged Revenues”

“Subordinate Pledged Revenues” shall mean for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Aggregate Annual Debt Service (as such term is defined in the Senior Lien Trust Indenture) **or the Annual Debt Service (as such term is defined in the Senior Lien Trust Indenture), as applicable**, on the Outstanding (as such term is defined in the Senior Lien Trust Indenture) Senior Lien Revenue Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Section 4.04(b) THIRD of the Senior Lien Trust Indenture.

Section 2.11

(a) Section 2.11(b)(i) is to be amended to read as follows:

(i) the Subordinate Pledged Revenues, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series or Subseries of Subordinate Obligations or the establishment of a Program, were at least equal to 115% of the sum of the ~~Aggregate~~ Annual Debt Service due and payable with respect to all Outstanding Subordinate Obligations (not including the proposed Series or Subseries of Subordinate Obligations or the proposed Subordinate Program Obligations) for such Fiscal Year or other applicable period; and

(b) The second paragraph of Section 2.11 is to be amended to read as follows:

For purposes of subparagraphs (a) and (b) above, the amount of any Transfer taken into account shall not exceed 15% of the **Annual Debt Service or** Aggregate Annual Debt Service, **as applicable**, on the Outstanding Subordinate Obligations, Unissued Program Subordinate Obligations, the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations, as applicable, for such applicable Fiscal Year or such other applicable period.

Section 5.04(b)

Section 5.04(b) is to be amended to read as follows:

(b) The Department further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that during each Fiscal Year the Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of ~~Aggregate~~ Annual Debt Service on the Outstanding Subordinate Obligations **for such Fiscal Year**. For purposes of this subsection (b), the amount of any Transfer taken into account shall not exceed 15% of ~~Aggregate~~ Annual Debt Service on the Outstanding Subordinate Obligations in such Fiscal Year.

Master Subordinate Indenture Amendments Requiring Bondholder Consent

The Master Subordinate Indenture Amendments Requiring Bondholder Consent are set forth below. Additions to the Master Subordinate Indenture are shown in **bold and double underline** and deletions are shown in ~~strikethrough~~.

ARTICLE I - Definitions

- (a) The definition of “Debt Service Reserve Fund Surety Policy”

“Debt Service Reserve Fund Surety Policy” shall mean an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Debt Service Reserve Fund created for one or more Series or Subseries of Outstanding Subordinate Obligations in lieu of or partial substitution for cash or securities on deposit therein. Except as otherwise provided in a Supplemental Subordinate Indenture, the entity providing such Debt Service Reserve Fund Surety Policy shall be rated, at the time such instrument is provided, in one of the ~~two~~ three highest long-term Rating Categories by one or more ~~of the Rating Agencies,~~ provided that such entity shall not be rated by any Rating Agency in a long-term Rating Category that is lower than the three highest long-term Rating Categories.

- (b) The definition of “Qualified Swap”

“Qualified Swap” shall mean any Swap (a) whose Designated Debt is all or part of a particular Series or Subseries of Subordinate Obligations; (b) whose Swap Provider is currently a Qualified Swap Provider or ~~has been~~ was a Qualified Swap Provider at the time the Swap was originally entered into by the Department within the 60 day period preceding the date on which the calculation of Annual Debt Service or Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; and (d) which has been designated in writing to the Trustee by the Department as a Qualified Swap with respect to such Subordinate Obligations; ~~and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Obligations, and Moody’s, if Moody’s has an outstanding rating on the Subordinate Obligations.~~

- (c) The definition of “Qualified Swap Provider”

“Qualified Swap Provider” shall mean a financial institution (a) whose senior long-term debt obligations, financial program rating, counterparty rating or claims paying ability, or whose payment obligations under any Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, financial program rating, counterparty rating or claims paying ability, are rated in one of the top three Rating Categories by each of the Rating Agencies then rating such financial institution at least “Aa,” in the case of Moody’s and “AA,” in the case of S&P, or the equivalent thereto ~~in the case of any successor thereto,~~ or (b) whose obligations under a any Qualified Swap are fully secured by obligations described in items (a) or (b) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

Section 10.03(g)

Section 10.03(g) is amended to read as follows:

(g) For the purposes of this Section 10.03 the purchasers of the Subordinate Obligations of a Series or Subseries, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Department, may consent to a modification or amendment permitted by this Section 10.03 in the manner provided herein and with the same effect as a consent given by the Holders of such Subordinate Obligations, except that no proof of ownership shall be required; provided, that this provision of Section 10.03 shall be disclosed prominently in the offering document, if any, for each Series or Subseries of Subordinate Obligations issued pursuant to this Indenture, provided that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the offering document prepared in connection with the primary offering of the Subordinate Obligations of such Series or Subseries by the Department.

