

*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 2010D Senior Bonds is excluded from gross income for federal income tax purposes, except for any Series 2010D Senior Bond for any period during which such Series 2010D Senior Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2010D Senior 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 2010D Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Series 2010D Senior Bonds is exempt from State of California personal income taxes. See “TAX MATTERS” herein.*



**\$875,805,000**  
**DEPARTMENT OF AIRPORTS**  
**OF THE CITY OF LOS ANGELES, CALIFORNIA**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**Senior Revenue Bonds**  
**2010 Series D**  
**(Non-AMT)**



**Dated: Date of Delivery**

**Due: May 15, as shown on the inside cover**

The Los Angeles International Airport, Senior Revenue Bonds, 2010 Series D (the “Series 2010D Senior 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 2010D Senior Bonds are being issued to (i) finance a portion of the costs of certain capital projects at Los Angeles International Airport (“LAX”), including construction of certain elements of the Bradley West Terminal Projects and the Central Utility Plant Project, (ii) make a deposit to the Senior Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2010D Senior Bonds and (iv) pay costs of issuance of the Series 2010D Senior Bonds. See “PLAN OF FINANCE.”

The Series 2010D Senior Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Pledged Revenues, which will become a pledge of Net Pledged Revenues (Pledged Revenues less LAX Maintenance and Operation Expenses) if certain amendments to the Master Senior Indenture become effective, and (ii) certain funds and accounts held by the Senior Trustee. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS.” The Series 2010D Senior Bonds are being issued on a parity with the Existing Senior Bonds.

**The Series 2010D Senior 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 of the Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues), is pledged to the payment of the principal of or interest on the Series 2010D Senior Bonds. The Department has no power of taxation. The Series 2010D Senior Bonds shall 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 2010D Senior Bonds. The Department is under no obligation to pay the Series 2010D Senior Bonds, except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Senior Indenture.**

Interest on the Series 2010D Senior Bonds will be payable on each May 15 and November 15, commencing May 15, 2011. The Series 2010D Senior 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 2010D Senior Bonds initially are being issued and delivered in book-entry form only.

The Series 2010D Senior Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “DESCRIPTION OF THE SERIES 2010D SENIOR BONDS – Redemption Provisions.”

**Purchasers of the Series 2010D Senior Bonds will be deemed to have irrevocably consented to certain amendments to the Master Senior Indenture. See “INTRODUCTION – Amendments to the Master Senior Indenture.”**

*The Series 2010D Senior 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 Carmen Trutanich, City Attorney of the City. QUATEMAN LLP serves as Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Frasca & Associates, L.L.C. and Public Resources Advisory Group serve as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2010D Senior Bonds will be made through DTC on or about November 30, 2010.*

**J.P. Morgan**

**Ramirez & Co., Inc.**

**Cabrera Capital Markets LLC**

**Citi**

**Loop Capital Markets LLC**

**MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICE OR YIELDS AND CUSIP NUMBERS**

**\$875,805,000**  
**DEPARTMENT OF AIRPORTS**  
**OF THE CITY OF LOS ANGELES, CALIFORNIA**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**Senior Revenue Bonds**  
**2010 Series D**  
**(Non-AMT)**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No. <sup>†</sup> (544435)
2012	\$ 4,070,000	3.000%	0.900%	R28
2013	4,190,000	3.000	1.150	R36
2014	4,320,000	4.000	1.450	R44
2015	3,000,000	3.000	1.750	R51
2015	5,670,000	5.000	1.750	T75
2016	1,385,000	3.000	2.100	R69
2016	7,045,000	5.000	2.100	T83
2017	2,995,000	3.000	2.450	R77
2017	5,965,000	5.000	2.450	T91
2018	580,000	3.000	2.780	R85
2018	8,920,000	5.000	2.780	U24
2019	1,680,000	3.000	3.070	R93
2019	8,450,000	5.000	3.070	U32
2020	3,000,000	3.250	3.310	S27
2020	7,785,000	5.000	3.310	U40
2021	1,580,000	3.500	3.550	S35
2021	17,355,000	5.000	3.550 <sup>C</sup>	U57
2022	22,845,000	5.000	3.780 <sup>C</sup>	S43
2023	26,580,000	5.000	3.960 <sup>C</sup>	S50
2024	27,910,000	5.000	4.140 <sup>C</sup>	S68
2025	570,000	4.125	4.250	S76
2025	28,740,000	5.000	4.250 <sup>C</sup>	U65
2026	30,770,000	5.250	4.370 <sup>C</sup>	S84
2027	32,380,000	5.250	4.460 <sup>C</sup>	S92
2028	34,080,000	5.250	4.540 <sup>C</sup>	T26
2029	35,870,000	5.250	4.620 <sup>C</sup>	T34
2030	505,000	4.500	4.700	T42
2030	2,915,000	5.000	4.700 <sup>C</sup>	V23
2030	34,330,000	5.500	4.550 <sup>C</sup>	U73

\$57,870,000 - 5.250% Series 2010D Term Bonds due May 15, 2033 - Yield 4.800%<sup>C</sup>, CUSIP No. 544435U99

\$515,000 - 4.750% Series 2010D Term Bonds due May 15, 2035 - Yield 4.980%, CUSIP No. 544435T59

\$102,000,000 - 5.000% Series 2010D Term Bonds due May 15, 2035 - Yield 4.980%<sup>C</sup>, CUSIP No. 544435U81

\$349,935,000 - 5.000% Series 2010D Term Bonds due May 15, 2040 - Yield 5.050%, CUSIP No. 544435T67

<sup>C</sup> Priced to par call date of May 15, 2020.

<sup>†</sup> CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau. CUSIP data is not intended to create a database and does not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Department and are included solely for the convenience of the registered owners of the applicable bonds. Neither the Department nor the Underwriters are responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the applicable bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of bonds.

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 2010D Senior Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Series 2010D Senior Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Senior 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 2010D Senior 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 2010D Senior Bonds, the Underwriters may over-allot or effect transactions that may stabilize or maintain the market price of such Series 2010D Senior 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.

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## **CITY OF LOS ANGELES OFFICIALS**

Antonio R. Villaraigosa, Mayor  
Carmen Trutanich, City Attorney  
Wendy Greuel, City Controller  
Miguel Santana, City Administrative Officer  
Steve Ongele, Interim City Treasurer  
June Lagmay, City Clerk

## **CITY COUNCIL**

Ed P. Reyes (District 1)	Tony Cardenas (District 6)	Bill Rosendahl (District 11)
Paul Krekorian (District 2)	Richard Alarcón (District 7)	Greig Smith (District 12)
Dennis P. Zine (District 3)	Bernard C. Parks (District 8)	Eric Garcetti (District 13)
Tom LaBonge (District 4)	Jan Perry (District 9)	José Huizar (District 14)
Paul Koretz (District 5)	Herb J. Wesson, Jr. (District 10)	Janice Hahn (District 15)

## **BOARD OF AIRPORT COMMISSIONERS**

Alan I. Rothenberg, President		
Valeria C. Velasco, Vice President	Fernando Torres-Gil, Commissioner	
Joseph A. Aredas, Commissioner	Walter Zifkin, Commissioner	
Michael A. Lawson, Commissioner	Vacant, Commissioner <sup>†</sup>	

## **LOS ANGELES WORLD AIRPORTS STAFF**

Gina Marie Lindsey, Executive Director  
Stephen C. Martin, Chief Operating Officer  
Debbie Bowers, Deputy Executive Director, Commercial Development  
Michael D. Feldman, Deputy Executive Director, LAWA Facilities Management  
Roger Johnson, Deputy Executive Director, LAX Development  
Samson Mengistu, Deputy Executive Director, Administration  
Michael Molina, Deputy Executive Director, External Affairs  
Jacqueline Yaft, Deputy Executive Director, Operations and Emergency Management  
Wei Chi, Deputy Executive Director, Comptroller  
Dominic Nessi, Deputy Executive Director, Chief Information Officer  
David Shuter, Deputy Executive Director, Facilities Engineering and Maintenance  
Ryan Yakubik, Director of Capital Development and Budget  
Kelly M. Martin, General Counsel

## **SENIOR TRUSTEE**

The Bank of New York Mellon Trust Company, N.A.

## **BOND COUNSEL**

Kutak Rock LLP

## **DISCLOSURE COUNSEL**

QUATEMAN LLP

## **CO-FINANCIAL ADVISORS**

Frasca & Associates, L.L.C. and Public Resources Advisory Group

## **AIRPORT CONSULTANT**

Ricondo & Associates, Inc.

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<sup>†</sup> The Mayor of the City of Los Angeles has appointed Boyd Hight to the Board of Airport Commissioners. His appointment is pending confirmation by the City Council of the City of Los Angeles. See "THE DEPARTMENT OF AIRPORTS – Board of Airport Commissioners."

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**OFFICIAL STATEMENT**  
**\$875,805,000**  
**DEPARTMENT OF AIRPORTS**  
**OF THE CITY OF LOS ANGELES, CALIFORNIA**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**Senior Revenue Bonds**  
**2010 Series D**  
**(Non-AMT)**

**PART I**

**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.*

**General**

The purpose of this Official Statement, which includes the cover page, the inside cover pages, the table of contents, Part I of this Official Statement and Part II of this Official Statement 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 \$875,805,000 aggregate principal amount of Los Angeles International Airport, Senior Revenue Bonds, 2010 Series D (the "Series 2010D Senior Bonds"). Generally, Part I of this Official Statement contains an introduction to the offering of and certain terms and conditions relating to the Series 2010D Senior Bonds and Part II of this Official Statement contains certain financial and operating information concerning the Department and Los Angeles International Airport ("LAX"). See also APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." 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 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 LAX, LA/Ontario International Airport ("LA/ONT") and Van Nuys Airport ("VNY"). In addition, the Department maintains LA/Palmdale Regional Airport ("LA/PMD" and, collectively with LAX, LA/ONT and VNY, the "Airport System"), although LA/PMD is not currently certificated by the Federal Aviation Administration (the "FAA"). For the fiscal year ended June 30, 2010, LAX accounted for approximately 92.3% of the total passenger traffic, approximately 82.6% of the air cargo volume and 87.3% of the air carrier operations for the Airport System. 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."

**Aviation Activity**

According to Airports Council International ("ACI") statistics, in calendar year 2009 LAX was ranked as the 7<sup>th</sup> busiest airport in the world and the 3<sup>rd</sup> busiest in the United States as measured by total number of enplaned and deplaned passengers and the 13<sup>th</sup> busiest airport in the world and the 5<sup>th</sup> busiest in the United States in terms of volume of air cargo. LAX is classified by the FAA as a large hub airport. See "LOS ANGELES INTERNATIONAL AIRPORT" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

**Plan of Finance**

The Series 2010D Senior Bonds are being issued to (i) finance a portion of the costs of the Series 2010D Senior Bonds Projects (as defined herein), (ii) make a deposit to the Senior Reserve Fund (as defined herein), (iii) fund a portion of the interest accruing on the Series 2010D Senior Bonds through and including December 31, 2013 and (iv) pay costs of issuance of the Series 2010D Senior Bonds.

See “PLAN OF FINANCE,” “DESCRIPTION OF THE SERIES 2010D SENIOR BONDS” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

### **Series 2010D Senior Bonds**

The Series 2010D Senior Bonds are being issued 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 a Twelfth Supplemental Trust Indenture, to be dated as of November 1, 2010 (the “Twelfth Supplemental Senior Indenture,” and together 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; Resolution No. 24025 adopted by the Board on February 16, 2010 and approved by the City Council of the City (the “City Council”) on March 12, 2010, and Resolution No. 24253 adopted by the Board on October 18, 2010 (collectively, the “Resolutions”), authorizing the issuance of the Series 2010D Senior Bonds; 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 2010D Senior Bonds are secured by a pledge of and first lien on Pledged Revenues (as defined herein), which include certain income and revenue received by the Department from LAX but specifically exclude income and revenue received by the Department from the Department’s other airports. The Series 2010D Senior Bonds are secured by a pledge of and lien on Pledged Revenues on a parity with the Existing Senior Bonds (as defined under “—Existing Senior Bonds”), any additional bonds issued on parity with the Series 2010D Senior Bonds and the Existing Senior Bonds under the terms and provisions of the Master Senior Indenture (the “Additional Senior Bonds”) and any other obligations issued on a parity with respect to Pledged Revenues pursuant to the terms of the Master Senior Indenture.

For purposes of this Official Statement, “Senior Bonds” means the Series 2010D Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds. As of the date of this Official Statement, the only obligations the Department has issued pursuant to the Master Senior Indenture are the Existing Senior Bonds. Pledged Revenues are available for the equal and proportionate benefit of all Senior Bonds and any other obligations issued on parity with respect to Pledged Revenues pursuant to the Master Senior Indenture. The Series 2010D Senior Bonds are not secured by moneys held in any construction funds established under the Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS – Senior Bonds – Pledged Revenues.”

On and after the Pledge Change Date (as defined herein), the pledge of and first lien on Pledged Revenues to the Senior Bonds, including the Series 2010D Senior Bonds, will be changed to a pledge of and first lien on Net Pledged Revenues (as defined herein). See “—Amendments to the Master Senior Indenture” and APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One Hundred Percent Master Senior Indenture Amendments.”

**THE SERIES 2010D SENIOR 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 PLEDGED REVENUES (ON AND AFTER THE PLEDGE CHANGE DATE, NET PLEDGED REVENUES), IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2010D SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2010D SENIOR BONDS SHALL 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 2010D SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2010D SENIOR BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SENIOR INDENTURE. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS.”**

## **Existing Senior Bonds**

Pursuant to the Master Senior Indenture and the Charter, the Department, acting through the Board, has previously issued and, as of November 10, 2010, there were outstanding \$1,908,870,000 aggregate principal amount of its (i) Los Angeles International Airport, Revenue Bonds, 2002 Series A (the “Series 2002A Senior Bonds”), (ii) Los Angeles International Airport, Revenue Bonds, 2003 Series B (the “Series 2003B Senior Bonds”), (iii) Los Angeles International Airport, Senior Revenue Bonds, 2008 Series A (the “Series 2008A Senior Bonds”), (iv) Los Angeles International Airport, Senior Refunding Revenue Bonds, 2008 Series B (the “Series 2008B Senior Bonds” and collectively with the Series 2008A Senior Bonds, the “Series 2008 Senior Bonds”), (v) Los Angeles International Airport, Senior Revenue Bonds, 2009 Series A (the “Series 2009A Senior Bonds”), and (vi) Los Angeles International Airport, Senior Revenue Bonds, 2010 Series A (the “Series 2010A Senior Bonds” and collectively with the Series 2002A Senior Bonds, the Series 2003B Senior Bonds, the Series 2008 Senior Bonds and the Series 2009A Senior Bonds, the “Existing Senior Bonds”). The Existing Senior Bonds are secured by a pledge of and first lien on the Pledged Revenues (and after the Pledge Change Date, will be secured by a pledge of and first lien on the Net Pledged Revenues (as defined herein)) on a parity with the 2010D Senior Bonds. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.” See also, “— Amendments to the Master Senior Indenture.”

## **Subordinate Obligations**

Pursuant to the Subordinate Trust Indenture, dated as of April 1, 2002, as amended (the “Parity Subordinate Indenture”), by and between the Department and U.S. Bank Trust National Association, as issuing and paying agent (the “Subordinate Issuing and Paying Agent”), the Department is authorized to issue and have outstanding, from time to time, up to \$500,000,000 in aggregate principal amount of its Los Angeles International Airport Commercial Paper Notes, Series A (Tax-Exempt – Governmental), Series B (Tax-Exempt – Private Activity) and Series C (Federally Taxable) (collectively, the “Subordinate Commercial Paper Notes”). As of November 10, 2010, Subordinate Commercial Paper Notes are outstanding with a maturity value of approximately \$147 million. In connection with the Subordinate Commercial Paper Notes, the Department entered into a Reimbursement Agreement, dated as of April 1, 2007 (the “CP Reimbursement Agreement”), with Citibank, N.A. (“Citibank”) and State Street Bank and Trust Company (“State Street” and together with Citibank, the “CP Banks”), and Citibank, as administrative agent, pursuant to which the CP Banks issued an irrevocable transferable direct pay letter of credit (the “CP Letter of Credit”) to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms.

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 various Supplemental Subordinate Trust Indentures (collectively with the Master Subordinate Indenture and all supplements thereto, the “Subordinate Indenture”), by and between the Department and the Subordinate Trustee, and the Charter, the Department has previously issued and, as of November 10, 2010, there are outstanding \$806,355,000 aggregate principal amount of its: (i) Los Angeles International Airport, Subordinate Revenue Bonds, 2008 Series C (the “Series 2008C Subordinate Bonds”), (ii) Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series C (the “Series 2009C Subordinate Bonds”), (iii) Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series D (the “Series 2009D Subordinate Bonds”), (iv) Los Angeles International Airport, Subordinate Refunding Revenue Bonds, 2009 Series E (the “Series 2009E Subordinate Bonds” and collectively with the Series 2009C Subordinate Bonds and the 2009D Subordinate Bonds, the “Series 2009 Subordinate Bonds”), (v) Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series B (the “Series 2010B Subordinate Bonds”) and (vi) 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” and collectively with the Series 2009 Subordinate Bonds and the Series 2008C Subordinate Bonds, the “Existing Subordinate Bonds”). See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes.” See also “PLAN OF FINANCING” regarding the November 4, 2010 issuance of the Series 2010 Subordinate Bonds.

For purposes of this Official Statement, “Subordinate Bonds” means the Existing Subordinate Bonds and any additional bonds issued on parity with the Subordinate Bonds under the terms and provisions of the Master Subordinate Indenture (“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 Agreement and any other obligations issued on parity with respect to Subordinate Pledged Revenues (as defined herein) pursuant to the Master Subordinate Indenture or the Parity Subordinate Indenture.

The Subordinate Bonds are secured by a pledge of and first lien on Subordinate Pledged Revenues, which includes Pledged Revenues less all amounts necessary to pay debt service and reserve requirements on the Senior Bonds (including the Series 2010D Senior Bonds). On and after the Pledge Change Date, the definition of Subordinate Pledged Revenues will change to mean Pledged Revenues remaining after the payment of LAX Maintenance and Operation Expenses and debt service and reserve requirements on the Senior Bonds. The Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on parity with the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture or the Parity Subordinate Indenture.

As of November 10, 2010, the only Subordinate Obligations the Department has issued or incurred are the Subordinate Commercial Paper Notes, the Existing Subordinate Bonds and the payment obligations of the Department under the CP Reimbursement Agreement. Subordinate Pledged Revenues are available for the equal and proportionate benefit of all Subordinate Obligations. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings.”

### **Investment Considerations**

The purchase and ownership of the Series 2010D Senior Bonds involve investment risks. Prospective purchasers of the Series 2010D Senior Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2010D Senior Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS.”