APPENDIX E

PROPOSED FORM OF BOND COUNSEL'S OPINION

[Closing Date]

Department of Airports of the City of Los Angeles
Los Angeles, California

\$451,170,000
Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Subordinate Revenue Bonds
2016 Series B

Ladies and Gentlemen:

We have acted as Bond Counsel to the Department of Airports of the City of Los Angeles, California (the "Department"), acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board"), in connection with the Department's issuance and sale of \$451,170,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series B (the "Series 2016B Subordinate Bonds"). The Series 2016B Subordinate Bonds are being issued under the terms of the Charter of the City of Los Angeles, relevant ordinances of the City of Los Angeles, and the Los Angeles Administrative Code (collectively, the "Charter"), the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association (also known as U.S. Bank, N.A.), as trustee (the "Subordinate Trustee"), and the Twelfth Supplemental Subordinate Trust Indenture, dated as of January 1, 2017 (the "Twelfth Supplemental Subordinate Indenture," and together with the Master Subordinate Indenture, the "Subordinate Indenture"), by and between the Department and the Subordinate Trustee. Issuance of the Series 2016B Subordinate Bonds has been authorized by Resolution No. 25899, adopted by the Board on February 18, 2016, and approved by the City Council of the City of Los Angeles and the Mayor of the City of Los Angeles on April 12, 2016, and Resolution No. 26085, adopted by the Board on October 20, 2016 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Subordinate Indenture.

In connection with the issuance of the Series 2016B Subordinate Bonds, we have examined: (a) the Charter; (b) certified copies of the Resolutions; (c) executed copies of the Master Subordinate Indenture and the Twelfth Supplemental Subordinate Indenture; (d) an executed copy of the Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented, by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee; (e) an executed copy of the Tax Compliance Certificate, dated the date hereof, relating to the Series 2016B Subordinate Bonds and other matters (the "Tax Certificate"); (f) certifications of the Department, the Subordinate Trustee, RBC Capital Markets, LLC, as representative of the underwriters of the Series 2016B Subordinate Bonds (the "Underwriters"), Public Resources Advisory Group, as co-financial advisor to the Department, the City Clerk of the City of Los Angeles, and others; (g) opinions of the City Attorney, counsel to the Subordinate Trustee, and counsel to the Underwriters; and (h) such other documents as we deemed relevant and necessary in rendering the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof

by, and the validity against, any parties, other than the Department, thereto. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in this paragraph.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the obligations of the Department, the security provided therefor, as contained in the Series 2016B Subordinate Bonds and the Subordinate Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the limitations on legal remedies against charter cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Series 2016B Subordinate Bonds or the Subordinate Indenture. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated January 5, 2017, or any other offering material relating to the Series 2016B Subordinate Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2016B Subordinate Bonds have been duly authorized and all legal conditions precedent to the issuance and delivery of the Series 2016B Subordinate Bonds have been fulfilled.

2. The Series 2016B Subordinate Bonds constitute the valid and binding limited obligations of the Department secured by a pledge of and lien upon and are a charge upon and are payable from the Subordinate Pledged Revenues and certain funds and accounts held by the Subordinate Trustee under the Subordinate Indenture.

3. The Master Subordinate Indenture and the Twelfth Supplemental Subordinate Indenture have been duly authorized, executed and delivered by the Department and, assuming the due authorization, execution and delivery by the Subordinate Trustee, constitute the valid and binding obligations of the Department, enforceable against the Department in accordance with their terms. The Subordinate Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2016B Subordinate Bonds, of the Subordinate Pledged Revenues and certain funds and accounts held by the Subordinate Trustee under the Subordinate Indenture, subject to the provisions of the Subordinate Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. The Series 2016B Subordinate Bonds are not general obligations of the Department. Neither the faith and the credit nor the taxing power of the City of Los Angeles, the State of California or any public agency, other than the Department to the extent of the Subordinate Pledged Revenues, is pledged to the payment of the principal of and interest on the Series 2016B Subordinate Bonds. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Series 2016B Subordinate Bonds. The Department has no power of taxation.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016B Subordinate Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2016B Subordinate Bond for any period during which such Series 2016B Subordinate Bond is held by a person who is a "substantial user" of the facilities financed or refinanced by the Series 2016B Subordinate Bonds or a "related person" to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2016B Subordinate Bonds constitutes an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code.

6. Under existing laws, interest on the Series 2016B Subordinate Bonds is exempt from present State of California personal income taxes.

The opinions set forth in numbered paragraph 5 above regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax

law contained in the Subordinate Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2016B Subordinate Bonds to be included in gross income retroactive to the date of issue of the Series 2016B Subordinate Bonds. Although we are of the opinion that interest on the Series 2016B Subordinate Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2016B Subordinate Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

Our engagement with respect to the Series 2016B Subordinate Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion letter.

Very truly yours,

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “—General” below has been provided by DTC. Neither the City nor the Department makes any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2016B Subordinate Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF THE CITY, THE DEPARTMENT, OR THE SUBORDINATE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2016B SUBORDINATE BONDS UNDER THE SUBORDINATE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2016B SUBORDINATE BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE SERIES 2016B SUBORDINATE BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2016B SUBORDINATE BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2016B Subordinate Bonds. The Series 2016B Subordinate Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Series 2016B Subordinate Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Subordinate Trustee.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of Series 2016B Subordinate Bond certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC may be found on its web sites. The Department undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Series 2016B Subordinate Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016B Subordinate Bonds, as applicable, on DTC's records. The ownership interest of each actual purchaser of each Series 2016B Subordinate Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016B Subordinate Bonds, are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2016B Subordinate Bonds, except in the event that use of the book-entry system for the Series 2016B Subordinate Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016B Subordinate Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2016B Subordinate Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016B Subordinate Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016B Subordinate Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the Series 2016B Subordinate Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2016B Subordinate Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2016B Subordinate Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2016B Subordinate Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2016B Subordinate Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Subordinate Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2016B Subordinate Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Department and the Subordinate Trustee subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2016B Subordinate Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department and the Subordinate Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2016B Subordinate Bonds at any time by giving reasonable notice to the Department and the Subordinate Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. To the extent permitted by law, the Department may decide to discontinue use of the system of book-entry transfers through DTC (or to the extent permitted by law, a successor Security Bonds depository). In that event, bond certificates will be printed and delivered to DTC.

No Assurance Regarding DTC Practices

The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE SERIES 2016B SUBORDINATE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2016B SUBORDINATE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2016B SUBORDINATE BONDS.

In the event the Department determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the Series 2016B Subordinate Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2016B Subordinate Bonds in such principal amount or amounts, in authorized denominations, and registered in whatever name or names, as DTC shall designate. In such event, transfers and exchanges of Series 2016B Subordinate Bonds, as applicable, will be governed by the provisions of the Subordinate Indenture.

Risks of Book-Entry System

The Department makes no assurance, and the Department shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Series 2016B Subordinate Bonds.

In addition, Beneficial Owners of the Series 2016B Subordinate Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2016B Subordinate Bonds, as applicable, since such distributions will be forwarded by the Department to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Series 2016B Subordinate Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2016B Subordinate Bonds, to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2016B Subordinate Bonds, as applicable, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Department as registered owners of the Series 2016B Subordinate Bonds, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Department of Airports of the City of Los Angeles, California acting by and of through the Board of Airport Commissioners of the City of Los Angeles, California (the “Department”) in connection with the issuance by the Department of its Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series B (the “Series 2016B Subordinate Bonds”). The Series 2016B Subordinate Bonds are being issued pursuant to the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the “Master Subordinate Indenture”), by and between the Department and U.S. Bank National Association, also known as U.S. Bank, N.A., as trustee (the “Subordinate Trustee”), and the Twelfth Supplemental Subordinate Trust Indenture dated as of January 1, 2017 (the “Twelfth Supplemental Subordinate Indenture,” and together with the Master Supplemental Indenture, the “Subordinate Indenture”), by and between the Department and the Subordinate Trustee. The Department hereby covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Subordinate Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2016B Subordinate Bonds (including persons holding Series 2016B Subordinate Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2016B Subordinate Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Department, acting in its capacity as Dissemination Agent hereunder, or any other successor Dissemination Agent designated in writing by the Department, and which has filed with the Department a written acceptance of such designation.

“EMMA System” shall mean the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Fiscal Year” shall mean the one-year period ending on June 30 of each year or such other period of 12 months designated by the Department as its Fiscal Year.

“GASB” shall mean the Governmental Accounting Standards Board.

“Listed Events” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any successor thereto.

“Official Statement” shall mean the final official statement of the Department relating to the Series 2016B Subordinate Bonds.

“Owner” shall mean a registered owner of the Series 2016B Subordinate Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2016B Subordinate Bonds required to comply with the Rule in connection with offering of the Series 2016B Subordinate Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the Securities and Exchange Commission.

“State” shall mean the State of California.

Section 2. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Owners and Beneficial Owners of the Series 2016B Subordinate Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent, if the Dissemination Agent is other than the Department, to, not later than 180 days following the end of each Fiscal Year of the Department (which Fiscal Year currently ends on June 30), commencing with the report for Fiscal Year ending June 30, 2017, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB and/or the Rule, an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the Department changes, the Department shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) If in any year, the Department does not provide the Annual Report to the MSRB by the time specified above, the Department shall file a notice with the MSRB through the EMMA System in substantially the form attached as Exhibit A hereto.

(c) If the Dissemination Agent is not the Department, the Dissemination Agent shall:

1. file a report with the Department certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing the date(s) of the filing(s); and
2. take any other actions mutually agreed to between the Dissemination Agent and the Department.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Department's audited financial statements for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by GASB and all statements and interpretations issued by the Financial Accounting Standards Board which are not in conflict with the statements issued by GASB, provided however that the Department may from time to time, in order to comply with federal or State legal requirements, modify the basis upon which such financial statements are provided notice. Notice of any such modification shall be provided to the MSRB and shall include a reference to the applicable law or requirement describing such accounting basis. If the Department's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain comparable information derived from unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Information in form and substance similar to the following tables set forth in the Official Statement for the most recently completed Fiscal Year:

1. Table 1 – “Existing Senior Bonds”;
2. Table 2 – “Existing Subordinate Bonds and Subordinate Commercial Paper Notes”;
3. Table 3 – “Senior Bonds and Subordinate Bonds Debt Service Requirements” (only if such information changes);
4. Table 6 – “Air Carriers Serving LAX” (as of the first day of the current Fiscal Year);
5. Table 8 – “Air Traffic Data”;
6. Table 9 – “Historical Total Enplanements by Airline”;
7. Table 10 – “Total Revenue Landed Weight”;
8. Table 11 – “Enplaned and Deplaned Cargo”;
9. Table 14 – “Historical Operating Statements”;
10. Table 15 – “Top Ten Revenue Providers”;
11. Table 16 – “Top Ten Revenue Sources”;
12. Table 18 – “Historical Debt Service Coverage”; and

13. The columns entitled “Department Market Value” and “LAX Market Value” in Table 19 – “City of Los Angeles Pooled Investment Fund”; and

14. Unless otherwise provided in “Historical Operating Statements,” the total amount of PFC revenues received by the Department with respect to Los Angeles International Airport.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities that have been submitted to the MSRB through the EMMA System. In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Department shall state in its Annual Report that such table will no longer be included in the Annual Report and the reason therefore and the Department will provide comparable information if available.