### **Amendments to the Master Senior Indenture**

*The following is a description of certain amendments to the Master Senior Indenture which, as of the date of this Official Statement, are not yet effective, and the conditions upon which such amendments may become effective. If the amendments to the Master Senior Indenture become effective, certain rights of the owners of the Senior Bonds will change as described below. By the purchase and acceptance of the Series 2010D Senior Bonds, the owners of the Series 2010D Senior Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments (as defined below) and the One Hundred Percent Master Senior Indenture Amendments (as defined below) to the Master Senior Indenture as described below and in APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE.”*

#### ***Fifty-One Percent Master Senior Indenture Amendments***

Pursuant to the Ninth Supplemental Trust Indenture dated as of August 1, 2008 (the “Ninth Supplemental Senior Indenture”) by and between the Department, acting through the Board, and the Senior Trustee, the Department amended certain provisions set forth in the Master Senior Indenture. The amendments include, among other amendments, changes to the definition of Senior Aggregate Annual Debt Service, changes to the test for issuing Additional Senior Bonds and changes to the provisions regarding the issuance of Special Facility Bonds (the “Fifty-One Percent Master Senior Indenture Amendments”). See APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a complete description of the Fifty-One Percent Master Senior Indenture Amendments. The Fifty-One Percent Master Senior Indenture Amendments will become effective upon the Department’s receipt of the consent of (i) the owners of at least 51% in aggregate principal amount of all of the Senior Bonds then Outstanding and (ii) the CP Banks, unless the CP Letter of Credit has otherwise terminated (the “Fifty-One Percent Master Senior Indenture Consent Requirement”). By the purchase and acceptance of the Series 2010D Senior Bonds, the owners of the Series 2010D Senior Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments.

At the time of the issuance of the Series 2010D Senior Bonds, the owners of more than 51% in aggregate principal amount of all of the Senior Bonds Outstanding will have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments. However, the Department has not received and does not expect to receive the consent of the CP Banks to the Fifty-One Percent Master Senior Indenture Amendments at the time of issuance of the Series 2010D Senior Bonds. If, at any time, the CP Letter of Credit terminates pursuant to its terms and the Department does not owe any amounts under the CP Reimbursement Agreement, the consent of the CP Banks will not be required in order for the Fifty-One Percent Master Senior Indenture Amendments to become effective. The

CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms. The Department expects that it will not owe any amounts under the CP Reimbursement Agreement upon the expiration of the CP Letter of Credit. At this time there can be no assurance that the Fifty-One Percent Master Senior Indenture Consent Requirement will be met within any definite time frame.

#### ***One Hundred Percent Master Senior Indenture Amendments***

Additionally, pursuant to the Ninth Supplemental Senior Indenture, the Department amended certain other provisions of the Master Senior Indenture. These amendments include, among other amendments, changes to the flow of funds whereby LAX Maintenance and Operation Expenses would be payable from Pledged Revenues before payment is made on the Senior Bonds and the Subordinate Obligations (the “Senior Pledge Change Amendment”) and changes to the timing of deposits to the Senior Debt Service Funds from requiring deposits be made once every month to five Business Days prior to each principal and interest payment date of the Senior Bonds (the “Senior Debt Service Deposit Amendment,” and collectively with the Senior Pledge Change Amendment, the “One Hundred Percent Master Senior Indenture Amendments”). See APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One Hundred Percent Master Senior Indenture Amendments” for a more detailed description of the One Hundred Percent Master Senior Indenture Amendments.

The Senior Pledge Change Amendment will become effective upon (a) the Department’s receipt of the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consents of the CP Banks, unless the CP Letter of Credit has otherwise terminated (the “Senior Pledge Change Consent Requirement”), and (b) the Department making similar conforming amendments to the Parity Subordinate Indenture (which amendments will require the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consents of the CP Banks) (collectively, the “Subordinate Pledge Change Consent Requirement”). The date on which both the Senior Pledge Change Consent Requirement and the Subordinate Pledge Change Consent Requirement have been met is referred to in this Official Statement as the “Pledge Change Date.”

The Senior Debt Service Deposit Amendment will become effective upon the Department’s receipt of the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds then Outstanding (the “Senior Debt Service Deposit Consent Requirement”).

By the purchase and acceptance of the Series 2010D Senior Bonds, the owners of the Series 2010D Senior Bonds will be deemed to have irrevocably consented to the One Hundred Percent Master Senior Indenture Amendments.

The owners of 100% in aggregate principal amount of the Outstanding Subordinate Bonds have irrevocably consented to the Senior Pledge Change Amendment. Upon the issuance of the Series 2010D Senior Bonds the Department expects that the owners of over 96% in aggregate principal amount of the then Outstanding Senior Bonds will have irrevocably consented to the Senior Pledge Change Amendment and the Senior Debt Service Deposit Amendment; however, the Department has not received and does not expect to receive the consent of any of the owners of the Outstanding Subordinate Commercial Paper Notes or the consents of the CP Banks to the Senior Pledge Change Amendment at the time of issuance of the Series 2010D Senior Bonds and does not expect the Subordinate Pledge Change Consent Requirement will be met. If at any time the CP Letter of Credit terminates pursuant to its terms and the Department does not owe any amounts under the CP Reimbursement Agreement, the consents of the CP Banks will not be required in order for the Senior Pledge Change Amendment to become effective. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms. The Department expects that it will not owe any amounts under the CP Reimbursement Agreement upon the expiration of the CP Letter of Credit.

At this time there can be no assurance that the Senior Pledge Change Consent Requirement, the Subordinate Pledge Change Consent Requirement or the Senior Debt Service Deposit Consent Requirement will be met within any definite time frame. The Department expects that the Senior Pledge Change Consent Requirement and the Subordinate Pledge Change Consent Requirement will not be met and the Pledge Change Date will not occur while the Series 2002A Senior Bonds and the Series 2003B Senior Bonds remain outstanding. The Series 2002A Senior Bonds have a final maturity date of May 15, 2019 and the Series 2003B Senior Bonds have a final maturity date of May 15, 2015. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.” No assurance can be given that the Series 2002A Senior Bonds or the Series 2003B Senior Bonds will be defeased by the Department prior to their respective final maturity dates.

### ***Other Master Senior Indenture Amendments***

In addition to the Fifty-One Percent Master Senior Indenture Amendments and the One Hundred Percent Master Senior Indenture Amendments, pursuant to the Ninth Supplemental Senior Indenture, the Department amended certain other provisions of the Master Senior Indenture (the “Other Master Senior Indenture Amendments”) that do not require the consent of the owners of the Senior Bonds. See APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Other Master Senior Indenture Amendments” for a description of the Other Master Senior Indenture Amendments. The Other Master Senior Indenture Amendments include, among other amendments, various changes to the definitions in the Master Senior Indenture and the establishment of Third Lien Obligations. Although the Other Master Senior Indenture Amendments do not require the consent of the owners of the Senior Bonds, the Other Master Senior Indenture Amendments require the consents of the CP Banks (which the Department has not received and does not expect to receive at the time of issuance of the Series 2010D Senior Bonds). If at any time the CP Letter of Credit terminates pursuant to its terms and the Department does not owe any amounts under the CP Reimbursement Agreement, the consents of the CP Banks will not be required in order for the Other Master Senior Indenture Amendments to become effective. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms. The Department expects that it will not owe any amounts under CP Reimbursement Agreement upon the expiration of the CP Letter of Credit. At this time, the Department cannot predict when the Other Master Senior Indenture Amendments will become effective.

None of the Fifty-One Percent Master Senior Indenture Amendments, the One Hundred Percent Master Senior Indenture Amendments or the Other Master Senior Indenture Amendments are or will be required to become effective in order for the Department to meet the rate covenant in the Master Senior Indenture or the test to issue Additional Senior Bonds as contemplated by the Report of the Airport Consultant attached hereto as APPENDIX A.

### **Continuing Disclosure**

In connection with the issuance of the Series 2010D Senior Bonds, the Department will covenant for the benefit of the owners of the Series 2010D Senior 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 October 23, 2009 (the “2009 Report of the Airport Consultant”) prepared by Ricondo & Associates, Inc. (the “Airport Consultant”) and its sub-consultant, Partners for Economic Solutions, in conjunction with the issuance of the Series 2009A Senior Bonds, the Series 2009C Subordinate Bonds, the Series 2009D Subordinate Revenue Bonds and the Series 2009E Subordinate Bonds (the “Series 2009 Bonds”). The 2009 Report of the Airport Consultant is supplemented by the Letter Report of the Airport Consultant dated October 20, 2010 prepared in connection with the issuance of the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds (the “Airport Consultant Letter” and together with the 2009 Report of the Airport Consultant, the “Report of the Airport Consultant”). The Airport Consultant Letter includes an analysis of economic, airline traffic and financial data that has become available since the date of the 2009 Report of the Airport Consultant. As described in the Airport Consultant Letter, since the 2009 Report of the Airport Consultant, certain financial information and data have become available and certain assumptions incorporated in the financial projections have been updated based on updated information and data regarding, among other things, the economic base for LAX, air traffic at LAX, ongoing and future LAX capital projects, actual debt service on bonds issued since the 2009 Report of the Airport Consultant and LAX financial operations.

The Airport Consultant Letter states that there have been no material changes to the overall financial projections or the projections of debt service coverage ratios since the 2009 Report of the Airport Consultant. Revisions to the financial projections since the 2009 Report of the Airport Consultant are detailed in the Airport Consultant Letter. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

The Report of the Airport Consultant includes, among other things, a description of the underlying economic base of LAX's Air Trade Area (as defined herein); a description of historical air traffic activity at LAX; the Airport Consultant's projections for air traffic activity at LAX through Fiscal Year 2016 a description of the assumptions upon which such projections are based; a description of existing and planned facilities at LAX; the Airport Consultant's projections of debt service, expenses and revenues through Fiscal Year 2016 and a description of the assumptions upon which such projections were based and updates to the 2009 Report of the Airport Consultant. No assurances can be given that the projections and expectations discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which the projections are based will be realized. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2010D Senior Bonds or the Series 2010 Subordinate Bonds. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety. The financial projections 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 financial projections. See "—Forward-Looking Statements", "CERTAIN INVESTMENT CONSIDERATIONS – Assumptions in the Report of the Airport Consultant", "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Report of Airport Consultant; Projected Debt Service Coverage" 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.

### **Changes from the Preliminary Official Statement**

This Official Statement includes certain information which was not available for inclusion in the Preliminary Official Statement, dated October 28, 2010 in order to make this Official Statement complete as of its date, including information relating to the issuance of the Department's Series 2010 Subordinate Bonds, information with respect to the Los Angeles City Employees' Retirement System and the principal amounts, maturity dates, interest rates, yields and other terms of the Series 2010 Bonds.

### **Additional Information**

Brief descriptions of the Series 2010D Senior Bonds, the Senior Indenture, the Subordinate Indenture, the Parity Subordinate Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, laws, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information herein 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 hereof. 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 2010D Senior Bonds. The Department maintains certain websites, the information on which is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in deciding whether to invest in the Series 2010D Senior Bonds.

### PLAN OF FINANCE

The Series 2010D Senior Bonds are being issued to (i) finance a portion of the costs of the Series 2010D Senior Bonds Projects, (ii) make a deposit to the Senior Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2010D Senior Bonds through and including December 31, 2013 and (iv) pay costs of issuance of the Series 2010D Senior Bonds. See “DESCRIPTION OF THE SERIES 2010D SENIOR BONDS.”

The “Series 2010D Senior Bonds Projects” are comprised of certain elements of the Bradley West Terminal Projects and the Central Utility Plant Project, each as described in the Report of the Airport Consultant. See “CAPITAL IMPROVEMENT PLANNING – Capital Improvement Program” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

In addition to the Series 2010D Senior Bonds, the Department issued, on November 4, 2010, the Series 2010 Subordinate Bonds to, among other things, finance a portion of the costs of the Series 2010 Subordinate Bonds Projects. The “Series 2010 Subordinate Bonds Projects” are comprised of the Bradley West Aprons Project and the Taxilane T Project, each as described in the Report of the Airport Consultant. The Series 2010 Subordinate Bonds are not being offered pursuant to this Official Statement. The Series 2010 Subordinate Bonds are described pursuant to a separate Official Statement of the Department dated October 28, 2010 relating to the Series 2010 Subordinate Bonds, a copy of which is available from the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system.

### ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2010D Senior Bonds described in the table below:

<b>SOURCES:</b>	<b>Series 2010D Senior Bonds</b>
Principal Amount	\$ 875,805,000.00
Net Original Issue Premium	26,743,145.65
<b>TOTAL:</b>	<b>\$ 902,548,145.65</b>
<b>USES:</b>	
Deposit to Series 2010D Senior Interest Account <sup>(1)</sup>	\$ 113,108,717.57
Deposit to Series 2010D Senior Construction Fund <sup>(2)</sup>	724,109,084.54
Deposit to Senior Reserve Fund	59,934,417.00
Costs of Issuance <sup>(3)</sup>	5,395,926.54
<b>TOTAL:</b>	<b>\$ 902,548,145.65</b>

<sup>(1)</sup> Represents a portion of interest accruing on the Series 2010D Senior Bonds.

<sup>(2)</sup> To be used to pay a portion of the costs of the Series 2010D Senior Bonds Projects.

<sup>(3)</sup> 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 2010D SENIOR BONDS

#### General

The Series 2010D Senior 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 2010D Senior 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, 2011 (each an “Interest Payment Date”). Interest due and payable on the Series 2010D Senior 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 2010D Senior 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 2010D Senior 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 2010D Senior Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is on or before May 1, 2011, in which event such Series 2010D Senior Bond will bear interest from its date of delivery. If interest on the Series 2010D Senior Bonds is in default, Series 2010D Senior Bonds issued in exchange for Series 2010D Senior 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 2010D Senior Bonds surrendered.

The Series 2010D Senior 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 2010D Senior Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2010D Senior Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2010D Senior Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2010D Senior Bonds.

So long as Cede & Co. is the registered owner of the Series 2010D Senior Bonds, the principal and redemption price of and interest on the Series 2010D Senior Bonds are payable by wire transfer by the Senior 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 2010D Senior Bonds maturing on or before May 15, 2020 are not subject to optional redemption prior to maturity. The Series 2010D Senior Bonds maturing on or after May 15, 2021 are redeemable at the option of the Department on or after May 15, 2020, 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 2010D Senior Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

### *Mandatory Sinking Fund Redemption*

The Series 2010D Senior Bonds maturing on May 15, 2033 (the “Series 2010D Term Bonds (2033)”) 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:

<b>Series 2010D Term Bonds (2033)</b>	
Redemption Date (May 15)	Principal Amount
2031	\$17,230,000
2032	19,255,000
2033 <sup>†</sup>	21,385,000
<sup>†</sup> Final Maturity	

The Series 2010D Senior Bonds maturing on May 15, 2035 and bearing interest at 4.750% (the “Series 2010D Term Bonds (2035-4.750%)”) 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:

<b>Series 2010D Term Bonds (2035-4.750%)</b>	
Redemption Date (May 15)	Principal Amount
2034	\$250,000
2035 <sup>†</sup>	265,000
<sup>†</sup> Final Maturity	

The Series 2010D Senior Bonds maturing on May 15, 2035 and bearing interest at 5.000% (the “Series 2010D Term Bonds (2035-5.000%)”) 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:

**Series 2010D Term Bonds (2035-5.000%)**

Redemption Date (May 15)	Principal Amount
2031	\$14,575,000
2032	14,580,000
2033	14,590,000
2034	27,980,000
2035 <sup>†</sup>	30,275,000

<sup>†</sup>Final Maturity

The Series 2010D Senior Bonds maturing on May 15, 2040 (the “Series 2010D Term Bonds (2040)”) 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:

**Series 2010D Term Bonds (2040)**

Redemption Date (May 15)	Principal Amount
2031	\$ 8,005,000
2032	8,005,000
2033	8,005,000
2034	18,005,000
2035	18,005,000
2036	50,975,000
2037	53,790,000
2038	56,760,000
2039	59,890,000
2040 <sup>†</sup>	68,495,000

<sup>†</sup>Final Maturity

At the option of the Department, to be exercised by delivery of a written certificate to the Senior Trustee, on or before the 60th day next preceding any mandatory sinking fund redemption date for the Series 2010D Term Bonds (2033), the Series 2010D Term Bonds (2035-4.750%), the Series 2010D Term Bonds (2035-5.000%) or the Series 2010D Term Bonds (2040) (collectively, the Series 2010D Term Bonds”) as applicable, it may (a) deliver to the Senior Trustee for cancellation the applicable Series 2010D 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 applicable Series 2010D Term Bonds or portions thereof (in Authorized Denominations) which prior to said date have been optionally redeemed and previously cancelled by the Senior Trustee, at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such applicable Series 2010D Term Bond or portion thereof so purchased, acquired or optionally redeemed and delivered to the Senior Trustee, for cancellation will be credited by the Senior Trustee, at 100% of the principal amount thereof against the obligation of the Department to pay the principal of such applicable Series 2010D Term Bond, on such mandatory sinking fund redemption date.

***Notices of Redemption***

The Senior Trustee is required to give notice of redemption, in the name of the Board, to Bondholders affected by redemption (or 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 Series 2010D Senior Bonds, held by DTC by an express delivery service for delivery on the next following Business Day) to each Holder of a Series 2010D Senior 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 2010D Senior Bonds to be redeemed, if less than all of the Series 2010D Senior Bonds of a maturity date and interest rate are called for redemption, the numbers assigned to the Series 2010D Senior 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 2010D Senior 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 2010D Senior Bond will not affect the validity of the call for redemption of any Series 2010D Senior Bond in respect of which no failure occurs. Any notice sent as provided in the Twelfth Supplemental Senior Indenture will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, Series 2010D Senior Bonds called for redemption become due and payable on the date fixed for redemption at the applicable redemption price except as otherwise provided in the Senior Indenture. In the event that funds are deposited with the Senior Trustee, sufficient for redemption, interest on the Series 2010D Senior Bonds to be redeemed will cease to accrue on and after the date fixed for redemption.

Upon surrender of a Series 2010D Senior Bond to be redeemed in part only, the Senior Trustee will authenticate for the holder a new Series 2010D Senior Bond or Series 2010D Senior Bonds of the same maturity date and interest rate equal in principal amount to the unredeemed portion of the Series 2010D Senior 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 Senior Trustee moneys sufficient to redeem all the Series 2010D Senior Bonds called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Senior 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 by the opening of business one Business Day prior to the scheduled redemption 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 2010D Senior 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 Senior Indenture and sufficient moneys for payment of the redemption price being held in trust by the Senior Trustee to pay the redemption price, interest on such Series 2010D Senior Bonds will cease to accrue from and after such redemption date, such Series 2010D Senior Bonds will cease to be entitled to any lien, benefit or security under the Senior Indenture and the owners of such Series 2010D Senior Bonds will have no rights in respect thereof except to receive payment of the redemption price. Series 2010D Senior Bonds which have been duly called for redemption and for the payment of the redemption price of which moneys will be held in trust for the holders of the respective Series 2010D Senior Bonds to be redeemed, all as provided in the Twelfth Supplemental Senior Indenture, will not be deemed to be Outstanding under the provisions of the Senior Indenture.