Section 5. Reporting of Significant Events.

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016B Subordinate Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the Department;

Note: for the purposes of the event identified in Section 5(a)(9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Department in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Department, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Department.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016B Subordinate Bonds, if material, not later than ten business days after the occurrence of the event:

1. Non-payment related defaults;
2. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2016B Subordinate Bonds or other material events affecting the tax status of the Series 2016B Subordinate Bonds;
3. Modifications to rights of the Owners of the Series 2016B Subordinate Bonds;
4. Series 2016B Subordinate Bond calls;
5. Release, substitution or sale of property securing repayment of the Series 2016B Subordinate Bonds;
6. The consummation of a merger, consolidation, or acquisition involving the Department or the sale of all or substantially all of the assets of the Department, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the

termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Department shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3.

(d) If the Department learns of an occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB through the EMMA System in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2016B Subordinate Bonds pursuant to the Subordinate Indenture.

Section 6. Termination of Obligation. The Department's obligations under this Disclosure Certificate with respect to the Series 2016B Subordinate Bonds shall terminate upon the maturity, legal defeasance, prior redemption or payment in full of all of the Series 2016B Subordinate Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the Department with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the Department's obligations hereunder shall terminate to a like extent.

Section 7. Dissemination Agent. The Department may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not any other designated dissemination agent, the Department shall be the dissemination agent. The initial dissemination agent shall be the Department.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, without the consent of the Owners of the Series 2016B Subordinate Bonds, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is not prohibited by the Rule. The Department shall give notice of any amendment in the same manner as for a Listed Event under Section 5(e).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Series 2016B Subordinate Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate; provided that any such Owner or Beneficial Owner may not take any enforcement action without the consent of the Owners of not less than 25% (twenty-five percent) in aggregate principal amount of the Series 2016B Subordinate Bonds that at the time are Outstanding. A default under this Disclosure Certificate shall not be deemed a default under the Subordinate Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance. Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the Department to comply with this Disclosure Certificate. No Owner or Beneficial Owner of the Series 2016B Subordinate Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the Department and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, if any, and the Owners and Beneficial Owners from time to time of the Series 2016B Subordinate Bonds, and shall create no rights in any other person or entity. This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 13. Notices. Any notices or communications to the Department may be given as follows:

Los Angeles World Airports
One World Way
Los Angeles, California 90045
Attention: Ryan Yakubik
Fax: (310) 646-9223
Telephone: (424) 646-5251

Section 14. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Department shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Beneficial Owners of the Series 2016B Subordinate Bonds shall retain all the benefits afforded to them hereunder. The Department hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 15. Governing Law. This Disclosure Certificate was made in the City of Los Angeles and shall be governed by, interpreted and enforced in accordance with the laws of the State of California and the City of Los Angeles, without regard to conflict of law principles. Any litigation, action or proceeding to enforce or interpret any provision of this Disclosure Certificate or otherwise arising out of, or relating to this Disclosure Certificate, shall be brought, commenced or prosecuted in a State or Federal court in the County of Los Angeles in the State of California. By its acceptance of the benefits hereof, any person or entity bringing any such litigation, action or proceeding submits to the exclusive jurisdiction of the State of California and waives any defense of forum non conveniens.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate this 19th day of January, 2017.

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: _____
Chief Executive Officer

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Department of Airports of the City of Los Angeles, California
Name of Bond Issue: Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series B
Date of Issuance: January 19, 2017
CUSIP: _____

NOTICE IS HEREBY GIVEN that the Department of Airports of the City of Los Angeles, California (the "Department") has not provided an Annual Report with respect to the above referenced Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated January 19, 2017, executed by the Department for the benefit of the Owners and Beneficial Owners of the above referenced Bonds. The Department anticipates that the Annual Report will be filed by _____, 20_ .
Dated: _____

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: _____
Authorized Representative

APPENDIX H

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

The information in APPENDIX H – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES” is provided by the City. The Department is relying upon, and has not independently confirmed or verified the accuracy or the completeness of, the information in Appendix H or the LACERS Reports, or other information incorporated by reference therein.

INTRODUCTION

GENERALLY, THE INFORMATION IN THIS SECTION HAS BEEN TRUNCATED FROM MATERIALS PROVIDED BY THE CITY TO ONLY INCLUDE THOSE PORTIONS OF THIS SECTION THAT REFERENCE THE LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM (“LACERS”).

Retirement and Pension Systems

General

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees’ Retirement System (“LACERS”), the City of Los Angeles Fire and Police Pension Plan (“FPPP”) and, for employees of DWP, the Water and Power Employees’ Retirement, Disability and Death Benefit Insurance Plan (the “Water and Power Plan”).

Both LACERS and FPPP (collectively, the “Pension Systems”) provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. Both systems are funded primarily from the City’s General Fund. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City’s contribution rates for such years. The City generally has made its actuarially determined Annual Required Contribution (“ARC”), although phasing-in the cost of assumption changes has resulted in a small net pension obligation for fiscal years ended June 30, 2004 and 2005.

The Pension Systems’ annual valuations determine the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability (“UAAL”). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the following year’s valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including the Pension Systems, “smooth” market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial value of assets that are lower or higher than the market value of assets. As discussed below, both systems amended their smoothing methodologies to address extraordinary losses or gains in the market value of assets.

Both Pension Systems have adopted asset allocation plans to guide their investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset allocations of the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.5% for both LACERS and FPPP)

represents an actuarial investment loss, while any return above the assumed rate of return represents an actuarial investment gain.

Table 26
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

<u>Fiscal Year</u>	<u>LACERS</u>	<u>FPPP</u>
2006-07	19.5%	18.5%
2007-08	(5.7)	(4.6)
2008-09	(19.5)	(20.0)
2009-10	12.9	13.9
2010-11	22.6	22.1
2011-12	1.1	1.9
2012-13	14.3	13.0
2013-14	18.4	17.9
2014-15	2.8	4.2
2015-16	0.5	0.6

Source: City of Los Angeles, the respective Pension Systems.

The City has never issued pension obligation bonds to fund either of its Pension Systems. The City does pre-pay its annual contributions out of the proceeds of its annual issuance of tax and revenue anticipation notes.

This section, “**Retirement and Pension Systems,**” and the following section, “**Other Post-Employment Benefits,**” contain certain information relating to LACERS and FPPP. The information contained in these sections is primarily derived from information produced by LACERS and FPPP and their independent actuaries. The City has not independently verified the information provided by LACERS and FPPP. The comprehensive annual financial reports, actuarial valuations for retirement and health benefits, and other information concerning LACERS and FPPP are available on their websites, at www.lacers.org/aboutlacers/reports/index.html and <https://www.lafpp.com/about/financial-reports>, respectively. Information set forth on such websites is not incorporated by reference herein. For additional information regarding the Pension Systems, see also Note 5 in the “Notes to the City’s Basic Financial Statements” in the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is “forward looking” information. Such “forward looking” information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the value of future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

Los Angeles City Employees’ Retirement System (“LACERS”)

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2015, the date of its most recent actuarial valuation, LACERS had 23,895 active members, 17,932 retired members and beneficiaries, and 6,507 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City’s Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer’s payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS’ actuary, The Segal Company, in preparing LACERS’ actuarial report as of June 30, 2015.

Table 27
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2015

Investment rate of return	7.50%
Inflation rate	3.25%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.4% to 10.5%, based on service
Cost of living adjustments for pensioners	3.00% for Tier 1; 2.00% for Tier 2

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

Based on the results of its most recent triennial experience study dated October 8, 2014 for the three-year period from July 1, 2011 through June 30, 2014, LACERS adopted new actuarial assumptions, including reducing the assumed investment return from 7.75% to 7.50% and reducing the inflation rate from 3.50% to 3.25%.

LACERS' Board uses a market value corridor of 40%. A "corridor" is used in conjunction with asset smoothing, in order to keep the actuarial value of assets within a certain percentage of the market value of assets. For example, if a system has a 40% corridor, the actuarial value of assets must be between 60% and 140% of the market value of assets. Market losses and gains are recognized under a seven-year asset smoothing period, where only 1/7 of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years.

As of June 30, 2015, there was a total unrecognized net gain of \$229 million. To limit future fluctuations in asset values due to large unrecognized gains reflecting several years of fairly large annual market gains and losses from a volatile market, the LACERS Board adopted a one-time adjustment, as of June 30, 2014, to its current asset smoothing policy by combining the unrecognized gains and losses of the prior years into one layer and spreading it evenly over six years. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2015.

Table 28
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2015

<u>Year Ended June 30</u>	<u>Original Market Gain (Loss)</u>	<u>Portion Not Recognized</u>	<u>Amount Not Recognized</u>
2015	\$ (707,760,540)	$\frac{6}{7}$	\$ (606,651,891)
2014	1,246,285,581	$\frac{5}{7}$	890,203,986
2013	(81,571,421)	$\frac{4}{6}$	(54,380,947) ⁽¹⁾
Total unrecognized return (loss)			\$229,171,148

⁽¹⁾ Valuation as of June 30, 2015 recognizes 2/6 of \$81,571,421 original market loss as of June 30, 2013, with the balance to be recognized over the next four years.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 or 20 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years; other benefit changes will be amortized over 15 years.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll.