#### ***Selection of the Series 2010D Senior Bonds for Redemption; Series 2010D Senior Bonds Redeemed in Part***

Redemption of the Series 2010D Senior Bonds will only be in Authorized Denominations. The Series 2010D Senior Bonds are subject to redemption in such order of maturity and interest rate (except mandatory sinking fund payments on the Series 2010D Term Bonds) as the Department may direct and by lot, within such maturity and interest rate selected in such manner as the Senior Trustee (or DTC, as long as DTC is the securities depository for the Series 2010D Senior Bonds), deems appropriate.

Except as otherwise provided under the procedures of DTC, on or before the 45th day prior to any mandatory sinking fund redemption date, the Senior Trustee will proceed to select for redemption (by lot in such manner as the Senior Trustee may determine), from the Series 2010D Term Bonds an aggregate principal amount of the Series 2010D Term Bonds equal to the amount for such year as set forth in the table under "Mandatory Sinking Fund Redemption" above and will call the Series 2010D Term Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR 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. The Department has notified the City Treasurer of the pledge of, lien on and interest in LAX Revenues granted by the Senior 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 allowed to be pledged by the terms of a Supplemental Senior Indenture, the Senior Reserve Fund, any Senior Debt Service Reserve Fund, and allocated earnings on the Maintenance and Operations Reserve Fund.

The Senior Bonds (including the Series 2010D Senior Bonds) are limited obligations of the Department payable solely from and secured solely by (a) a pledge of Pledged Revenues (on and after the Pledge Change Date, a pledge of Net Pledged Revenues), and (b) certain funds and accounts held by the Senior Trustee. See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D – “AMENDMENT TO THE MASTER SENIOR INDENTURE – One Hundred Percent Master Senior Indenture Amendments.”

The Master Senior Indenture generally defines “Pledged Revenues” to mean, except to the extent specifically excluded in the Master Senior Indenture or under the terms of any supplemental indenture (only with respect to the series of bonds issued pursuant to such supplemental 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; (c) 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 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, (d) any Transfer (as defined herein) and (e) LAX Special Facilities Revenue. 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 paid to the Department pursuant to a Senior Qualified Swap; (ii) Facilities Construction Credits; (iii) Passenger Facility Charges collected with respect to LAX (“PFC revenues”); (iv) all revenues of the Airport System not related to LAX; and (v) Released LAX Revenues. Senior Swap Termination Payments, Facilities Construction Credits, PFC revenues, 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. See APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE” for a description of amendments to the definition of Pledged Revenues.

The Master Senior Indenture requires that Pledged Revenues in the LAX Revenue Account be set aside for the payment of the following amounts or transferred to the following funds and accounts in the order listed:

**FIRST**, to the payment of amounts required to be deposited in the Senior Debt Service Funds for the Senior Bonds (including the Series 2010D Senior Bonds) pursuant to the Master Senior Indenture and any Supplemental Senior Indenture;

**SECOND**, to the payment of amounts required to be deposited in the Senior Reserve Fund or any Senior Debt Service Reserve Fund pursuant to the Master Senior Indenture and any Supplemental Senior Indenture;

**THIRD**, to the payment of Subordinate Obligations, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of such Subordinate Obligations;

**FOURTH**, to the payment of any reserve requirement for the Subordinate 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 indebtedness;

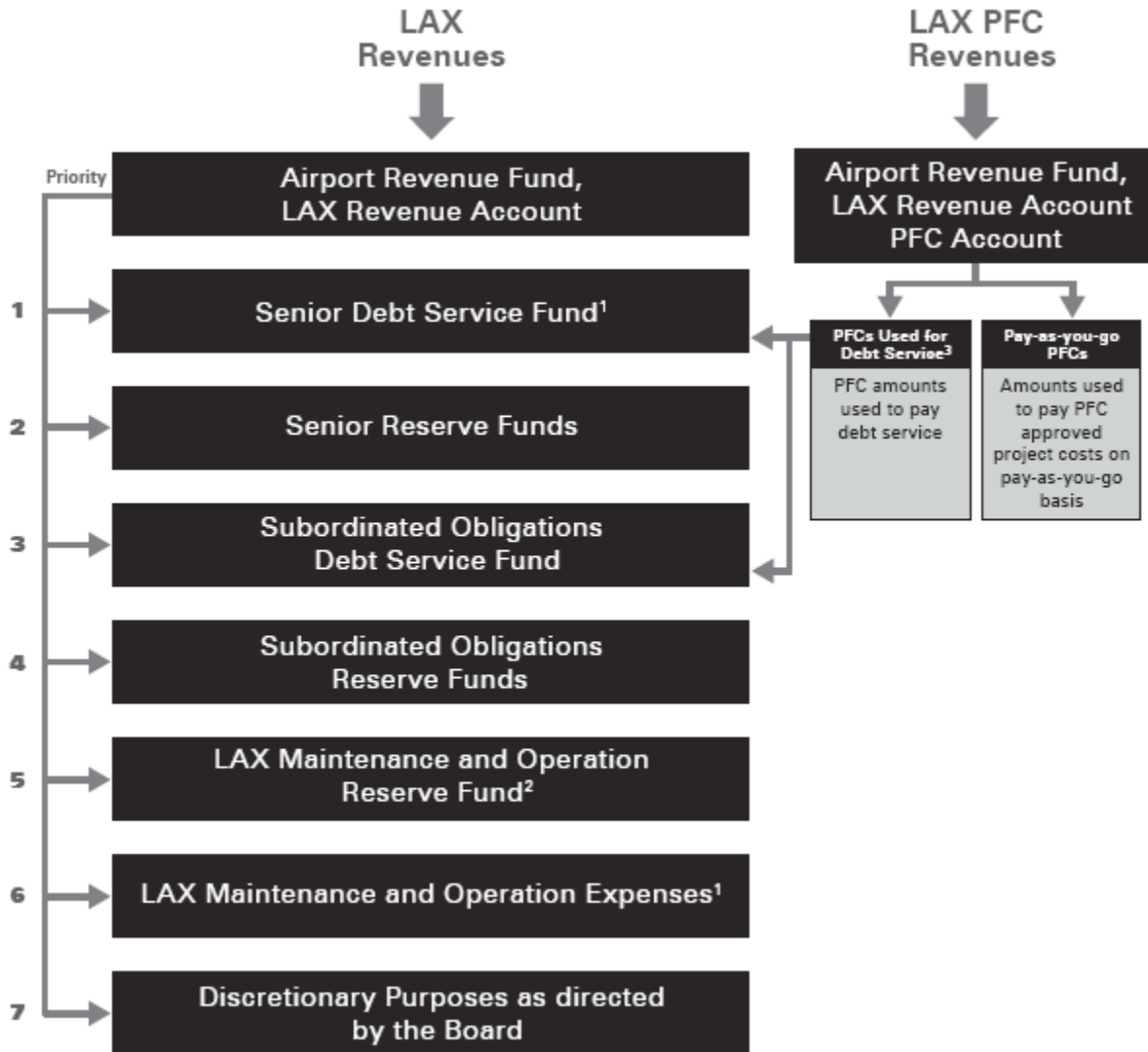
**FIFTH**, to the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Department. The Department has covenanted to fund the Maintenance and Operation Reserve Account each Fiscal Year in an amount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

**SIXTH**, to the payment of LAX Maintenance and Operation Expenses, which are payable from LAX Revenues, which include payment to the City for services provided by it to LAX; and

**SEVENTH**, 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, 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, for transfer to the City General Fund of money determined by the Department to be surplus, but only to the extent not inconsistent with federal or State law, regulation or contractual obligations 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.”

**MASTER INDENTURE FLOW OF FUNDS  
AND FLOW OF PFC REVENUES**



<sup>(1)</sup> On and after the Pledge Change Date, LAX Maintenance and Operation Expenses will be paid prior to the payment of the Senior Bonds. See “INTRODUCTION – Amendments to Master Senior Indenture – One Hundred Percent Master Senior Indenture Amendments.”

<sup>(2)</sup> The Master Senior Indenture has been amended to provide for Third Lien Obligations which will be payable from Pledged Revenues after funding the reserve fund for any Subordinate Obligations and before funding the LAX Maintenance and Operation Reserve Fund. The amendments providing for Third Lien Obligations will not become effective until the Department receives the consents of the CP Banks. See “INTRODUCTION – Amendments to the Master Senior Indenture – Other Master Senior Indenture Amendments.”

<sup>(3)</sup> 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 the Series 2008A Senior Bonds, the Series 2009A Senior Bonds and the Series 2010D Senior Bonds. See “—Passenger Facility Charges” below.

With respect to the application of Pledged Revenues described in paragraphs FIFTH through SEVENTH above (i.e., application to the LAX Maintenance and Operation Reserve Fund, to LAX Maintenance and Operation expenses and to 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 SEVENTH above from sources other than Pledged Revenues.

Pursuant to the Ninth Supplemental Senior Indenture, the Department amended the flow of funds described above. The Other Master Senior Indenture Amendments which do not require the consent of the owners of the Senior Bonds or the Subordinate Obligations, but do require the consents of the CP Banks (which consent has not been received and is not expected to be received at the time of issuance of the Series 2010D Senior Bonds), include the establishment of Third Lien Obligations. Third Lien Obligations and any reserve funds established for such Third Lien Obligations will be payable from Pledged Revenues after the payment of amounts described in paragraph FOURTH, in the flow of funds described above (i.e., after Subordinate Obligations Reserve Funds) and before the payment of amounts described in paragraph FIFTH in the flow of funds described above (i.e., before LAX Maintenance and Operation Reserve Fund). The provisions relating to Third Lien Obligations set forth in the Ninth Supplemental Senior Indenture will not become effective until the CP Banks consent to such amendments. See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D - “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Other Master Senior Indenture Amendments.”

Additionally, the Senior Pledge Change Amendment (which will not become effective until the Senior Pledge Change Consent Requirement and the Subordinate Pledge Change Consent Requirement are met) includes certain amendments to the flow of funds. The Senior Pledge Change Amendment will move the payment of LAX Maintenance and Operation Expenses from paragraph SIXTH in the current flow of funds (from paragraph EIGHTH in the flow of funds described in the Other Master Senior Indenture Amendments) to paragraph FIRST in the flow of funds. As a result of such amendment, the Senior Bonds will be secured by a pledge of and lien on Pledged Revenues after payment of LAX Maintenance and Operation Expenses. See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One Hundred Percent Master Senior Indenture Amendments.”

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.

## **Senior Bonds**

Following is a summary of certain provisions of the Senior Indenture, including, but not limited to, sections of the Senior Indenture detailing the pledge of Pledged Revenues (on and after the Pledge Change Date, a pledge of Net Pledged Revenues), the rate covenant for the Senior Bonds, debt service deposits for the Senior Bonds, the funding and utilization of the Senior Reserve Fund for the Senior Bonds and the issuance of Additional Senior Bonds. These summaries do not purport to be comprehensive or definitive. See APPENDIX C-2 – “SUMMARY OF THE MASTER SENIOR INDENTURE” and APPENDIX C-3 – “SUMMARY OF THE TWELFTH SUPPLEMENTAL SENIOR INDENTURE” for a more complete description of these provisions of the Senior Indenture. Also see APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE” for a description of the proposed amendments to the Master Senior Indenture.

### ***Pledged Revenues***

The Series 2010D Senior Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Pledged Revenues. The Series 2010D Senior Bonds are also secured by a pledge of and first lien on amounts held in certain funds and accounts pursuant to the Senior Indenture, as further described herein.

***On and after the Pledge Change Date, the Series 2010D Senior Bonds will be payable solely from and secured by a pledge of and first lien on Net Pledged Revenues.*** See “INTRODUCTION – Amendments to the Master Senior Indenture Amendments” and APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One Hundred Percent Master Senior Indenture Amendments – Senior Pledge Change Amendment.”

“Net Pledged Revenues” means, for any given period, Pledged Revenues for such period, less, for such period, LAX Maintenance and Operation Expenses.

THE SERIES 2010D SENIOR 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 PLEDGED REVENUES (ON AND AFTER THE PLEDGE CHANGE DATE, NET PLEDGED REVENUES), IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2010D SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2010D SENIOR BONDS SHALL 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 2010D SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2010D SENIOR BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SENIOR INDENTURE.

The Department has covenanted in the Master Senior Indenture not to issue any additional bonds or other obligations with a pledge of or lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) prior or superior to that of the Senior Bonds. Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) are available for the equal and proportionate benefit and security of all Senior Bonds.

The Series 2010D Senior Bonds are secured by a pledge of and lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) on a parity with the Existing Senior Bonds and any Additional Senior Bonds. See “—Additional Senior Bonds” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.” The Series 2010D Senior Bonds are not secured by moneys held in any construction funds established under the Senior Indenture.

#### ***Senior Rate Covenant***

Under the Master Senior Indenture, the Department has covenanted that, while any of the Senior Bonds remain Outstanding (but subject to all prior existing contracts and legal obligations of the Department), the Department 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 Pledged Revenues in each Fiscal Year will be at least equal to the payments required in such Fiscal Year to be made pursuant to the paragraphs FIRST through SIXTH set forth in “—Flow of Funds” above. 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 Net Pledged Revenues, together with any Transfer, will be equal to at least 125% of Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds for that Fiscal Year. Any amount of Transfer taken into account as described in the previous sentence cannot exceed 25% of Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds for 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 SEVENTH as described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS – Flow of Funds,” have been made as of the last day of the immediately preceding Fiscal Year).

The Master Senior Indenture provides that if the Department violates the above-described covenants, such violation will not be a default under the Senior Indenture and will not give rise to a declaration of a Senior Event of Default if, within 120 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 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 Senior Event of Default may be declared under the Senior Indenture. The Department may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Department into compliance with such covenants. See APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a description of amendments to the rate covenant in the Master Senior Indenture. See also “CERTAIN INVESTMENT CONSIDERATIONS – Rate Covenant Limitations.”



In addition to the requirements of the Master Senior 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 Senior Indenture, the Department may exclude from its calculation of Senior Aggregate Annual Debt Service with respect to Senior Bonds, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Senior Bonds whose debt service is payable from amounts not included in Pledged Revenues (including, but not limited to PFC revenues) which have been irrevocably deposited with and held by the Senior Trustee for the payment of debt service on such Senior Bonds. See “—Passenger Facility Charges,” “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges,” “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information about the Department’s expected use of PFC revenues.

None of the Fifty-One Percent Master Senior Indenture Amendments, the One Hundred Percent Master Senior Indenture Amendments or the Other Master Senior Indenture Amendments are or will be required to become effective in order for the Department to meet the rate covenant in the Master Senior Indenture or the test to issue Additional Senior Bonds as contemplated by the Report of the Airport Consultant attached hereto as APPENDIX A.

#### ***Senior Debt Service Deposits***

The Master Senior Indenture provides that the Department will cause the City Treasurer to, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Senior Trustee for deposit in the Senior Debt Service Funds established in respect of each series of Outstanding Senior Bonds: (a) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on the Senior Bonds, as it becomes due, will be set aside in the Senior Debt Service Funds by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of the Senior Bonds, will be set aside in the Senior Debt Service Funds by not later than the first Business Day of the month prior to the date such principal amount becomes due, and (c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to the Senior Term Bonds will be set aside in the Senior Debt Service Funds by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One Hundred Percent Master Senior Indenture Amendments” for a description of the Senior Debt Service Deposit Amendment.

#### ***Senior Reserve Fund***

The Master Senior Indenture established the “Senior Reserve Fund” for all of the Senior Bonds the Department elects to have participate in the Senior Reserve Fund. The Department has elected to have the Existing Senior Bonds participate in the Senior Reserve Fund and pursuant to the Twelfth Supplemental Senior Indenture, the Department intends to elect to have the Series 2010D Senior Bonds participate in the Senior Reserve Fund.

Pursuant to the Master Senior Indenture, the Senior Reserve Fund is required to be funded at all times in an amount equal to the Senior Reserve Requirement. The Senior Reserve Requirement equals the least of (i) Senior Maximum Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2010D Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund, (ii) 10% of the principal amount of the Series 2010D Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund, less the amount of original issue discount with respect to the Series 2010D Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund if such original issue discount exceeded 2% on such Senior Bonds at the time of original sale, and (iii) 125% of the average Senior Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2010D Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund. In the event the Department issues any Additional Senior Bonds pursuant to a Supplemental Senior Indenture under which the Department elects to have such Additional Senior Bonds participate in the Senior Reserve Fund, the Department will be required to deposit an amount in the Senior Reserve Fund sufficient to cause the amount on deposit in the Senior Reserve Fund to equal the Senior Reserve Requirement for the Senior Bonds and such future Series of Additional Senior Bonds participating in the Reserve Fund. At the time of issuance of the Series 2010D Senior

Bonds, the Senior Reserve Requirement will equal \$193,352,250.00 and will be fully funded with cash and securities.

Moneys or investments held in the Senior Reserve Fund may be used only to pay the principal of and interest on the Series 2010D Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund. Moneys and investments held in the Senior Reserve Fund are not available to pay debt service on the Subordinate Obligations. The Senior Reserve Fund may be drawn upon if the amounts in the respective Senior Debt Service Funds for the Series 2010D Senior Bonds, the Existing Senior Bonds or any Additional Senior Bonds participating in the Senior Reserve Fund are insufficient to pay in full any principal or interest then due on such Senior Bonds. In the event any amounts are required to be withdrawn from the Senior Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Senior Debt Service Funds for the Senior Bonds secured by the Senior Reserve Fund.

The Department may fund all or a portion of the Senior Reserve Requirement with a Senior Reserve Fund Surety Policy. A Senior Reserve Fund Surety Policy may be an insurance policy, letter of credit or surety bond deposited in the Senior Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Senior Reserve Fund Surety Policy must either extend to the final maturity of the Series of Senior Bonds for which the Senior Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Senior Indenture, that the Department will replace such Senior Reserve Fund Surety Policy prior to its expiration with another Senior Reserve Fund Surety Policy, which will have no adverse effect on ratings, if any, then in effect, on the Senior Bonds, or with cash, and the face amount of the Senior Reserve Fund Surety Policy, together with amounts on deposit in the Senior Reserve Fund, including the face amount of any other Senior Reserve Fund Surety Policy, are at least equal to the Senior Reserve Requirement. As of the date of this Official Statement and at the time of the issuance of the Series 2010D Senior Bonds, there are no Senior Reserve Fund Surety Policies on deposit in the Senior Reserve Fund.

#### ***Additional Senior Bonds***

The Master Senior Indenture provides the Department with flexibility in establishing the nature and terms of any Additional Senior Bonds hereafter issued with a lien and charge on Pledged Revenues on parity with the Series 2010D Senior Bonds and the Existing Senior Bonds. See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a description of the amendments to the test to issue Additional Senior Bonds.

Additional Senior Bonds may be issued under the Master Senior Indenture on a parity with the Series 2010D Senior Bonds and the Existing Senior Bonds, provided, among other things, there is delivered to the Senior Trustee either:

- (a) a certificate prepared by an Authorized Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or preceding the first issuance of the proposed Senior Program Bonds were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding; or
- (b) a certificate prepared by a Consultant showing that:
  - (i) the Net Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or the establishment of a Senior Program were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service;
  - (ii) for each Fiscal Year during the period from the date of delivery of such certificate until the latest Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with the rate covenant under the Master Senior Indenture (see “Senior Rate Covenant” above); and

(iii) the estimated Net Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, will be at least equal to 125% of Senior Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (if applicable) were then Outstanding.

The certificate as described in (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2010D Senior Bonds.

For purposes of subparagraphs (a) and (b) above, no Transfer may be taken into account in the computation of Pledged Revenues by the Authorized Representative or by the Consultant.

For purposes of subsections (b)(ii) and (iii) above, in estimating Net 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 Department and will be in effect during the period for which the estimates are provided and (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 will 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 Department, 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 Net Pledged Revenues and will also set forth the calculations of Senior Maximum 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 will certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

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

(1) the Senior Bonds being issued are for the purpose of refunding then Outstanding Senior Bonds and there is delivered to the Senior Trustee, instead, a certificate of an Authorized Representative showing that Senior Maximum Aggregate Annual Debt Service after the issuance of the Refunding Senior Bonds will not exceed Senior Maximum Aggregate Annual Debt Service prior to the issuance of such Refunding Senior Bonds; or

(2) the Senior Bonds being issued constitute Senior Notes and there is delivered to the Senior Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Senior Notes being issued, together with the principal amount of any Senior Notes then Outstanding, does not exceed 10% of the Pledged Revenues for any 12 consecutive months out of the 18 months immediately preceding the issuance of the proposed Senior Notes and there is delivered to the Senior Trustee a Certificate of an Authorized Representative showing that for each of the Fiscal Years during which the Senior Notes will be Outstanding, and taking into account the debt service becoming due on such Senior Notes, the Department will be in compliance with the rate covenant under the Master Senior Indenture.

The Department has covenanted in the Master Senior Indenture that so long as any Senior Bonds are Outstanding, it (i) will not adopt a resolution determining that Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) be used to pay general obligation bonds of the City on a senior lien basis, and (ii) will not issue any bonds or other obligations with a lien on or security interest granted in Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) which is senior to the Senior Bonds. The Department may issue bonds for capital improvements at its other airports pursuant to separate indentures, which bonds will not be secured by a pledge of LAX Revenues. In addition, the Department may issue LAX Special Facility Obligations. See

## “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – LAX Special Facility Obligations.”

At the time the Fifty-One Percent Master Senior Indenture Consent Requirement is met, certain amendments to the test to issue Additional Senior Bonds will become effective. These amendments will include, among other things, (a) allowing the exclusion of the following amounts from the calculation of Senior Maximum Aggregate Annual Debt Service or Senior Aggregate Annual Debt Service, as the case may be: (i) debt service on Senior Bonds which is payable from PFC revenues specifically and irrevocably committed thereto, and (ii) debt service on Senior Bonds which is payable from moneys, such as federal grants, specifically and irrevocably committed or deposited with the Senior Trustee to pay such debt service, (b) allowing Transfer to be included in Net Pledged Revenues (subject to certain limits as set forth in such amendment) and (c) changing subparagraph (b) above by requiring the Consultant to test Senior Aggregate Annual Debt Service (instead of Senior Maximum Aggregate Annual Debt Service) against Net Pledged Revenues over different periods of time than those currently set forth in the Master Senior Indenture. See APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a complete description of the amendments being made to the Master Senior Indenture with respect to the test required to be met in connection with the issuance of Additional Senior Bonds. See also “INTRODUCTION – Amendments to the Master Senior Indenture.”

### **Passenger Facility Charges**

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 may (to the extent approved by the FAA) use PFC revenues to pay the debt service on certain Senior Bonds and/or the Subordinate Obligations which are PFC Eligible Bonds (as defined herein). Pursuant to a resolution adopted by the Board on July 7, 2008 (the “PFC Resolution”), the Department elected to irrevocably commit to use \$19 million of PFC revenues in each year between 2011 and 2014 to the payment of debt service on certain Senior Bonds and/or the Subordinate Obligations which are PFC Eligible Bonds. See “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges,” “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information about the Department’s expected use of PFC revenues.

Debt service paid with PFC revenues is not included in the calculation of the rate covenant set forth in the Master Senior Indenture. Upon effectiveness of the Fifty-One Percent Master Senior Indenture Amendments, debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFC revenues will not be included in the additional bonds test set forth in the Master Senior Indenture. See APPENDIX D - “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments.”

### **Permitted Investments**

Moneys held by the Senior Trustee under the Senior Indenture, including moneys in the Senior Debt Service Funds (and the accounts therein) and in the Senior Reserve Fund, may be invested as directed by the Department in Senior Permitted Investments, subject to the restrictions set forth in the Senior Indenture and subject to restrictions imposed upon the Department by the Charter. Investments held in the Senior 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

Senior Events of Default under the Senior Indenture and related remedies are described in APPENDIX C-2 – “SUMMARY OF THE MASTER SENIOR INDENTURE–Senior Events of Default and Remedies.” The occurrence of a Senior Event of Default does not grant any right to accelerate payment of the Senior Bonds to either the Senior Trustee, the Subordinate Trustee, the Subordinate Issuing and Paying Agent or the Holders of the Series 2010D Senior Bonds, the Existing Senior Bonds, the Subordinate Bonds or the Subordinate Commercial Paper Notes. The Senior Trustee is authorized to take certain actions upon the occurrence of a Senior Event of Default, including proceedings to enforce the obligations of the Department under the Senior Indenture.

## OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

### Senior Bonds

Pursuant to the Senior Indenture, the Department has previously issued and, as of November 10, 2010 there is outstanding \$1,908,870,000 aggregate principal amount of Existing Senior Bonds. The Existing Senior Bonds are secured by a pledge of and lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS – Flow of Funds.” The following table sets forth information about the Existing Senior Bonds that are outstanding as of November 10, 2010.

**TABLE 1**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**EXISTING SENIOR BONDS**  
**AS OF NOVEMBER 10, 2010**

<b>Series</b>	<b>Original Principal Amount</b>	<b>Principal Amount Outstanding</b>	<b>Final Maturity (May 15)</b>
Series 2002A	\$ 32,450,000	\$ 32,450,000	2019
Series 2003B	103,625,000	58,945,000	2015
Series 2008A	602,075,000	571,690,000	2038
Series 2008B	7,875,000	6,210,000	2015
Series 2009A	310,410,000	309,420,000	2039
Series 2010A	930,155,000	930,155,000	2040
Total	\$1,986,590,000	\$1,908,870,000	

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 November 10, 2010, there are outstanding \$806,355,000 aggregate principal amount of its Existing Subordinate Bonds. Additionally, pursuant to the Parity 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 November 10, 2010, there are Subordinate Commercial Paper Notes outstanding with a maturity value of approximately \$147 million. The Subordinate Bonds and the Subordinate Commercial Paper Notes are and will be secured by a pledge and lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date). The following table sets forth the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes that are outstanding as of November 10, 2010.

**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 NOVEMBER 10, 2010**

<b>Subordinated Obligation</b>	<b>Original Principal Amount</b>	<b>Principal Amount Outstanding</b>	<b>Final Maturity Date</b>
Existing Subordinate Bonds			
- Series 2008C	\$243,350,000	\$235,925,000	5/15/2038
- Series 2009C	307,350,000	307,350,000	5/15/2039
- Series 2009D	31,815,000	31,295,000	5/15/2015
- Series 2009E	39,750,000	37,745,000	5/15/2020
- Series 2010B	134,680,000	134,680,000	5/15/2040
- Series 2010C	59,360,000	59,360,000	5/15/2040
Total Existing Subordinate Bonds	\$816,305,000	\$806,355,000	
Subordinate Commercial Paper Notes <sup>(1)</sup>			
- Series A	Various	\$ 0	Various <sup>(2)</sup>
- Series B	Various	0	Various <sup>(2)</sup>
- Series C <sup>(3)</sup>	Various	147,000,000	Various <sup>(2)</sup>
Total Subordinate Commercial Paper Notes		\$147,000,000	
Total outstanding Existing Subordinate Bonds and Subordinate Commercial Paper Notes		\$953,355,000	

<sup>(1)</sup> Pursuant to the Parity Subordinate Indenture, the Department is authorized to issue and have outstanding, from time to time, a maximum of \$500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. The Subordinate Commercial Paper Notes may be issued as tax-exempt or taxable and in various series designated Series A through C.

<sup>(2)</sup> The Subordinate Commercial Paper Notes have rolling maturities of 270 days or less.

<sup>(3)</sup> The Series C Subordinate Commercial Paper Notes are issued as original issue discount obligations.

Source: Department of Airports of the City of Los Angeles

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. In connection with the issuance of the Subordinate Commercial Paper Notes, the Department entered into the CP Reimbursement Agreement with the CP Banks, pursuant to which the CP Banks issued the CP Letter of Credit to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. In accordance with the CP Reimbursement Agreement, the CP Banks issued the CP Letter of Credit, on a several but not joint basis, in the maximum stated amount of \$545 million. Citibank's commitment under the CP Letter of Credit is 70% of the stated amount of the CP Letter of Credit, and State Street's commitment under the CP Letter of Credit is 30% of the stated amount of the CP Letter of Credit. Citibank has granted Landesbank Baden-Württemberg, acting through its New York Branch ("LBBW"), and U.S. Bank National Association ("U.S. Bank"), participations in approximately 66% of Citibank's obligation under the CP Letter of Credit (approximately 46% of the total stated amount of the CP Letter of Credit). Notwithstanding Citibank's grant of participations to LBBW and U.S. Bank, Citibank remains responsible for 70% of the stated amount of the CP Letter of Credit. The CP Letter of Credit expires on April 1, 2012, but may be terminated earlier upon the occurrence of certain events. In the event the Department does not immediately reimburse the CP Banks for any drawings under the CP Letter of Credit, the Department is required pursuant to the CP Reimbursement Agreement to pay all principal of and interest due to the CP Banks as a result of such drawing within five years of the original date of such drawing. Upon the happening of an event of default under the CP Reimbursement Agreement (which include, among other events, the Department's failure to pay the CP Banks any amounts due under the CP Reimbursement Agreement, the Department's failure to pay principal of and interest on the Subordinate Commercial Paper Notes, the Department's failure to comply with the covenants under the CP

Reimbursement Agreement or the downgrading of Senior Bonds below “BBB-,” “Baa3” and “BBB-” by Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Ratings Group, a Standard & Poor’s Financial Services LLC business (“S&P”), respectively), all obligations of the Department to the CP Banks under the CP Reimbursement Agreement will be immediately due and payable. Any repayment obligations of the Department incurred pursuant to the CP Reimbursement Agreement and the CP Letter of Credit will have a parity lien on Subordinate Pledged Revenues along with the Subordinate Commercial Paper Notes and the Existing Subordinate Bonds.

**Debt Service Requirements**

The following table sets forth debt service requirements on the Existing Senior Bonds, the Series 2010D Senior Bonds and the Existing 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<sup>(1)</sup>**

<b>Fiscal Year</b>	<b>Total Debt Service on Existing Senior Bonds<sup>(2)</sup></b>	<b>Principal Requirements on Series 2010D Senior Bonds</b>	<b>Interest Requirements on Series 2010D Senior Bonds<sup>(3)</sup></b>	<b>Total Debt Service on Series 2010D Senior Bonds<sup>(3)</sup></b>	<b>Total Debt Service on Senior Bonds<sup>(2)(3)</sup></b>	<b>Total Debt Service on Existing Subordinate Bonds<sup>(4)</sup></b>	<b>Total Debt Service<sup>(2)(3)(4)</sup></b>
2011	\$ 128,824,578	--	\$ 20,145,182	\$ 20,145,182	\$ 148,969,761	\$ 51,552,021	\$ 200,521,782
2012	124,095,883	\$ 4,070,000	43,953,125	48,023,125	172,119,008	57,326,071	229,445,079
2013	126,593,933	4,190,000	43,831,025	48,021,025	174,614,958	59,657,859	234,272,816
2014	133,417,833	4,320,000	43,705,325	48,025,325	181,443,158	59,654,659	241,097,816
2015	131,377,158	8,670,000	43,532,525	52,202,525	183,579,683	59,655,459	243,235,141
2016	131,379,063	8,430,000	43,159,025	51,589,025	182,968,088	59,603,740	242,571,828
2017	131,385,513	8,960,000	42,765,225	51,725,225	183,110,738	59,461,406	242,572,144
2018	131,384,238	9,500,000	42,377,125	51,877,125	183,261,363	59,308,861	242,570,224
2019	131,383,025	10,130,000	41,913,725	52,043,725	183,426,750	59,144,128	242,570,877
2020	131,381,463	10,785,000	41,440,825	52,225,825	183,607,288	58,963,203	242,570,490
2021	127,015,538	18,935,000	40,954,075	59,889,075	186,904,613	55,666,684	242,571,296
2022	124,026,938	22,845,000	40,031,025	62,876,025	186,902,963	55,670,553	242,573,515
2023	121,430,725	26,580,000	38,888,775	65,468,775	186,899,500	55,670,698	242,570,197
2024	121,432,875	27,910,000	37,559,775	65,469,775	186,902,650	55,670,473	242,573,123
2025	121,431,588	29,310,000	36,164,275	65,474,275	186,905,863	55,672,330	242,578,193
2026	121,430,531	30,770,000	34,703,763	65,473,763	186,904,294	55,669,465	242,573,758
2027	121,432,575	32,380,000	33,088,338	65,468,338	186,900,913	55,671,989	242,572,901
2028	121,430,500	34,080,000	31,388,388	65,468,388	186,898,888	55,671,787	242,570,674
2029	121,431,156	35,870,000	29,599,188	65,469,188	186,900,344	55,669,713	242,570,057
2030	121,433,700	37,750,000	27,716,013	65,466,013	186,899,713	55,671,292	242,571,005
2031	121,433,206	39,810,000	25,659,388	65,469,388	186,902,594	55,671,986	242,574,579
2032	121,432,875	41,840,000	23,625,813	65,465,813	186,898,688	55,672,419	242,571,107
2033	121,432,256	43,980,000	21,485,675	65,465,675	186,897,931	55,672,417	242,570,348
2034	121,431,750	46,235,000	19,233,213	65,468,213	186,899,963	55,671,626	242,571,588
2035	121,431,650	48,545,000	16,922,088	65,467,088	186,898,738	55,673,892	242,572,629
2036	121,431,144	50,975,000	14,495,500	65,470,500	186,901,644	55,671,684	242,573,328
2037	121,429,519	53,790,000	11,946,750	65,736,750	187,166,269	55,406,600	242,572,868
2038	121,429,350	56,760,000	9,257,250	66,017,250	187,446,600	55,125,810	242,572,410
2039	121,432,413	59,890,000	6,419,250	66,309,250	187,741,663	54,832,000	242,573,662
2040	121,432,500	68,495,000	3,424,750	71,919,750	193,352,250	49,222,319	242,574,569
<b>Total</b>	<b>\$3,738,035,471</b>	<b>\$ 875,805,000</b>	<b>\$ 909,386,395</b>	<b>\$1,785,191,395</b>	<b>\$5,523,226,866</b>	<b>\$ 1,689,653,138</b>	<b>\$ 7,212,880,005</b>

(1) Totals may not add due to individual rounding. The Existing Senior Bonds, the Series 2010D Senior Bonds have a parity lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues). The Existing Subordinate Bonds, the Subordinate Commercial Paper Notes and the payment obligations of the Department under the CP Reimbursement Agreement have a parity lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Pledged Revenues that will become effective on the Pledge Change Date). 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 Agreement are not reflected in this table. Approximately \$147 million of Subordinate Commercial Paper Notes is expected to be outstanding following the issuance of the Series 2010D Senior Bonds. For additional information on these obligations, see “—Subordinate Bonds and Subordinate Commercial Paper Notes” above and “—Other Obligations – Repayment Obligations.”

(2) Includes capitalized interest on the Series 2010A Senior Bonds and Series 2009A Senior Bonds.

(3) Includes capitalized interest on the Series 2010D Senior Bonds.

(4) Includes capitalized interest on the Series 2009C Subordinate Bonds, the Series 2009D Subordinate Bonds and the Series 2010 Subordinate Bonds. 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, in an amount equal to 35% of the interest payable on the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds.

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



## **Future Financings**

The Department is currently reviewing plans to issue approximately \$230 million of Additional Subordinate Bonds (exclusive of the Series 2010 Subordinate Bonds) and/or approximately \$377 million of Additional Senior Bonds (exclusive of the Series 2010D Senior Bonds) through Fiscal Year 2016 to, among other things, complete the Other Incorporated Projects, as described in the Report of the Airport Consultant. The forecasts in the Report of the Airport Consultant assume the issuance of Additional Senior Bonds in calendar year 2011, in calendar year 2012 and after calendar year 2012 and Additional Subordinate Bonds in calendar year 2012, calendar year 2013 and after calendar year 2013. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT – Future Bonds” and “PLAN OF FINANCE.”

The Department is actively engaged in identifying those leases related to improvements previously funded by airline tenants which can be terminated on terms favorable to the Department. See “—Other Obligations – LAX Special Facility Obligations” and “CAPITAL IMPROVEMENT PLANNING – Capital Improvement Plan.” 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.

During the Airport Consultant’s projection period (through Fiscal Year 2016), the Department may pursue additional capital projects beyond those described in the preceding paragraph and Additional Senior Bonds and/or Additional Subordinate Bonds may be issued to fund such additional projects. These projects and the funding therefor are not included in the projections included in the Report of the Airport Consultant. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.” See also the Report of the Airport Consultant for a discussion of certain projects the Department is considering undertaking. 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 debt service on 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 “Senior Repayment Obligation”) may be secured by a pledge of and lien on Pledged Revenues (on and after the Pledge Change Date, by a pledge of and lien on Net Pledged Revenues) on a parity with the Senior Bonds. 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 Senior Repayment Obligation may be afforded the status of a Senior Bond under the Master Senior Indenture. The Department currently does not have any Senior Repayment Obligations outstanding. See APPENDIX C–2 – “SUMMARY OF THE MASTER SENIOR INDENTURE – Senior Repayment Obligations Afforded Status of Senior Bonds.”

### ***LAX Special Facility Obligations***

The Department does not currently have any outstanding LAX Special Facility Obligations (as defined herein).