Table 29
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(\$ in thousands)⁽¹⁾

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	Unfunded AAL as a Percentage Of Covered Payroll ⁽⁵⁾
2006	\$ 7,674,999	\$ 9,870,662	\$ 2,195,663	77.8%	\$ 1,733,340	126.7%
2007	8,599,700 ⁽⁶⁾	10,526,874	1,927,174	81.7	1,896,609	101.6
2008	9,438,318	11,186,404	1,748,085	84.4	1,977,645	88.4
2009	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
2012	9,934,959	14,393,959	4,458,999	69.0	1,819,270	245.1
2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2
2014	10,944,751	16,248,853	5,304,103	67.4	1,898,064	279.5
2015	11,727,161	16,909,996	5,182,835	69.4	1,907,665	271.7

- (1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.
(3) Actuarial value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) UAAL divided by covered payroll.
(6) Valuation value of assets is after excluding \$5,269,481 of discounted Harbor Port Police assets transferred to FPPP in October 2007.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

Table 30
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(\$in thousands)⁽¹⁾

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Liability ⁽²⁾	Funded Ratio (Market Value) ⁽³⁾	Covered Payroll ⁽⁴⁾	Unfunded Liability as a Percentage Of Covered Payroll (Market Value) ⁽⁵⁾
2006	\$ 8,204,603	\$ 9,870,662	\$ 1,666,059	83.1%	\$ 1,733,340	96.1%
2007	9,708,718	10,526,874	818,156	92.2	1,896,609	43.1
2008	9,059,551	11,186,404	2,126,853	81.0	1,977,645	107.5
2009	7,122,911	12,041,984	4,919,073	59.2	1,816,171	270.9
2010	7,804,223	12,595,025	4,790,802	62.0	1,817,662	263.6
2011	9,186,697	13,391,704	4,205,007	68.6	1,833,392	229.4
2012	9,058,839	14,393,959	5,335,120	62.9	1,819,270	293.3
2013	10,154,486	14,881,663	4,727,177	68.2	1,736,113	272.3
2014	11,791,079	16,248,853	4,457,774	72.6	1,802,931	247.3
2015	11,920,570	16,909,996	4,989,426	70.5	1,835,637	261.5

- (1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.
(3) Market value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) Unfunded liability divided by covered payroll.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation reports.

The table below summarizes the City's payments to LACERS over the past five years, including the proposed payment for Fiscal Year 2016-17. This table includes costs for retirement, as well as for retiree health care (see "**BUDGET AND FINANCIAL OPERATIONS —Other Post-Employment Benefits**"), and other miscellaneous benefits.

Table 31
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(\$in thousands)⁽¹⁾

Sources of Contributions	<u>2012-13</u> ⁽²⁾	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	Adopted Budget <u>2016-17</u>
Contributions for Council-controlled Departments	\$342,188	\$367,772	\$411,509	\$434,639	\$459,400
Airport, Harbor Departments, LACERS, LAFPP	<u>77,917</u>	<u>83,759</u>	<u>94,209</u>	<u>103,120</u>	<u>106,457</u>
Total	\$420,105	\$451,531	\$505,718	\$537,759	\$565,857
Percent of payroll – Tier 1	24.14%	25.33%	26.56%	28.75%	28.16%
Percent of payroll – Tier 2		18.32%	19.63%	22.62%	
Percent of payroll – Tier 3					24.96%
Uses of Contributions					
Current Service Liability (Normal cost)	\$184,202	\$185,217	\$193,769	\$190,777	\$206,870
UAAL	234,896	265,081	305,891	363,929	365,975
Adjustments ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	<u>1,007</u>	<u>1,233</u>	<u>6,058</u>	<u>(16,947)</u>	<u>(6,988)</u>
Total	\$420,105	\$451,531	\$505,718	\$537,759	\$565,857

⁽¹⁾ Includes funding for OPEB.

⁽²⁾ A \$3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for Council-controlled departments, Airports, and Harbor to LACERS subsequent to this credit was \$416.4 million.

⁽³⁾ Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.

⁽⁴⁾ Payment for a 2013-14 true-up in the amount of \$5,191,511 (all agencies) was made in 2014-15.

⁽⁵⁾ Adjustments for 2015-16 include the 2014-15 true-up which consists of an \$18,052,498 credit (all agencies) which is partially offset by \$1,105,000 in excess benefit, family death and limited term plan costs.

⁽⁶⁾ Adjustments for 2016-17 include the 2015-16 true-up which consists of a \$24,031,072 credit (all agencies) and which is partially offset by a \$15,854,076 one-time lump sum payment for the retroactive upgrade of past Tier 2 members to Tier 1 and \$1,189,000 in excess benefit, family death and limited term plan costs.

Source: City of Los Angeles, Office of the City Administrative Officer.

In 2012, the City Council adopted a new civilian retirement tier ("Tier 2"), which applied to all employees hired on or after July 1, 2013. On July 28, 2014, the City Employee Relations Board ruled that the City's unilateral action in creating the new civilian retirement tier did not meet the City's meet and confer obligations. The Board ordered that the City rescind the implementation of the new retirement tier, reinstate the status quo ante, and meet and confer in good faith with labor representatives from affected bargaining units. The City subsequently filed an appeal of the ruling in State court and entered into a mandatory settlement conference phase. As a part of the agreement with the Coalition of Los Angeles City Unions, both the City and the Coalition have agreed to dismiss with prejudice all legal actions. All members of Tier 2 were transferred into Tier 1 effective February 21, 2016. Any new employee hired into a position eligible for LACERS members on or after February 21, 2016 will, unless eligible for Tier 1 membership under specific exemptions, be enrolled in a new Tier 3.