Pursuant to the Master Senior Indenture, the Department may designate an existing facility or a planned facility as a “LAX Special Facility” and may incur indebtedness to acquire, construct, renovate or improve such facility or to finance the acquisition, construction, renovation or improvement thereof by a third-party. Additionally, the Department may provide that certain contractual payments derived from or related to such Special Facility, together with other income and revenues available therefrom, will constitute “LAX Special Facilities Revenue” and will not be included as Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues. Such

indebtedness will constitute a “LAX Special Facility Obligation” and will be payable solely from LAX Special Facilities Revenue. When LAX Special Facility Obligations issued for an LAX Special Facility (including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations) are fully paid or otherwise discharged, all revenues received by the Department from such facility will be included as Pledged Revenues. The Master Senior Indenture provides that to the extent LAX Special Facility Revenues exceed the amounts required to pay the principal of and interest on LAX Special Facility Obligations when due, and to the extent not otherwise encumbered, the excess may constitute Pledged Revenues as determined by the Department. See APPENDIX C-2 – “SUMMARY OF THE MASTER SENIOR INDENTURE–LAX Special Facilities and LAX Special Facility Obligations.” Also see APPENDIX D–“AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a description of certain amendments being made to the Master Senior Indenture with respect to LAX Special Facilities and LAX Special Facility Obligations. The amendments to the Master Senior Indenture with respect to LAX Special Facilities and LAX Special Facility Obligations will allow the Department to issue LAX Special Facility Obligations that will be payable from LAX Special Facilities Revenues and provided certain requirements are met (including, among other requirements, meeting the additional bonds tests under the Master Senior Indenture, the Master Subordinate Indenture or the Parity Subordinate Indenture, as applicable), from Pledged Revenues, Subordinate Pledged Revenues and/or other available moneys of the Department.

See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments.” At this time there can be no assurance that the consent requirements for such amendments will be met within any definite time frame.

#### ***Rental Credits***

The Department from time to time has provided rental credits to its airline tenants that may be applied against amounts otherwise due under such tenants’ leases or for landing fees. Because these rental credits are applied as an offset to amounts owed to the Department by such airlines, the Department receives less money from these airlines than their leases or charges for landing fees would provide absent the rental 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, including the Series 2010D Senior Bonds. Rental credits are discussed in greater detail under “USE OF AIRPORT FACILITIES – Rental Credits.” See also “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings.”

### **CERTAIN INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Series 2010D Senior Bonds involve investment risk. Prospective investors are urged to read this Official Statement, including the appendices hereto, in its entirety. The factors set forth herein, among others, may affect the security for and/or trading value of the Series 2010D Senior Bonds. The information herein 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 2010D Senior Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other risks or considerations not discussed herein are or will not become material in the future.

#### **Demand for Air Travel**

The Series 2010D Senior Bonds are payable solely from Pledged Revenues (Net Pledged Revenues on and after the Pledge Change Date) and other available funds. The Subordinate Bonds are payable solely from Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date) and other available funds. Pledged Revenues, Subordinate Pledged Revenues and PFC revenues depend primarily on the level of aviation activity and enplaned passenger traffic at LAX.

Air travel demand has historically correlated to consumer income and business profits. The nation’s high unemployment rate has had a downward effect on consumer spending. For a discussion of the effect of the national economy on demand for air travel, see APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

The level of aviation activity and enplaned passenger traffic at LAX depend upon a number of factors including economic and political conditions; international hostilities; world health concerns; aviation security concerns including incidents of terrorism; accidents involving commercial passenger aircraft; airline service and routes; airline airfares 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; and the capacity, availability and convenience of service at LAX, among others.

Many of these factors are outside the Department’s control. Changes in demand, decreases in aviation activity and their potential effects on enplaned passenger traffic at LAX may result in reduced Pledged Revenues and PFC revenues. A number of these factors are discussed in APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

### **Financial Condition of the Airlines**

The ability of the Department to generate Pledged Revenues depends, in large part, upon the financial health of the aviation industry. The economic condition of the industry is 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 (i) the cost and availability of labor, fuel, aircraft and insurance, (ii) general economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of airline ticket pricing, (vi) traffic and airport capacity constraints, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel, (ix) strikes and other union activities and (x) disruptions caused by airline accidents, criminal incidents and acts of war or terrorism.

Since 2001, the global airline industry has undergone substantial structural changes and has sustained significant financial losses. Airlines continue to face significant challenges. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the U.S. economy, other regional and world economies, corporate profitability, security concerns and other factors. Structural changes to the industry also result from the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code. Since the events of September 11, 2001, over twenty airlines filed for bankruptcy protection. See “—Effect of Airline Bankruptcies.”

Faced with the growth of lower-cost airlines and evolving business technology, legacy airlines (United, Delta, Northwest, Continental, American and US Airways) have been forced to change their business practices, including reducing or eliminating service on unprofitable routes, reducing their work forces, implementing pay cuts, reducing fares to compete with low-cost carriers, deferring aircraft deliveries, streamlining operations and significantly increasing the use of smaller, regional jets.

Efforts of airlines to stimulate traffic by significantly discounting fares have affected consumer expectations regarding airfares. 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. Fuel prices reached record highs in 2008, and, according to the Air Transport Association, fuel has overtaken labor as the industry’s top costs. Some of the airlines that sought bankruptcy protection have cited high fuel prices as a contributing factor in their bankruptcy filings. While some airlines have hedged fuel prices through the purchase of oil futures contracts, the substantial increase in fuel prices has had a significant impact on profitability, and future fuel price increases or sustained higher prices could continue to affect the financial condition of airlines and the level of service they provide. Increases in fuel prices have also caused airlines to increase airfare and institute fuel, checked baggage and other extra surcharges, all of which may have a negative effect on the demand for air travel. High fuel prices also have an adverse impact on air cargo volumes.

The aviation industry is cyclical and subject to intense competition and variable demand. While a number of airlines have indicated that they intend to reduce passenger and/or cargo service generally in conjunction with system-wide cuts, others such as Delta, JetBlue and US Airways have added routes and service at LAX. Traffic volumes are responsive to a number of factors described above under “—Demand for Air Travel.” Further, airline debt levels remain high. 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, financial performance can fluctuate dramatically from one reporting period to the next.

The Department makes no representation with respect to the continued viability of any of the carriers serving LAX, airline service patterns, or the impact of any airline failures on the Pledged Revenues, Subordinate Pledged Revenues and passenger facility charge collections. Additionally, no assurance can be given that adverse events similar to the terrorist attacks on September 11, 2001 and related subsequent events will not happen in the future.

### **Effect of Airline Bankruptcies**

A number of airlines serving LAX have filed for bankruptcy since September 11, 2001, including Air Canada, ATA, Delta, Frontier Airlines (“Frontier”), Hawaiian Airlines (“Hawaiian”), Japan Airlines, Maxjet, CMA Mexicana Airlines (“Mexicana”), Midway Airlines (“Midway”), Northwest Airlines (“Northwest”), United, US Airways, Vanguard Airlines (“Vanguard Air”) and Varig Airlines (“Varig”). ATA, Maxjet, Mexicana, Midway, Vanguard and Varig have ceased operations. None of the airlines that have ceased operations was responsible for more than 2.0% of passenger enplanements at LAX. In Fiscal Year 2010 Mexicana enplaned over 525,000 passengers (approximately 1.8% of total enplaned passengers at LAX) and was the second ranked foreign flag carrier in terms of enplanements at LAX. Moreover, certain airline bankruptcies have resulted in reductions of service levels, even in cases where such airlines continued to operate in bankruptcy. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. It is not possible to predict the impact on LAX of the recent, potential and any future bankruptcies, liquidations or major restructurings of other airlines.

In the event an airline that has executed an agreement with the Department and/or the City seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the Department and/or the City (i) within 120 days or later, if ordered by the court, with respect to its use agreements or leases of non-residential real property, but in no event more than 210 days unless additional time is agreed to in writing by the Department or the City or (ii) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and to provide adequate assurance of future performance under the applicable agreement. The Department is unable to predict whether any leases of non-residential real property with any airlines in bankruptcy proceedings may be assigned to third parties in the course of bankruptcy proceedings. Rejection of a use or other agreement or executory contract would give rise to an unsecured claim of the Department and/or the City for damages, the amount of which in the case of a use or other agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of a use or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Except for costs allocated to any such airline for post-petition usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of a use or other agreement in connection with an airline in bankruptcy, such as airfield costs, would be passed on to the remaining airlines under their respective use agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional costs. Additionally, during the pendency of a bankruptcy proceeding, and until assumption or rejection of the affected agreements, a debtor airline may not, absent a court order, make any payments to the City or the Department on account of goods and services provided prior to the bankruptcy. Thus, the Department’s stream of payments from a debtor airline might be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

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 “CAPITAL IMPROVEMENT PLANNING – 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. It is possible that 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 “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges,” “—Considerations Regarding Passenger Facility Charges” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information about the Department’s expected use of PFC revenues.

With respect to an airline 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.

There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in revenues received by the Department and potentially in delays or reductions in payments on the Series 2010D Senior Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2010D Senior Bonds.

#### **Effect of Concessionaire Bankruptcies**

A bankruptcy of any significant concessionaire at LAX could also result in delays or reductions in revenues received by the Department, for reasons similar to those discussed above with respect to airline bankruptcies. A number of rental car companies operating at LAX filed for bankruptcy protection after September 11, 2001 and it is possible that rental car companies or other concessionaires will file for bankruptcy protection in the future. Regardless of any specific adverse determinations in a concessionaire bankruptcy proceeding, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2010D Senior Bonds.

#### **City Financial Challenges**

The City’s Fiscal Year 2010-11 Adopted Budget (the “Adopted 2010-11 Budget”) reflects General Fund and certain special funds revenues (exclusive of amounts attributable to the departments of airports, harbor and water and power) of approximately \$6.9 billion. The City has had to address a number of expenditure pressures, including increased pension costs to amortize new unfunded liabilities resulting from investment losses. As a result, the City has made reduced budgeted appropriations, made various transfers from special funds, frozen hiring for most City civilian positions and slowed the hiring of new police recruits, modified the deployment plan for fire department resources, reduced overtime funding, implemented an early retirement incentive program (the “Early Retirement Program”), mandated unpaid days off for City employees, eliminated or consolidated several small departments and eliminated and laid off City General Fund positions. These budget balancing measures included a variety of on going and one-time measures.

The Adopted 2010-11 Budget, while projecting moderate growth in revenues, calls for additional on going expenditure reductions as well as some new one-time measures in order to achieve balance. These measures include additional staffing reductions, additional furloughs and proposed leasing or long-term contracting of City parking facilities to private operators. The City’s most recent update of its budget outlook suggests that, at current trends, the City would face a budget gap of \$318.5 million in Fiscal Year 2011-12, with even larger gaps occurring in subsequent years.

The City’s staff reductions do not directly apply to Department personnel and other proposed General Fund budget mitigation measures do not directly affect the Department. However, auxiliary services provided to the Department from other City departments, including services provided by the City’s Department of Building and Safety and the City Attorney, may be impacted. While the Department, under the Charter, is a proprietary department vested with the management and control of the Department’s assets, the City’s budget deficits could have an adverse effect on the liquidity and trading value in the secondary market of the Department’s Bonds.

See also the discussion of the City’s pension obligations under “THE DEPARTMENT OF AIRPORTS – Retirement Plan.”

## **Effect of Airline Industry Consolidation**

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. In 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operation under the United Airlines name. This merger has also received government approvals. The merger of United and Continental was completed on October 1, 2010. United and Continental have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated, which is expected to take between 12 and 18 months. Combined, United and Continental represent a market share of approximately 17% of enplanements at LAX and have complementary route structures. In addition, in 2010, the respective Boards of Directors of Southwest Airlines Co. (“Southwest”) and AirTran Holdings Inc. (“AirTran”) approved Southwest’s acquisition of AirTran. The acquisition is subject to government and shareholder approval. Until the acquisition is complete, Southwest and AirTran will operate as separate airlines. Combined, Southwest and AirTran represent a market share of approximately 13% of enplanements at LAX. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Certain other 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 Pledged Revenues, reduced passenger facility charge collections and increased costs for the airlines serving LAX. It is not possible at this time to predict the effect on gate usage at LAX, or the corresponding impact on Pledged Revenues, passenger facility charge collections or airline costs, as a result of unknown potential airline consolidations.

## **Aviation 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. Since the September 11, 2001 terrorist attacks and the hostilities in Afghanistan and Iraq, intensified security precautions have been instituted by government agencies, airlines and airport operators. Current and future security measures may create significantly increased inconvenience and delays at LAX and may adversely affect the Department’s operations, expenditures and revenues.

According to Central Intelligence Agency officials, LAX was the target of a terrorist bombing plot in December 1999, which was unsuccessful. In February 2003, the California Attorney General’s office distributed a bulletin to California law enforcement agencies listing LAX, among other California locations, as a potential terrorist target. The Department cannot predict whether LAX or any of the Department’s other airports will be actual targets of terrorists in the future.

## **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 Terminal Leases and the Airport Terminal Tariff, 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. In the aftermath of the September 11, 2001 terrorist attacks, LAX also was required to implement enhanced security measures mandated by the FAA, the TSA, the Department of Homeland Security and Airport management. LAX and its operations are also subject to a number of environmental and noise restrictions described under “AIRPORT SYSTEM ENVIRONMENTAL MATTERS.”

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 “USE OF AIRPORT FACILITIES – Disputes Regarding the Airport Terminal Tariff” and “CAPITAL IMPROVEMENT PLANNING – Federal 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 Master Senior Indenture, the Master Subordinate Indenture and the Parity 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 Pledged Revenues and Subordinate 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 Bonds was undertaken, it would not adversely affect the market value of Bonds.

In addition, as is described in greater detail under “CAPITAL IMPROVEMENT PLANNING – Settlement of Master Plan Litigation” and under the heading “—Other Factors Affecting the Airport – Stipulated Settlement” in the 2009 Report of the Airport Consultant, which is included in APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT,” the Department is a party to a settlement agreement that requires the Department to discontinue passenger operations at two narrow-body equivalent gates per year starting in 2010 until the Department has discontinued passenger operations by a total of ten narrow-body equivalent gates, unless LAX is serving less than 75 million annual passengers or if, through amendments to the LAX Master Plan described below under “CAPITAL IMPROVEMENT PLANNING – Master Plan; Airport Capacity and Future Improvements,” LAX has 153 gates or less.

It is not possible to predict whether future restrictions or limitations on Airport operations 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 Pledged Revenues.

#### **Seismic Risks**

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. A forecast prepared by U.S. Geological Survey, Southern California Earthquake Center, and California Geological Survey and released in April 2008 indicates that there is a 67% chance that an earthquake measuring 6.7 or larger on the Richter Scale will occur in the greater Los Angeles area, and a 97% chance that such an earthquake will occur in Southern California, by 2037. 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. 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 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.

#### **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. See “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges.”

The Department expects, and the forecasts in the Report of the Airport Consultant assume, that the Department will use certain available PFC revenues to pay a portion of the debt service on the Series 2008A Senior Bonds, the Series 2009A Senior Bonds and the Series 2010D Senior Bonds. The Department may elect in the future to use PFC revenues to pay the debt service on Additional Subordinate Bonds or Additional Senior Bonds which are PFC Eligible Bonds (as defined herein). See “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges,” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information about the Department’s expected use of PFC revenues.

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 2010D SENIOR 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.”

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” 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 (“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 parity securities, to finance the projects currently being paid for, or projected to be paid for, with PFC revenues.

#### **Delays and Cost Increases; Future Capital Projects; Additional Indebtedness**

The estimated costs of and the projected schedule for the capital projects are described under “CAPITAL IMPROVEMENT PLANNING – Capital Improvements Program” and included in the financial analysis in the Report of the Airport Consultant are subject to a number of uncertainties. The ability of the Department to complete its capital projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope 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 projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Additional Senior Bonds, Additional Subordinate Bonds and/or Subordinate Commercial Paper Notes and may result in increased costs to the airlines operating at the Airport.

In addition, certain funding sources are assumed to be available for such 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 “CAPITAL IMPROVEMENT PLANNING – Capital Improvement Program” 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 will have 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. Such changes could result in actual results differing materially from the projections in the Report of the Airport Consultant.



In addition, the Department intends to undertake future capital projects at LAX. Some of such projects are described in APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” Because the cost, scope and timing for undertaking other future projects not described in the Report of the Airport Consultant is uncertain, associated financial impacts are not included in the financial analysis in the Report of the Airport Consultant. In addition, it is possible that the Department may pursue projects not incorporated in the analysis reflected in the Report of the Airport Consultant, the costs of which are not known at this time. If additional projects are undertaken, the Department likely would have to issue Additional Senior Bonds and/or Additional Subordinate Bonds to finance such projects, and may have to divert resources to such projects. As a result, actual results could differ materially from projections.

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 projections.

### **Enforceability of Remedies; Limitation on Remedies**

As discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS – Events of Default and Remedies; No Acceleration,” there is no right to acceleration of payments to bondholders and bondholders may be required to make a separate claim for each semiannual payment not paid. Further, as discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS,” the CP Reimbursement Agreement permits the CP Banks to accelerate the payments due the CP Banks in certain circumstances. Further, the remedies available to the owners of the Series 2010D Senior Bonds upon an Event of Default under the Senior Indenture are in many respects dependent upon regulatory and judicial actions that are subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Senior Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Series 2010D Senior Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2010D Senior 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.

### **Rate Covenant Limitations**

As described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS – Senior Bonds – Senior Rate Covenant,” the Senior Indenture includes covenants with respect to the establishment of rates and charges. However, the Senior 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 maintenance and operation expenses is limited by, among other things, federal law (including the provisions thereof described under “—Regulations and Restrictions Affecting LAX”) and by the terms of the leases between the Department and airlines or other tenants.

### **Assumptions in the Report of the Airport Consultant**

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 report is subject to uncertainties. The Report of the Airport Consultant 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 assumptions on which the forecasts in the Report of the Airport Consultant is based will materialize. 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 projection period will vary from those set forth in APPENDIX A and the variations may be material. Further, the Report of the Airport Consultant does not cover the entire period through maturity of the Series 2010D Senior Bonds. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.”

### **Retirement Plan Funding**

As described under “THE DEPARTMENT OF AIRPORTS – Retirement Plan,” Department employees, including Airport Police, participate in the Los Angeles City Employees’ Retirement System (“LACERS”). Since June 30, 2008, LACERS has experienced significant investment losses and has reported an unfunded actuarial accrued liability (“UAAL”) for retirement benefits of approximately \$2.46 billion and approximately \$1.75 billion,

and for health subsidy benefits, of approximately \$716 million and approximately \$585 million as of June 30, 2009 and June 30, 2008, respectively. For Fiscal Year 2011 the Department has budgeted approximately \$311.5 million for salaries, benefits and other payroll expenses for the Department's employees at LAX, which amount accounts for approximately 54.9% of budgeted Fiscal Year 2011 operating expenses for LAX. LACERS UAALs and sustained increases in the costs of providing retirement and health subsidy benefits may require the Department to make substantial contributions to LACERS in the future and may adversely affect the Department's financial condition. Factors beyond the Department's control, including but not limited to, the interest rate environment and 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. The Department expects to be required to make substantial contributions to LACERS in the future to fund LACERS UAALs attributable to LAX. See "THE DEPARTMENT OF AIRPORT – Retirement Plan" and APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES"

### **AIRLINE INDUSTRY INFORMATION**

Many of the major scheduled domestic airlines serving LAX, or their respective parent corporations, and many of the foreign airlines serving LAX with American Depository 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, Room 4201, 400 Seventh Street, S.W., 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," "—Financial Condition of the Airlines," "—Effect of Airline Bankruptcies" and "—Aviation 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 2010D Senior Bonds.**

### **LITIGATION REGARDING THE SERIES 2010D SENIOR 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 2010D Senior Bonds or in any way contests the validity of the Series 2010D Senior Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2010D Senior Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2010D Senior 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 2010D Senior Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2010D Senior Bond for any period during which such Series 2010D Senior Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2010D Senior 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 2010D Senior Bonds is not a specific preference item nor included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. 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 2010D Senior Bonds. Failure to comply with such requirements could cause interest on the Series 2010D Senior Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2010D Senior 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 2010D Senior Bonds.

Bond Counsel is further of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Series 2010D Senior Bonds is exempt from State of California personal income taxes.

The accrual or receipt of interest on the Series 2010D Senior Bonds may otherwise affect the federal income tax liability of the owners of the Series 2010D Senior Bonds. The extent of these other tax consequences will depend upon such owners’ particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2010D Senior 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, 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 2010D Senior 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 2010D Senior Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 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 new reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2010D Senior 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 2010D Senior 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 2010D Senior 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 2010D Senior Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2010D Senior 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 2010D Senior 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 Discount**

The Series 2010D Senior Bonds maturing on May 15, 2019 and bearing interest at 3.00%; May 15, 2020 and bearing interest at 3.250%; May 15, 2021 and bearing interest at 3.500%; May 15, 2025 and bearing interest at 4.125%; May 15, 2030 and bearing interest at 4.500%; May 15, 2035 and bearing interest at 4.750%; and May 15, 2040 (collectively, the “Discount Bonds”) are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described under “– General” above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

#### **Tax Treatment of Original Issue Premium**

The Series 2010D Senior Bonds that are not Discount Bonds (collectively, the “Premium Bonds”) are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium 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 Premium 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 Premium Bond prior to its maturity. Although the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium 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 Premium Bond.

#### **RATINGS**

S&P, Moody’s and Fitch, have assigned ratings of AA, Aa3 and AA, respectively, to the Series 2010D Senior 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, New York, New York 10041; Moody’s, 7 World Trade Center, 250 Greenwich Street, 23<sup>rd</sup> Floor, 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 2010D Senior 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 2010D Senior Bonds.

## **LEGAL MATTERS**

The validity of the Series 2010D Senior 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 hereto. 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 Carmen Trutanich, Esq., City Attorney. QUATEMAN LLP serves as Disclosure Counsel to the Department. Certain matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP.

## **FINANCIAL ADVISORS**

The Department has retained the services of Frasca & Associates, L.L.C. of New York, New York and Public Resources Advisory Group of Los Angeles, California, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2010D Senior 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. Both of the Co-Financial Advisors perform other services for the Department.

## **AIRPORT CONSULTANT**

The Report of the Airport Consultant prepared by Ricondo & Associates, Inc. has been included as APPENDIX A to this Official Statement with the consent of such consultants. The 2009 Report of the Airport Consultant was prepared in conjunction with the issuance of the Series 2009 Bonds and the Airport Consultant Letter was prepared in conjunction with the issuance of, among other bonds, the Series 2010D Senior 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 projections 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 projections set forth in the Report of the Airport Consultant. Ricondo & Associates, Inc. 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 2009 and 2008 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 2010D Senior 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 material events for purposes of Rule 15c2-12 adopted by the SEC. Within the past five years, the Department has not failed to comply, in all material respects, with any continuing disclosure undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. 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 2010D Senior Bonds are being purchased from the Department by J.P. Morgan Securities LLC, on its own behalf and on behalf of Cabrera Capital Markets, LLC, Citigroup Global Markets Inc., Loop Capital Markets, LLC and Samuel A. Ramirez & Company, Inc., the underwriters of the Series 2010D Senior Bonds (the "Underwriters"), at a price of \$898,042,219.11 (consisting of the aggregate principal amount of \$875,805,000.00, plus a net original issue premium of \$26,743,145.65 and less an underwriters' discount of \$4,505,926.54) all subject

to the terms of a Bond Purchase Agreement between the Department and the Underwriters (the “Purchase Agreement”).

The Purchase Agreement provides that the Underwriters shall purchase all of the Series 2010D Senior Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the 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 hereof. The Underwriters may offer and sell the Series 2010D Senior Bonds to certain dealers (including dealers depositing the applicable Series 2010D Senior 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 hereof.

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

J.P. Morgan Securities LLC, one of the underwriters for the Series 2010D Senior Bonds, has entered into dealer agreements (each, a “Dealer Agreement”) with UBS Financial Services Inc. and Charles Schwab & Co., Inc. for the retail distribution of certain securities offerings, including the Series 2010D Senior Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBS Financial Services Inc. and Charles Schwab and Co., Inc. will purchase Series 2010D Senior Bonds from J.P. Morgan Securities LLC at the original issue prices less a negotiated portion of the selling commission applicable to any Series 2010D Senior Bond that such firm sells.

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

Citigroup Inc., the parent company of Citigroup Global Markets Inc., has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Series 2010D Senior Bonds.

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 2010D Senior 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 Parity Subordinate Indenture, 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 2010D Senior Bonds.

## **PART II**

### **THE DEPARTMENT OF AIRPORTS**

#### **General Description**

The City, acting through the Department, currently operates three airports in the Los Angeles Air Trade Area. The airports are LAX, LA/ONT and VNY. In addition, the Department maintains LA/PMD, although LA/PMD is not currently certificated by the FAA. The Department voluntarily returned the certificate relating to LA/PMD to the FAA, but may, upon compliance with certain requirements, have the LA/PMD certificate reissued. The Airport System is operated as a financially self-sufficient enterprise, without City General Fund support.

LAX is the major facility in the Airport System and accounted for approximately 92.3% of the total passenger traffic, approximately 82.6% of the air cargo volume and 87.3% of the air carrier operations for the Airport System for Fiscal Year 2010. LAX served approximately 57.9 million enplaned and deplaned passengers in Fiscal Year 2010, up approximately 2.4% from approximately 56.2 million in Fiscal Year 2009. As of October 1, 2010, LAX was served by 65 scheduled passenger carriers, seven unscheduled passenger carriers and 26 air cargo carriers. See “—Aviation Activity” and “LOS ANGELES INTERNATIONAL AIRPORT.”

LA/ONT is a medium-hub, full-service airport with commercial jet service to many major cities in the United States and connecting service to many international destinations. LA/ONT is located approximately 35 miles east of downtown Los Angeles and approximately 50 miles east of LAX and occupies approximately 1,463 acres. LA/ONT served approximately 4.8 million enplaned and deplaned passengers in Fiscal Year 2010, representing approximately 7.7% of the total enplaned and deplaned passengers of the Airport System for Fiscal Year 2010. As of October 1, 2010, LA/ONT was served by 18 scheduled passenger carriers and cargo carriers and 53 unscheduled passenger and cargo carriers. The Department operates LA/ONT pursuant to a Joint Powers Agreement with the City of Ontario.

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 the busiest general aviation airport in the United States with approximately 342,583 movements in Fiscal Year 2010 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. LA/PMD is located on United States Air Force Plant 42 (“Plant 42”). The Department owns approximately 17,750 acres of land east of Plant 42. The Plant 42 property is leased from the United States Air Force (the “Air Force”) pursuant to a lease (the “Plant 42 Lease”) between the Air Force, as lessor, and the City of Palmdale, as lessee. The rights under the Plant 42 Lease were assigned to the City. After scheduled service was discontinued and the Department returned the LA/PMD certificate to the FAA, the City Council of the City of Palmdale adopted a resolution to rescind, revoke and terminate the assignment of the Plant 42 Lease. The effectiveness of the Plant 42 Lease remains the subject of a dispute.

#### **Airports in Airport System Comparison**

Certain operating data for LAX, LA/ONT, 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 2010<sup>(1)</sup>**

<b>Airport</b>	<b>Net Operating Revenues (000)<sup>(2)</sup></b>	<b>Enplanements and Deplanements</b>	<b>Aircraft Arrivals and Departures</b>	<b>Total Landed Weight (000)<sup>(3)</sup></b>	<b>Enplaned/Deplaned Cargo (Tons)</b>
LAX	\$ 129,355	57,897,845	537,626	47,327,082	1,859,253
LA/ONT	4,009	4,827,764	78,256	5,388,876	390,734
VNY	2,183	--	44	23,588	--
LA/PMD <sup>(4)</sup>	(860)	--	--	--	--
Total <sup>(5)</sup>	\$ 134,687	62,725,609	615,926	52,739,546	2,249,988

<sup>(1)</sup> Derived from unaudited financial statements.

<sup>(2)</sup> 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 Master Senior Indenture.

<sup>(3)</sup> Reflects landed weight for revenue-generating landings only.

<sup>(4)</sup> See "--Subsidization of Other Airports" below. Currently there is no scheduled service at LA/PMD. See "--General Description."

<sup>(5)</sup> 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.

The two separate accounts within the Airport Revenue Fund reflect the Department's expectation that LA/ONT is expected to be operated as an entirely self-sufficient enterprise (absent extraordinary circumstances) and that LAX Revenues are expected to continue to be used to subsidize VNY and LA/PMD, to the extent necessary. However, the Board may elect to provide funding for various enhancements within the Airport System, including LA/ONT, as part of its regional planning efforts. LAX Revenues were last used to subsidize operations at LA/ONT in Fiscal Year 2002.

In Fiscal Year 2010, LAX provided a subsidy to VNY of approximately \$6.0 million. Since VNY serves as a reliever airport for LAX, the VNY subsidy was 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. The Department expects to provide subsidies to VNY in the future, and no assurance can be given that such subsidies will not be substantially higher than they have been in the past.

In Fiscal Year 2010, LAX provided a subsidy of approximately \$1.8 million 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 SYSTEMS ENVIRONMENTAL MATTERS – Hazardous Substances." 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.

### **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:



<b>Member</b>	<b>Occupation</b>	<b>Date of Appointment</b>	<b>Current Term Expires</b>
Alan I. Rothenberg, President	Businessman	September 2005	June 30, 2014
Valeria C. Velasco, Vice President	Attorney	September 2005	June 30, 2012
Joseph A. Aredas	Labor Executive	September 2005	June 30, 2015
Michael A. Lawson	Attorney	September 2005	June 30, 2011
Fernando Torres-Gil	University Dean	September 2005	June 30, 2013
Walter Zifkin	Entertainment Executive	June 2004	June 30, 2012
Vacant	--	--	--

The Mayor has appointed Boyd Hight to the Board to serve the remainder of the unexpired term created by the vacancy, through June 30, 2014. His appointment is pending City Council confirmation.

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 consists of five members of the City Council, two of whom are designated by the President of the City Council and three of whom consist of the Chairman of the Budget and Finance Committee, the Chairman of the Land Use Management Committee and the Chairman of the Commerce, Energy and Natural Resources Committee. The Board of Referred Powers recently approved certain concession contracts. See “USE OF AIRPORT FACILITIES – Concession and Parking Agreements.”

### **Oversight by City Council**

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 2010D Senior Bonds on March 12, 2010.

### **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 Executive Director 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 39 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 June 30, 2010 there were 3,758 authorized positions for the Airport System. The current principal administrative officers and their positions are named below:

***Gina Marie Lindsey, Executive Director.*** Gina Marie Lindsey was appointed as Executive Director effective June 4, 2007. Before joining the Department, Ms. Lindsey was Executive Vice President of McBee Strategic Consulting, LLC, a government relations and aviation consulting firm in Washington, D.C. Prior to holding that post, she was Managing Director for the Seattle-Tacoma International Airport (SEA) (“Sea-Tac”) where she was responsible for the operations, maintenance, planning and construction of the airport. Under her guidance, Sea-Tac embarked on a \$3-billion, 7-year capital improvement program, including the construction of a new runway, demolition and reconstruction of a concourse, and major refurbishments. She also served as Director of Aviation for Anchorage International Airport (ANC) where she managed the airport’s transition from an international passenger refueling stop to an international cargo hub for Federal Express and United Parcel Service. Prior to managing airports, she worked for the Alaska Department of Transportation on surface transportation issues. She was appointed by the U.S. Secretary of Transportation to the Airport Cooperative Research Board, and also has served on the World Board of Directors for ACI and chaired ACI-North America in 2003. Ms. Lindsey has a degree in communications media and business from Walla Walla College.

**Stephen C. Martin, Chief Operating Officer.** Mr. Martin was appointed Chief Operating Officer in January 2008. Mr. Martin has over 29 years of experience in airport and transportation development and finance. Prior to joining the Department, Mr. Martin served as Executive Vice President and Chief Financial Officer of ACI. Previously, he was a consultant for 10 years with Leigh Fisher Associates in San Francisco where he specialized in finance, project development and privatization. Mr. Martin also held the position of Director of Financial Development in the Office of the Secretary at the U.S. Department of Transportation (“U.S. DOT”) from 1993 to 1996. Earlier in his career, Mr. Martin was with the Massachusetts Port Authority (“Massport”) for twelve years. For six of those years he was the Director of Finance and Business Development for all of Massport’s lines of business. Initially at Massport, Mr. Martin worked at Logan International Airport (BOS) as an Assistant Director of Aviation. Mr. Martin has a Master’s degree in economics from Northeastern University and a Bachelor’s degree in economics from the University of Massachusetts.

**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.

**Michael D. Feldman, Deputy Executive Director, LAWA Facilities Management.** Mr. Feldman was appointed as Deputy Executive Director, Facilities Management in May 2009. He is responsible for providing technical ownership and maintaining the functional integrity and reliability of the Department’s physical assets, environmental regulatory compliance, sustainability, strategic and current planning required to guide investment in new facilities and renewal of existing assets. Mr. Feldman has 28 years of experience in airport planning, environmental management, facilities management and maintenance. Prior to joining the Department, he served as the Deputy Managing Director at the Port of Seattle’s Aviation Division. He recently served two terms as President of the Airport Facilities Council of the International Facilities Management Association and is a Certified Member of the American Association of Airport Executives. Mr. Feldman holds a Bachelor of Science degree in Resource Planning and Interpretation from the Humboldt State University and is currently an Executive MBA candidate at the University of Washington, Foster School of Business.

**Roger Johnson, Deputy Executive Director, LAX Development.** 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 the Program Director for the Department’s Development Group and is responsible for the LAX modernization and for major construction projects at LA/ONT and 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 Environmental Impact Study/Environmental Impact Report (the “LAX Master Plan EIR”). 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 Services Division. Mr. Johnson graduated from California State Polytechnic University, Pomona with a Bachelor of Science in Engineering.

**Samson Mengistu, Deputy Executive Director, Administration.** Mr. Mengistu is the Deputy Executive Director for Administration at LAWA. In this position he oversees the functions of the Comptroller, the Board Office, Human Resources, Risk Management and Contract Services. Mr. Mengistu joined the City in 1989 after working extensively in the property management field. Mr. Mengistu established and managed the Department’s soundproofing program. Immediately prior to his current position, he served as Deputy Executive Director for Finance and Administration and as the Department’s Acting Executive Director from February to June 2007. Mr. Mengistu was appointed 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 Chief Assistant to the Executive Director from 1999 to 2003, he assisted in managing and directing professional, technical and support personnel. Mr. Mengistu earned a

Bachelor of Arts degree in Economics and a Master of Science in Public Administration from California State University, Los Angeles.

**Michael Molina, Deputy Executive Director, External Affairs.** Mr. Molina serves as Deputy Executive Director, External Affairs for the Department. He joined the Department in March 2008 as Director of Government Affairs, and in August 2008 Mr. Molina was appointed to direct all external communications, overseeing the Public Affairs, Community Relations, Business and Job Resources, Air Service Marketing and Government Affairs divisions. Mr. Molina joined the City in March 2000, serving on the staffs of two members of the City Council. Prior to his appointment at the Department, he served as Chief of Staff for Councilwoman Janice Hahn, a post he held since July 2001. He previously worked with Mr. Hahn's predecessor, former Councilman Rudy Svorinich, Jr. Mr. Molina worked in the field of community relations before entering public service. Mr. Molina is a graduate of California State University Dominguez Hills.

**Jacqueline Yaft, Deputy Executive Director, Operations and Emergency Management.** Mrs. Yaft was appointed Deputy Executive Director, Operations and Emergency Management in July 2009. She is responsible for airside, terminal and landside operations at all of the airports in the Airport System, and also for the Emergency Management Division. Prior to joining the Department, Mrs. Yaft worked at Denver International Airport (DIA) where she held the position of Assistant Deputy Manager of Aviation. Mrs. Yaft held positions with John F. Kennedy International Airport (JFK) in New York and with Kansas City International Airport (MCI) in Missouri. She holds a Bachelor of Science degree in Aviation Management from the Metropolitan State College of Denver and a Master's in Business Administration from Embry-Riddle Aeronautical University.

**Wei Chi, Deputy Executive Director, Comptroller.** Mr. Chi was appointed as Deputy Executive Director and Comptroller in August 2008. He is responsible for managing the Department's Financial Reporting, Risk Management, Accounting Operations and Financial Management System divisions. Before joining the Department, Mr. Chi was the Assistant Chief Financial Officer for the Port of Long Beach. Prior to the Port of Long Beach, he was a senior executive with BP, plc and ARCO for over 25 years, serving in a variety of global roles including treasury, planning, retail, human resources and operations. Mr. Chi holds a Master of Business Administration degree in Finance from the Wharton School at the University of Pennsylvania and a Bachelor of Science degree in Chemical Engineering from Columbia University.

**Dominic Nessi, Deputy Executive Director, Chief Information Officer.** Mr. Nessi was appointed Deputy Executive Director and Chief Information Officer in September 2007. He is responsible for all information technology-related functions. Prior to joining the Department, Mr. Nessi was in the federal government's Senior Executive Service where he served as the first Chief Information Officer of the United States Department of the Interior - U.S. National Park Service. Mr. Nessi also served as Chief Information Officer of the United States Bureau of Indian Affairs from 1998 to 2001 and as a Deputy Assistant Secretary for the United States Department of Housing and Urban Development from 1988 through 1997. Mr. Nessi holds a Bachelor of Science degree in Computer Science from Roosevelt University in Chicago, a Bachelor of Arts degree in Political Science from Northern Illinois University, a Masters in Public Administration from the University of Colorado, a Master's Certificate in Applied Project Management from Villanova University in Pennsylvania and a variety of other professional certifications.