Tier 3 benefits are as follows. Normal retirement age for unreduced benefits is either age 60 with 30 years of service with a 2% retirement factor, or age 60 with 10 years of service with a 1.5% retirement factor. Tier 3 also provides for an enhanced retirement age of 63 with 30 years of service with a 2.1% retirement factor, or age 63 with 10 years of service with a 2% retirement factor. Tier 3 also provides for early retirement prior to age 60 for employees with 30 years of service with a 2% retirement factor. Benefits are unreduced for early retirement between

ages 55-59, while the reduction is 10.5% at age 54 and 3% for each year of retirement before age 54. All required years of service include 5 years of continuous service. Tier 3 final compensation is based on the employee's highest 36-month average compensation. Tier 3 benefits, including the enhanced retirement factor, are subject to a maximum of 80% of final compensation. Tier 3 members will vest retiree health benefits in exchange for a 4% salary contribution, which will be subject to future negotiations. Employees will also contribute 7% toward their pension benefits. In total, employees will contribute 11% of their salary for retirement benefits.

In light of the agreement with the Coalition, approximately 3,501 employees hired between July 1, 2013 and February 20, 2016, who were previously in Tier 2, were transferred to Tier 1 at the City's expense. The total cost to the City as determined by the LACERS actuary is \$15.85 million as of July 15, 2016. These costs have been settled as part of the 2016-17 payment to LACERS on July 15, 2016.

The following table sets forth LACERS' investments and asset allocation targets.

Table 32
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
(\$ in millions)
As of March 31, 2016

<u>Asset Class</u>	<u>Market Value</u>	<u>Market Value to Total Fund (%)</u>	<u>Target (%)</u>
U.S. Equity	\$3,580	25.6%	24.0%
Non-U.S. Equity	3,907	27.9	29.0
Fixed Income Securities	2,615	18.7	19.0
Credit Opportunities	490	3.5	5.0
Real Assets	1,484	10.6	10.0
Private Equity	1,424	10.2	12.0
Cash	<u>494</u>	<u>3.5</u>	<u>1.0</u>
Total Portfolio	13,994	100.0%	100.0%

Source: LACERS Portfolio Performance Review for the Quarter Ending March 31, 2016.

Accounting and Financial Reporting Standards

In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the City, and Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), which applies to the financial reports of most pension plans such as LACERS and FPPP.

GASB 67 revised existing guidance for the financial reports of most pension plans, including LACERS and FPPP. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of "Fiduciary Net Position" (the amount held in a trust for paying retirement benefits, generally the market value of assets) and a statement of changes in Fiduciary Net Position, and requires additional note disclosures and required supplementary information. LACERS and FPPP complied with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14). Most of the reporting requirements of GASB 68 related to the Net Pension Liability are included in the note disclosures and required supplementary information of the Pension Plans.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' Fiduciary Net Position and their long-term obligation for pension benefits as a liability ("Net Pension Liability"), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual City employer pension contributions, which continue to be determined actuarially by each plan pursuant to their respective funding policies.

The City complied with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15). In broad terms, the most significant change contained in GASB 68 is the requirement to report a Net Pension Liability on the employers' Government-Wide Statements of Net Assets when the fair value of pension assets falls short of actuarially calculated liabilities. See "NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Adoption of New GASB Pronouncements" in the City's CAFR for the Fiscal Year ending June 30, 2015. As a result of GASB 68, the Total Net Position of Governmental Activities fell from \$5,171,370,000 as of June 30, 2014 to a deficit of \$536,792,000 as of June 30, 2015. As GASB 68 moves pension reporting in the City's government-wide financial statements away from the phased or smoothed asset and liability figures that the City uses in determining its annual pension contribution, the City expects that these changes will increase year-to-year volatility in reported pension assets and liabilities.

GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any funding requirements, and the City does not expect to alter the way the City funds these liabilities. The City expects to continue to fully fund the pension at the amount recommended by the Pension Systems and their actuaries to finance annual normal costs and to amortize its unfunded liabilities consistent with current practice.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical insurance and other benefits. These benefits are paid by the respective retirement system. These retiree health benefits are accounted for as "Other Post-Employment Benefits" ("OPEB").

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by the Pension Systems and their actuaries. For the five years beginning Fiscal Year 2007-08, less than the ARC was contributed to the FPPP, primarily reflecting the phasing in of increases in assumed medical cost. The calculations of OPEB funding requirements are made by the same actuaries that perform the analysis of the Pension Systems' retirement benefits, and generally rely on the same actuarial assumptions, other than those assumptions such as medical inflation specific to OPEB.

As of June 30, 2015, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

Table 39
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(Sin thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	Unfunded AAL as a Percentage of Covered Payroll ⁽⁴⁾
2007	\$1,185,544	\$1,730,400	\$544,856	68.5%	\$1,896,609	28.7%
2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
2009	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
2012	1,642,374	2,292,400	650,027	71.6	1,819,270	35.7
2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7
2014	1,941,225	2,662,853	721,628	72.9	1,898,064	38.0
2015	2,108,925	2,646,989	538,065	79.7	1,907,665	28.2

- (1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuations.

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated bargaining agreements that will reduce the City's contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for its entire civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible sworn workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011.

Two lawsuits are pending that challenge the City's actions relative to freezing OPEB benefits. See "LITIGATION," herein.