**David Shuter, Deputy Executive Director, Facilities Engineering and Maintenance.** Mr. Shuter was appointed Deputy Executive Director of Projects and Facilities Development in October 2006. Mr. Shuter oversees the Facilities Engineering and Technical Services Division, the Construction Inspection Division, Engineering and Inspection Division and the Construction and Maintenance Division. In his previous position as Deputy and 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. He was the executive director of the Orange County Fixed Guideway Agency, a member of the Orange County Airport Land Use Commission. Mr. Shuter holds a Bachelor of Science degree in Aeronautical Engineering and a Master of Science in Aerospace Engineering.

**Ryan Yakubik, Director of Capital Development and Budget.** Mr. Yakubik was appointed Manager of the Finance and Budget Division in October of 2007. He is responsible for overseeing the Department's airline rates and charges, ground transportation rates and strategy, grants administration, operating budget, capital budget and all debt-related functions at LAX and LA/ONT. Previously, he had served as manager of the Debt and Treasury

Section since his arrival at the Department in mid-2005. During that time, he also served as Acting Manager of the Operating Budget Section. Mr. Yakubik came to the Department after more than eight years in the financial services industry where he most recently served as a fixed income portfolio manager for institutional clients. Mr. Yakubik holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles and is a Chartered Financial Analyst.

***Kelly M. Martin, General Counsel.*** Ms. Martin was appointed General Counsel by the City Attorney in February 2007. She advises the Department and the Board on legal matters related to the operation and management of the Airport System. Ms. Martin's professional experience includes serving as Chief of Staff to Los Angeles Mayor Richard Riordan, where she was responsible for long-term strategic planning. Prior to that, as Deputy Mayor for Finance and Policy, she was responsible for overseeing the operations of City departments. Prior to her position with the Office of the City Attorney, Ms. Martin held a variety of legal positions in the private sector, serving as vice president and general counsel of Merisel, Inc. and as a partner in the law firm of Riordan and McKinzie. Ms. Martin was appointed to the ACI-North America legal steering committee in April 2008. She also serves on the Board of Trustees of Southwestern Law School. Ms. Martin received her Juris Doctor degree from the University of Southern California in 1985 and graduated Order of the Coif. Her Bachelor of Arts degree in history and psychology is from the University of Manitoba.

### **Employees and Labor Relations**

The Department is a civil service organization, which as of June 30, 2010 had 3,758 authorized positions, of which 3,377 were authorized at LAX, 305 were authorized at LA/ONT and 76 were authorized at VNY and LA/PMD combined. Department employees are employed in more than 271 different civil service classifications. 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 22 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, 2010.

**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**

<b>Bargaining Unit</b>	<b>Expires</b>
<b>Service Employees International Union, Local 347</b>	
Equipment Operation and Labor Employees Representation Unit No. 4	June 30, 2013
Professional Engineering and Scientific Unit No. 8	June 30, 2010*
Service and Craft Representation Unit No. 14	June 30, 2013
Service Employees Representation Unit No. 15	June 30, 2010*
Supervisory Professional Engineering and Scientific Unit No. 17	June 30, 2013
Safety/Security Representation Unit No. 18	June 30, 2013
<b>Municipal Construction Inspectors Association, Inc.</b>	
Inspectors Unit No. 5	June 30, 2010*
<b>Los Angeles Professional Managers Association</b>	
Management Employees Unit No. 36	June 30, 2013
<b>American Federation of State, County and Municipal Employees</b>	
Clerical and Support Services Unit No. 3	June 30, 2013
Executive Administrative Assistants Unit No. 37	June 30, 2013
<b>Engineers and Architects Association</b>	
Administrative Unit No. 1	June 30, 2011
Supervisory Technical Unit No. 19	June 30, 2011
Supervisory Administrative Unit No. 20	June 30, 2011
Technical Rank and File Unit No. 21	June 30, 2011
<b>Local No. 501, International Union of Operating Engineers</b>	
Plant Equipment Operation and Repair Representation Unit No. 9	June 30, 2013
<b>Los Angeles City Supervisors and Superintendents Association, Laborer's International Union of North America, Local 777</b>	
Supervisory Blue Collar Unit No. 12	June 30, 2013
<b>Los Angeles/Orange Counties Building and Construction Trades Council</b>	
Building Trades Rank and File Representation Unit No. 2	June 30, 2013
Supervisory Building Trades and Related Employees Representation Unit No. 13	June 30, 2013
Use of Union Hiring Halls for Temporary Use of Craft Workers No. 35	On-going
<b>Los Angeles Airport Peace Officers Association</b>	
Peace Officers Representation Unit No. 30	June 30, 2010*
<b>Airport Supervisory Police Officers' Association of Los Angeles</b>	
Supervisory Peace Officers' Unit No. 39	June 30, 2009*
<b>Airport Police Command Officers Association of Los Angeles</b>	
Management Peace Officers' Unit No. 40	June 30, 2009*

\* 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 39 divisions; acting as hearing officer in disciplinary meetings; representing management in grievance 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 the Los Angeles City Employees' Retirement System ("LACERS"). LACERS is a contributory plan, established in 1937 under the Charter, covering most City employees except 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 City is currently projecting significant increases to the amount it will contribute to LACERS in Fiscal Years 2011, 2012, 2013 and 2014. See APPENDIX H – "FINANCIAL OPERATIONS – Retirement System." 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 number of the Department's employees covered and the retirement benefits accruing to those employees.

The Department contributed approximately \$40.1 million, \$37.9 million, \$39.7 million, \$34.6 million and \$33.5 million to LACERS with respect to LAX in Fiscal Years 2010, 2009, 2008, 2007 and 2006, respectively. In each of these Fiscal Years, the Department contribution was equal to 100% of its annual required contribution as calculated by LACERS and its actuaries. The Department expects its Fiscal Year 2011 annual required contribution for LAX to equal approximately \$49.1 million, and has included this amount in its Fiscal Year 2011 LAX Operating Budget. The Department expects that its contributions to LACERS will continue to increase, in amounts that may be significant.

The information in this paragraph is derived from the April 22, 2010 LACERS' Revised Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2009, to Reflect Early Retirement Incentive Program (ERIP) Elections (the "LACERS Valuation Report"). LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately \$2.46 billion with respect to retirement benefits and approximately \$716 million with respect to health subsidy benefits as of June 30, 2009 and an UAAL of approximately \$1.75 billion with respect to retirement benefits and approximately \$585 million with respect to health subsidy benefits as of June 30, 2008. The actuarial value of LACERS total system assets was approximately \$10.9 billion as of June 30, 2009 and approximately \$10.8 billion as of June 30, 2008. The market value of LACERS total system assets was approximately \$8.1 billion as of June 30, 2009 and approximately \$10.4 billion as of June 30, 2008. The valuation value of LACERS retirement system assets was approximately \$9.6 billion as of June 30, 2009 and approximately \$9.4 billion as of June 30, 2008. The valuation value of LACERS retiree health assets was approximately \$1.3 billion as of June 30, 2009 and June 30, 2008. Based on the valuation value of LACERS assets, the LACERS total funded ratio was approximately 77.4% (comprised of 79.5% for retirement benefits and 65.2% for health subsidy benefits) as of June 30, 2009 and approximately 82.2% (comprised of 84.4% for retirement benefits and 69.7% for health subsidy benefits) as of June 30, 2008. Based on the market value of LACERS assets, the LACERS total funded ratio was approximately 57.6% (comprised of 59.2% for retirement benefits and 48.5% for health subsidy benefits) as of June 30, 2009 and approximately 78.9% (comprised of 81.0% for retirement benefits and 66.9% for health subsidy benefits) as of June 30, 2008.

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. See APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES" requiring LACERS' and the City's projections of contribution rates and required annual contributions.

Investors are cautioned that information about 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 additional information regarding LACERS, see the information in Appendix H – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – BUDGET AND REVENUES,” which has been reproduced from the Official Statement of the City dated June 30, 2010 in connection with the City’s 2010 Tax and Revenue Anticipation Notes, the information in Appendix H – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – FINANCIAL OPERATIONS,” which has been reproduced from the Official Statement of the City dated October 14, 2010 in connection with the City’s Wastewater System Revenue Bonds, the information in Appendix H from the Preliminary Official Statement of the City dated November 1, 2010 in connection with the Municipal Improvement Corporation of the City of Los Angeles Lease Revenue Bonds, Series 2010A, Series 2010B, Series 2010C and Series 2010D and the City’s Comprehensive Annual Financial Report for the Fiscal Year as of June 30, 2009, each of which are available from the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. Additional information regarding LACERS assumptions, plan details and investment of plan assets can be found in the “Los Angeles City Employees’ Retirement System, Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2009” and the LACERS Valuation Report (together, the “LACERS Reports”), both of which are available on LACERS’ website. The Department is relying upon, and has not independently confirmed or verified, the accuracy or completeness of Appendix H, the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2009 or the LACERS Reports, or other information incorporated by reference therein.

See “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 3,673 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 for Fiscal Year 2010 accounted for approximately 92.3% of the total passenger traffic, approximately 82.6% of the air cargo volume and approximately 87.3% of the air carrier operations for the Airport System.

No airline dominates in shares of enplaned passengers or provides formal “hubbing” activity at LAX. Approximately 30% of LAX’s domestic passenger traffic (and approximately 20% of LAX’s total passenger traffic) is connecting, and no air carrier accounted for more than approximately 20% of LAX’s domestic enplanements between Fiscal Year 2006 and Fiscal Year 2010. In calendar year 2009, 80.4% of passengers at LAX represented originating and destination passengers (that is, all passengers beginning or ending their trips at LAX). The remaining 19.6% 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.

### **Facilities**

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 4.4 million square feet. Although many of the terminals are physically connected, they function as independent terminals with separate ticketing, baggage, security checkpoints and passenger processing systems. The terminals share a common aircraft gate access system.

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 upper-level concourses to field arrival/departure areas. LAX currently has a total of 108 contact gates in the Central Terminal Area and a number of remote gate positions. Several of the jet gates accommodate commuter airplanes.

The existing airfield consists of four parallel east-west runways configured in two pairs. The north airfield complex includes Runway 6L-24R (8,925 feet) and Runway 6R-24R (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 four runways. To enhance the safety of the runways at LAX, in 2008 the Department completed improvements to the south airfield complex including, among others, construction of a new parallel taxiway between the two south airfield runways and the relocation of the southern-most runway, Runway 7R-25L.

Approximately 18,800 public parking spaces are available at LAX, including approximately 8,800 parking spaces in eight parking garages in the Central Terminal Area, 2,700 parking spaces at a surface parking lot property adjacent to Terminal 1 and 7,300 parking spaces in an economy-rate, remote surface parking lot. To help reduce vehicle traffic congestion in the Central Terminal Area, the Department also provides a 77-space cell phone waiting lot where motorists meeting arriving passengers can wait for free until passengers call to indicate they are ready to be picked up along the terminal curbside.

Cargo facilities at LAX provide approximately 1.9 million square feet of building space in 25 buildings on 175 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 utilities plant, two flight kitchens, a fuel farm, and FAA, Transportation Security Administration (“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 October 1, 2010. 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 OCTOBER 1, 2010**

<u>Scheduled U.S. Carriers (20)</u>	<u>Foreign Flag Carriers (45)</u>	<u>Nonscheduled Carriers (7)</u>	<u>All-Cargo Carriers (26)</u>
AirTran <sup>2</sup>	Aero California	Clay Lacy Aviation	Aeromexpress
Alaska	Aeroflot	Miami Air	Aerotransporte De Carga Union
Allegiant Air	AeroMexico	North American	Aerotransporte Mas De Carga
American	Air Berlin	Pace	Air Transport International
American Eagle	Air Canada	Skybird	Airborne Express
Continental <sup>1</sup>	Air China	USA Jet	Ameriflight
Delta	Air France	World Airways	Astar
ExpressJet	Air Atlanta Islandic		Atlas Air
Frontier	Air Lingus		Cargolux
Hawaiian	Air New Zealand		China Cargo
Horizon	Air Pacific		DHL/Airborne
Jet Blue	Air Tahiti Nui		FedEx
Mesa	Alitalia		Florida West
Midwest	All Nippon		Gemini Air Cargo
Southwest <sup>2</sup>	Asiana		Gulf Caribbean Cargo
Spirit	Avianca		IFL Group
Sun Country	British Airways		Kalitta Air
United <sup>1</sup>	Cathay Pacific		Lan Cargo
US Airways	China		Nippon Cargo
Virgin America	China Eastern		Polar Air
	China Southern		Shanghai Airlines Cargo
	Copa		Singapore Airlines Cargo
	El Al Israel		Southern Air
	Emirates		Tradewinds Airlines
	Eva Airways		United Parcel Service
	Japan <sup>3</sup>		Yangtze River Express Airlines
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	Lufthansa		
	Malaysia		
	Martinair Holland		
	Mexicana <sup>4</sup>		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	TACA		
	Thai Airways		
	Virgin Atlantic		
	Virgin Blue International Airlines		
	Volaris		
	WestJet		

<sup>1</sup> In 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operation under the United Airlines name. This merger was consummated on October 1, 2010. Although the merger is complete, United and Continental have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated.

<sup>2</sup> In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest’s acquisition of AirTran. The acquisition is subject to government and shareholder approval. Until the acquisition is complete, Southwest and AirTran will operate as separate airlines.

<sup>3</sup> Japan Airlines filed for bankruptcy protection in January 2010, but continues to operate at LAX.

<sup>4</sup> CMA Mexicana Airlines filed for bankruptcy protection on August 2, 2010 and has ceased operations at LAX.

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

## Aviation Activity

For calendar year 2009, LAX ranked as the 7<sup>th</sup> busiest airport in the world and the 3<sup>rd</sup> busiest in the United States in terms of total number of enplaned and deplaned passengers (totaling approximately 56.5 million) according to ACI. For calendar year 2009, ACI statistics ranked LAX as the 13<sup>th</sup> busiest airport in the world and the 5<sup>th</sup> busiest in the United States in terms of total cargo with approximately 1.5 million enplaned and deplaned metric tons. The following table shows the air passenger activity, total operations 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 2009**

Rank	Airport	Total Passengers	Airport	Total Operations	Airport	Total Cargo (metric tons) <sup>1</sup>
1	Atlanta (ATL)	88,032,086	Atlanta (ATL)	970,235	Memphis (MEM)	3,697,054
2	London (LHR)	66,037,578	Chicago (ORD)	827,899	Hong Kong (HKG)	3,385,313
3	Beijing (PEK)	65,372,012	Dallas (DFW)	638,782	Shanghai (PVG)	2,543,394
4	Chicago (ORD)	64,158,343	<b>Los Angeles (LAX)</b>	<b>634,383</b>	Incheon (ICN)	2,313,001
5	Tokyo (HND)	61,903,656	Denver (DEN)	607,019	Paris (CDG)	2,054,515
6	Paris (CDG)	57,906,866	Houston (IAH)	538,168	Anchorage (ANC)	1,994,629
7	<b>Los Angeles (LAX)</b>	<b>56,520,843</b>	Paris (CDG)	525,314	Louisville (SDF)	1,949,528
8	Dallas (DFW)	56,030,457	Las Vegas (LAS)	511,064	Dubai (DXB)	1,927,520
9	Frankfurt (FRA)	50,932,840	Charlotte (CLT)	509,448	Frankfurt (FRA)	1,887,686
10	Denver (DEN)	50,167,485	Beijing (PEK)	488,505	Tokyo (NRT)	1,851,972
11	Madrid (MAD)	48,250,784	Philadelphia (PHL)	472,668	Singapore (SIN)	1,660,724
12	New York (JFK)	45,915,069	London (LHR)	466,393	Miami (MIA)	1,557,401
13	Hong Kong (HKG)	45,558,807	Frankfurt (FRA)	463,111	<b>Los Angeles (LAX)</b>	<b>1,509,236</b>
14	Amsterdam (AMS)	43,570,370	Phoenix (PHX)	457,207	Beijing (PEK)	1,475,649
15	Dubai (DXB)	40,901,752	Madrid (MAD)	435,179	Taipei (TPE)	1,358,034

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

Source: *ACI Traffic Data last updated August 5, 2010*, Airports Council International.

As seen in Table 8 which follows, after the events of September 11, 2001 and the economic slowdown in the early part of the 2000s, passenger enplanements and deplanements at LAX decreased 16.5% in Fiscal Year 2002 and 1.4% in Fiscal Year 2003. From Fiscal Year 2003 through Fiscal Year 2007, total enplaned and deplaned passengers at LAX increased at a compound annual growth rate of 2.7%. 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 9.2% in Fiscal Year 2009 from Fiscal Year 2008. Total enplanements and deplanements increased 2.3% in Fiscal Year 2010 from Fiscal Year 2009. For further discussion of historical passenger activity and factors affecting aviation demand and the airline industry, see APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." 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."

The following table presents historical total revenue operations (landings and takeoffs) and total domestic and international enplanements and deplanements at LAX for Fiscal Years 2001 through 2010 and for the first two months of Fiscal Years 2010 and 2011.

**TABLE 8**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**AIR TRAFFIC DATA**

Fiscal Year <sup>(1)</sup>	Revenue Operations		Enplanements and Deplanements			Passenger Growth
	Total Operations	Operations Growth	Domestic <sup>(2)</sup>	International <sup>(2)</sup>	Total <sup>(2)</sup>	
2001	764,408	--	49,627,915	17,551,035	67,178,950	--
2002	625,680	(18.1)%	41,461,816	14,651,796	56,113,612	(16.5)%
2003	605,516	(3.2)	40,761,700	14,571,467	55,333,167	(1.4)
2004	596,921	(1.4)	42,335,711	15,705,459	58,041,170	4.9
2005	616,482	3.3	44,240,522	17,024,908	61,265,430	5.6
2006	606,269	(1.7)	44,058,954	17,376,983	61,435,937	0.3
2007	615,612	1.5	44,721,685	16,856,505	61,578,190	0.2
2008	629,724	2.3	44,834,824	17,427,929	62,262,753	1.1
2009	539,849	(14.3)	41,245,318	15,301,832	56,547,150	(9.2)
2010	537,626	(0.4)	42,145,783	15,752,062	57,897,845	2.4
First Two Months						
2010	94,739	--	8,082,985	2,958,867	11,041,852	--
2011 <sup>(3)</sup>	97,575	3.0%	8,245,833	3,064,874	11,310,707	2.4%

<sup>(1)</sup> Fiscal Year ended June 30.

<sup>(2)</sup> Enplaned and deplaned passengers.

<sup>(3)</sup> Results for the first two months of Fiscal Year 2011 may not be indicative of results for the full Fiscal Year.