Projected Retirement and Other Post-Employment Benefit Expenditures

The table below illustrates the City's projected contributions to LACERS for the next four fiscal years based on information from the City actuary. In general, the illustrations assume no change to the actuarial assumptions used by LACERS' actuary for the actuarial valuation as of June 30, 2015; however, the following assumes a 0% market return for Fiscal Year 2015-16, and uses the plan's regular assumed rate of return of 7.5% for subsequent years. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions.

Table 41
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
(\$ in thousands)

	Adopted Budget 2016-17	2017-18	2018-19	2019-20	2020-21
LACERS					
Contributions for Council-controlled Departments ⁽¹⁾⁽²⁾	\$459,400	\$482,112	\$507,205	\$528,850	\$539,830
Percentage of payroll ⁽³⁾	28.13%	28.14%	28.64%	29.08%	29.23%
Incremental Change	\$24,761	\$22,712	\$25,093	\$21,645	\$10,980
% Change	6%	5%	5%	4%	2%
⁽¹⁾ Includes the General Fund and various special funds. ⁽²⁾ Assumes 7.50% return on investment. ⁽³⁾ Reflects combined rates for all benefit tiers.					

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the LACERS actuary.

LITIGATION

The City is routinely a party to a variety of pending and threatened lawsuits and administrative proceedings that may affect the General Fund of the City. The following list of certain newly completed, pending or threatened litigation matters involving the City was prepared by the Office of the City Attorney. For all pending or threatened litigation matters and administrative proceedings not listed below, the City believes, based on current facts and circumstances, that a final determination of such matters, either individually or in the aggregate, should not materially affect the General Fund's financial position. Certain litigation or administrative proceedings discussed below, if determined in a final and conclusive manner adverse to the City, may, individually or in the aggregate, materially affect the General Fund's financial position.

THE FOLLOWING LIST HAS BEEN TRUNCATED FROM MATERIALS PROVIDED BY THE CITY TO ONLY INCLUDE LITIGATION ADDRESSED IN AND RELATING TO THE FOREGOING EXCERPTS.

[T]wo lawsuits have been filed challenging the City's actions relative to freezing OPEB Benefits. (See "BUDGET AND FINANCIAL OPERATIONS—Other Post-Employment Benefits," above).

1. *Jack Fry et al v. City of Los Angeles et al.* This suit was filed by individual sworn employees and Retirees Association for the Fire and Police retirement system. The suit challenged the City's "freeze" of the medical premium subsidy for fire and police department retirees who retired after June 2011, with the exception of those employees who "opted in" to pay an additional 2% of their compensation into the pension system. On July 28, 2014, the trial court issued an interim order ruling that the petitioners had a vested right to a "nonfrozen" health subsidy in retirement. The court, however, did not rule that petitioners were entitled to any particular health subsidy amount. The City appealed the trial court's ruling. On November 12, 2014, the Court of Appeal granted the City's appeal and stayed the enforcement of the trial court's decision and all other lower court activities, including any trial of remaining claims, pending final resolution of the appeal. The appeal was heard on February 16, 2016. On March 7, 2016, the California Second District Court of Appeal reversed the September 5, 2014 Writ of Mandate issued by the Los Angeles Superior Court authorizing the Board of Fire and Police Pension Commissioners (Board) "to exercise its discretion, previously delegated to it by the City in an ordinance, to set the maximum subsidy...without regard to later City ordinances 'freezing' the subsidy..." The Court of Appeal agreed with the City's position that there was not a vested right to a LAFPP Board-determined

subsidy. The Court of Appeal found that the City Council continues to retain the final decision authority over the subsidy even while delegating to the LAFPP Board determination of subsidy increases. The plaintiffs subsequently filed a petition for rehearing in March 2016. However, on March 25, 2016, the Second Appellate Court denied the petition for rehearing. The plaintiffs filed a Petition for Review with the California Supreme Court. The Supreme Court denied plaintiffs petition for review on or about June 15, 2016. The matter has been remanded to the trial court to resolve the issues in accordance with the Court of Appeal's opinion.

2. *Los Angeles Police Protective League and United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners v. City of Los Angeles.* In this case, plaintiffs seek a judgment declaring that their letter of agreement with the City requires the Retirement Board to increase the retirees' medical subsidy by the maximum amount allowable per year under the Administrative Code. The City prevailed on a demurrer, but the Court of Appeal reversed and issued a remitter, sending the case back to the trial court, which will require resolution of disputed factual issues. A bench trial occurred from September 26 to September 28, 2016, and a tentative decision was issued in favor of the plaintiffs. Both parties have submitted proposed Statements of Decision and are awaiting the trial court's orders. The City would be entitled to appeal from the trial court judgment if desired. If the court ultimately rules in favor of the plaintiffs, the City does not expect that such ruling would have a negative financial impact on the City based on current projections because the Retirement Board's actuaries already determine the City's contribution rate based on the highest possible increase in the subsidy for retirees. However, the Retirement Board would lose the flexibility moving forward to increase the retiree's medical subsidy by an amount less than the maximum amount allowable per year under the Administrative Code. The City is currently unable to determine what impact that could have in future years. The plaintiffs also sought a rescission claim to stop contributing to FPPP, but subsequently dropped such claim.