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 and for the first two months of Fiscal Years 2010 and 2011 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<sup>(1)</sup>  
(RANKED BY FISCAL YEAR 2010 RESULTS)**

Airline	Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010		First Two Months			
	Enplanements	Share <sup>(3)</sup>	Enplanements	Share <sup>(3)</sup>	Enplanements	Share <sup>(3)</sup>	Enplanements	Share <sup>(3)</sup>	Enplanements	Share <sup>(3)</sup>	Fiscal Year 2010		Fiscal Year 2011 <sup>(2)</sup>	
											Enplanements	Share <sup>(3)</sup>	Enplanements	Share <sup>(3)</sup>
1 American Airlines	4,642,853	15.1%	4,679,905	15.2%	4,611,217	14.8%	4,277,478	15.1%	4,257,396	14.7%	783,971	14.3%	800,567	14.2%
2 United Air Lines	4,825,156	15.7	4,826,434	15.7	4,360,069	14.0	3,871,963	13.7	3,833,352	13.2	763,615	13.9	749,091	13.3
3 Southwest Airlines	3,930,014	12.8	3,817,855	12.4	3,851,867	12.4	3,556,203	12.6	3,389,180	11.7	607,099	11.0	630,245	11.2
4 Delta Airlines <sup>(4)</sup>	3,349,567	10.9	3,442,176	11.2	3,491,693	11.2	3,237,145	11.5	3,325,636	11.4	691,017	12.6	632,306	11.2
5 Skywest Airlines	1,317,516	4.3	1,425,685	4.6	1,383,225	4.4	1,289,602	4.6	1,441,834	5.0	232,222	4.2	306,845	5.5
6 Alaska Airlines	1,459,669	4.8	1,479,679	4.8	1,409,966	4.5	1,360,046	4.8	1,300,025	4.5	226,923	4.1	244,496	4.3
7 Continental Airlines	1,085,628	3.5	1,170,936	3.8	1,143,870	3.7	1,104,162	3.9	1,214,520	4.2	246,742	4.5	250,483	4.5
8 US Airways <sup>(5)</sup>	1,287,043	4.2	1,238,267	4.0	1,110,117	3.6	1,060,803	3.7	958,824	3.3	194,078	3.5	178,251	3.2
9 Virgin America <sup>(6)</sup>	--	--	--	--	343,589	1.1	733,879	2.6	893,623	3.1	159,159	2.9	171,071	3.0
10 Qantas Airways	594,801	1.9	620,142	2.0	614,211	2.0	590,960	2.1	606,970	2.1	108,990	2.0	96,763	1.7
11 CMA Mexicana Airlines <sup>(7)</sup>	712,492	2.3	572,616	1.9	636,272	2.0	596,599	2.1	529,007	1.8	106,543	1.9	80,708	1.4
12 American Eagle Airlines	502,148	1.6	509,076	1.7	485,023	1.6	406,422	1.4	437,705	1.5	73,157	1.3	80,490	1.4
13 Air Canada	487,446	1.6	508,083	1.6	477,779	1.5	424,024	1.5	416,345	1.4	84,181	1.5	86,983	1.5
14 Korean Airlines	356,190	1.2	338,740	1.1	335,803	1.1	334,256	1.2	352,470	1.2	61,865	1.1	60,507	1.1
15 Air New Zealand	433,578	1.4	381,194	1.2	386,452	1.2	334,028	1.2	339,760	1.2	56,666	1.0	59,505	1.1
16 Horizon Air Industries	202,763	0.7	252,551	0.8	373,233	1.2	316,753	1.1	302,269	1.0	60,573	1.1	55,666	1.0
17 AirTran Airways	179,265	0.6	202,376	0.7	240,455	0.8	240,493	0.8	301,610	1.0	71,268	1.3	65,974	1.2
18 British Airways	289,601	0.9	274,435	0.9	296,390	1.0	284,737	1.0	269,204	0.9	58,127	1.1	54,244	1.0
19 Air France	250,465	0.8	273,314	0.9	280,763	0.9	281,619	1.0	251,803	0.9	51,998	0.9	49,526	0.9
20 Lufthansa	241,768	0.8	247,882	0.8	266,492	0.9	242,930	0.9	245,944	0.8	56,600	1.0	56,282	1.0
Other <sup>(3)</sup>	4,507,183	14.9	4,542,124	14.7	5,043,853	16.1	3,784,917	13.2	4,335,665	15.1	800,164	14.8	912,055	16.3
Airport Total <sup>(3)</sup>	30,655,146	100.0%	30,803,470	100.0%	31,142,339	100.0%	28,329,019	100.0%	29,003,142	100.0%	5,494,958	100.0%	5,622,058	100.0%

<sup>(1)</sup> For those airlines that were party to a completed merger or acquisition and operate under a single FAA certificate, only the surviving entity is presented in this table. However, the activity for the airlines that are now a part of the surviving airline is included in the information presented.

<sup>(2)</sup> Results for the first two months of Fiscal Year 2011 may not be indicative of results for the full Fiscal Year.

<sup>(3)</sup> Totals may not add due to rounding.

<sup>(4)</sup> As the result of a merger, the enplanements presented for Delta include enplanements for Northwest.

<sup>(5)</sup> As the result of a merger, the enplanements presented for US Airways include enplanements for America West.

<sup>(6)</sup> Began operating at LAX in Fiscal Year 2008.

<sup>(7)</sup> CMA Mexicana Airlines filed for bankruptcy protection on August 2, 2010 and has ceased operations at LAX.

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 and for the first two months of Fiscal Years 2010 and 2011.

**TABLE 10**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**TOTAL REVENUE LANDED WEIGHT<sup>(1)</sup>**  
**(RANKED ON FISCAL YEAR 2010 RESULTS)**  
**(000 LBS.)**

Airline	Fiscal Year Ended June 30										First Two Months			
	2006		2007		2008		2009		2010		Fiscal Year 2010		Fiscal Year 2011 <sup>(3)</sup>	
	Revenue	Share <sup>(2)</sup>	Revenue	Share <sup>(2)</sup>	Revenue	Share <sup>(2)</sup>	Revenue	Share <sup>(2)</sup>	Revenue	Share <sup>(2)</sup>	Revenue	Share <sup>(2)</sup>	Revenue	Share <sup>(2)</sup>
1 United Air Lines	7,261,268	14.0%	7,144,632	13.7%	6,558,553	12.6%	5,765,733	12.4%	5,602,302	11.8%	1,073,870	12.8%	1,039,214	12.1%
2 American Airlines	6,216,216	12.0	6,327,454	12.1	6,182,921	11.9	5,648,389	12.1	5,597,824	11.8	962,978	11.5	953,976	11.1
3 Southwest Airlines	5,004,196	9.7	4,982,430	9.6	5,092,746	9.8	5,068,050	10.9	4,744,526	10.0	836,672	10.0	816,884	9.5
4 Delta Airlines <sup>(4)</sup>	4,688,374	9.1	4,767,258	9.1	4,606,339	8.8	3,997,817	8.6	4,318,660	9.1	793,981	9.5	786,473	9.2
5 Skywest Airlines	1,640,735	3.2	1,748,625	3.4	1,784,746	3.4	1,633,966	3.5	1,864,824	3.9	281,537	3.4	366,347	4.3
6 Federal Express	1,936,856	3.7	1,876,769	3.6	1,775,030	3.4	1,642,089	3.5	1,523,405	3.2	250,856	3.0	253,693	3.0
7 Qantas Airways	1,409,692	2.7	1,435,397	2.8	1,442,048	2.8	1,428,236	3.1	1,423,592	3.0	242,916	2.9	212,979	2.5
8 Alaska Airlines	1,714,678	3.3	1,831,490	3.5	1,684,252	3.2	1,530,621	3.3	1,365,625	2.9	231,288	2.8	242,532	2.8
9 Continental Airlines	1,329,656	2.6	1,421,707	2.7	1,387,393	2.7	1,286,565	2.8	1,305,333	2.8	272,221	3.3	274,936	3.2
10 Korean Airlines	1,147,742	2.2	1,116,542	2.1	1,137,760	2.2	1,138,866	2.4	1,249,739	2.6	202,760	2.4	220,173	2.6
11 Virgin America <sup>(5)</sup>	--	--	--	--	520,530	1.0	923,066	2.0	1,079,918	2.3	177,554	2.1	203,424	2.4
12 US Airways <sup>(6)</sup>	1,552,496	3.0	1,480,577	2.8	1,315,542	2.5	1,231,410	2.6	987,948	2.1	205,740	2.5	163,298	1.9
13 China Airlines	719,650	1.4	728,974	1.4	738,316	1.4	649,998	1.4	830,542	1.8	115,784	1.4	157,076	1.8
14 CMA Mexicana Airlines <sup>(7)</sup>	955,836	1.8	842,123	1.6	844,061	1.6	807,107	1.7	723,952	1.5	132,222	1.6	105,234	1.2
15 Eva Airways	793,100	1.5	776,928	1.5	769,663	1.5	666,451	1.4	704,432	1.5	109,457	1.3	129,841	1.5
16 Cathay Pacific Airways	909,054	1.8	926,376	1.8	929,710	1.8	747,759	1.6	699,675	1.5	114,726	1.4	133,212	1.6
17 Air New Zealand	851,797	1.6	732,190	1.4	740,537	1.4	628,380	1.3	650,340	1.4	109,360	1.3	113,640	1.3
18 Asiana Airlines	371,940	0.7	383,990	0.7	569,752	1.1	620,966	1.3	649,826	1.4	112,202	1.3	98,358	1.1
19 British Airways	594,090	1.1	594,090	1.1	679,770	1.3	634,410	1.4	612,360	1.3	117,180	1.4	115,290	1.3
20 American Eagle	662,888	1.3	659,198	1.3	613,349	1.2	544,559	1.2	600,609	1.3	89,544	1.1	97,867	1.1
Other	12,026,117	23.2	12,351,957	23.7	12,681,975	24.4	10,080,993	21.6	10,791,650	22.8	1,936,839	23.1	2,104,920	24.5
Airport Total <sup>(2)</sup>	51,786,381	100.0%	52,128,707	100.0%	52,054,993	100.0%	46,675,431	100.0%	47,327,082	100.0%	8,369,687	100.00%	8,589,367	100.00%

(1) For those airlines that were party to a completed merger or acquisition and operate under a single FAA certificate, only the surviving entity is presented in this table. However, the activity for the airlines that are now a part of the surviving airline is included in the information presented.

(2) Totals may not add due to rounding.

(3) Results for the first two months of Fiscal Year 2011 may not be indicative of results for the full fiscal year.

(4) As the result of a merger, the revenue landed weight presented for Delta includes revenue landed weight for Northwest.

(5) Began operating at LAX in Fiscal Year 2008.

(6) As the result of a merger, the revenue landed weight presented for US Airways includes revenue landed weight for America West.

(7) CMA Mexicana Airlines filed for bankruptcy protection on August 2, 2010 and has ceased operations at LAX.

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

In Fiscal Year 2010, according to traffic reports submitted to the Department by the airlines, LAX total air cargo volume was approximately 1.85 million tons. According to ACI, LAX ranked 13<sup>th</sup> in the world in air cargo volume in calendar year 2009. The following chart provides information concerning cargo traffic at LAX over the last ten Fiscal Years and for the first two months of Fiscal Years 2010 and 2011.

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

<b>Fiscal Year<sup>(1)</sup></b>	<b>Domestic Cargo</b>	<b>Annual Growth</b>	<b>International Cargo</b>	<b>Annual Growth</b>	<b>Total Cargo</b>	<b>Annual Growth</b>
2001	1,112,803	--	1,032,259	--	2,145,062	--
2002	953,264	(14.3)%	929,127	(10.0)%	1,882,391	(12.2)%
2003	1,015,712	6.6	1,001,045	7.7	2,016,758	7.1
2004	1,032,947	1.7	1,028,893	2.8	2,061,840	2.2
2005	1,051,046	1.8	1,085,327	5.5	2,136,373	3.6
2006	994,637	(5.4)	1,122,527	3.4	2,117,164	(0.9)
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
First Two Months						
2010	123,732	--	157,354	--	281,086	--
2011 <sup>(2)</sup>	131,175	6.0%	194,943	23.9%	326,118	16.0%

<sup>(1)</sup> Fiscal Year ended June 30.

<sup>(2)</sup> Results for the first two months of Fiscal Year 2011 may not be indicative of results for the full Fiscal Year.

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

Cargo volumes at LAX declined from Fiscal Year 2006 through Fiscal Year 2009, but increased in Fiscal Year 2010 as shown in the table above. Similar to the passenger airlines, the air cargo industry has been impacted in recent years by the global economy, increasing fuel costs, exchange rates, uncertainties in the Middle East and new security regulations. The worldwide gross domestic product remains the primary driver for air cargo industry growth. As a leading economic indicator, air cargo traffic growth has slowed or even decreased in certain markets (including LAX) in recent years because of the increased prices of jet fuel since 2006 (particularly since late 2007) and the more recent U.S. economic recession. 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” for a discussion of the impact of aviation activity on revenues generated at LAX.

### Competition

LAX’s “Air Trade Area” refers to 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 five air carrier airports within the LAX Air Trade Area. According to statistics collected from individual airports and by ACI, LAX is the primary airport in the LAX Air Trade Area, with approximately 73% of the total enplaned passengers and approximately 77% of the cargo in calendar year 2009, down from and equal to approximately 76% and 77%, respectively, in 2001. Three secondary airports, LA/ONT (which is a part of the Airport System), 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 24% of the air service in the LAX Air Trade Area for calendar year 2009. One other secondary airport, Long Beach Airport (LGB), provides limited air service to destinations outside of the LAX Air Trade Area and accounted for approximately 4% of the air service in the LAX Air Trade Area in calendar year 2009.

## **Certain Other Matters Related to LAX**

### ***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 and CSCDA 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 is actively engaged in identifying those leases related to improvements previously funded by airline tenants 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 Lease.”

### ***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 mitigation, preparedness, response and recovery. Roles and responsibilities of each entity within these four groups are defined under emergency support functions in the National Incident Management System (“NIMS”), California Standardized Emergency Management System (“SEMS”), the federal government National Response Framework, 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) drafting and maintenance of Department emergency plans, (2) integration with the City’s Emergency Operations Board and the emergency processes of other City departments if needed, (3) training and exercises, (4) planning for continuity of operations/continuity of government for the Airport System, (5) oversight of new emergency guidelines, mandates, technology, emergency response and preparedness systems at local, state, federal and international levels concerning airport emergency operations and (6) Department Operations Center, City Emergency Operations Center and Department representation for emergency activations.

The Department is required by certain federal, state, City and other directives to develop and maintain a number of airport emergency plans to ensure protection of lives and property. 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. FAR 139 defines specific emergency plan components that must be developed and maintained in the LAX and LA/ONT 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 and LA/ONT. The Department holds emergency plan exercises as required by TSA security directives, FAR 139 mandates and City exercise programs. A yearly security exercise under TSA mandates is held under the direction of Airport Police and incorporates airport stakeholders. The Department conducts and participates in a number of additional scheduled exercises with federal, airline and City agencies.

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

## 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 certain exceptions to the Airport Terminal Tariff;
- Terminal Leases;
- Facilities Use Terms and Conditions;
- Concession and parking agreements; and
- Various other building and miscellaneous leases of cargo and hangar facilities.

### Operating Permits – Landing Facilities and Landing Fees

The Department has entered into separate, but substantially similar, operating permits covering the use of landing facilities with air carriers serving LAX. These operating permits grant operating rights to each airline typically for the same five-year term, and are commonly referred to as the "Air Carrier Operating Permits" or the "ACOPs." The Department is currently authorized to issue ACOPs that expire June 30, 2012. The ACOPs are terminable by either party on 30 days' notice. The ACOPs require each airline to pay a landing fee to the Department for each aircraft that lands 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 landing 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 fees and such landing fees are substantially higher than for air carriers that are party to an ACOP. The landing 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 refunded 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. It is assumed for the purposes of the forecasts in the Report of the Airport Consultant that they are renewed on the same terms.

### 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") unless the Aeronautical User is party to a lease or other agreement exempting the Aeronautical User from the terms of 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. The Board has approved the use of the Airport Terminal Tariff in all terminals at LAX.

Terminal rates under the Airport Terminal Tariff are designed to recover all costs allocable to terminal space used by Aeronautical Users and are calculated based on a commercial compensatory rate-making methodology. Under the Airport Terminal Tariff, the Department collects basic charges, expenses and charges for capital improvements which are allocated to each Aeronautical User based on the area used by the Aeronautical User. 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 base charges, terminal expense charges, airport infrastructure charges and other amounts. The calculation of terminal rates under the Airport Terminal Tariff is described in greater detail in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." See also "— Disputes Regarding the Airport Terminal Tariff below.



Certain Aeronautical Users using terminal space subject to the Airport Terminal Tariff have entered into either (i) a letter agreement (a “Tariff Letter Agreement”) or (ii) the TBIT Partial Settlement Agreement (as described in “—Disputes Regarding the Airport Terminal Tariff” below). Generally, the Tariff Letter Agreements and the TBIT Partial Settlement Agreement modify the application of certain charges under the Airport Terminal Tariff to applicable Aeronautical Users.

### **Disputes Regarding the Airport Terminal Tariff**

In February 2007, seven domestic airlines operating at LAX from Terminal 1 (Southwest Airlines and US Airways) (the “T1 Complainants”) and Terminal 3 (Alaska Airlines, AirTran Airways, ATA Airlines, Frontier Airlines and Midwest Airlines) (the “T3 Complainants”) and together with the T1 Complainants, the “T1/3 Complainants”) filed a complaint with the U.S. DOT alleging that terminal rates and charges imposed pursuant to the Airport Terminal Tariff were unreasonable and discriminatory because, generally, the terminal rates and charges allegedly employ a methodology resulting in significantly higher terminal charges relative to terminal charges under the Terminal Leases which were in effect with, among others, certain legacy carriers (as described under “– Terminal Leases” below). The T3 Complainants filed an additional claim alleging that the Department’s imposition of the market value method to determine the base charge was unreasonable because it was not cost-based and also objected because it was imposed based on the Department’s subjective opinion of what constitutes “market value” rather than pursuant to an agreed-to or independent appraiser’s assessment.

Also in February 2007, twenty-two international airlines (the “TBIT Complainants”) operating at the Tom Bradley International Terminal (“TBIT”) filed a complaint with the U.S. DOT. The TBIT Complainants challenged the imposition of changes to the various charges, including maintenance and operations expenses (“M&O Charges”), that had been imposed on all airlines retroactively to January 2006. The U.S. DOT treated this complaint as a follow-up complaint to the T1/3 Complainants’ complaint. In April 2007, a second set of international airlines operating at TBIT filed a second complaint with the U.S. DOT challenging the imposition of the rentable space methodology and the increased M&O Charges as unreasonable and unjustly discriminatory. This case, although stayed, is still pending. However, the TBIT Complainants have agreed that they may proceed, if at all, only with respect to issues not decided in connection with the T1/3 Complainants’ complaint. While some of these issues have been resolved as described below, a number of issues are still being decided in U.S. DOT and Court of Appeals actions.

### ***U.S. DOT and Court of Appeals Actions***

In June 2007, the U.S. DOT issued its Final Decision (the “U.S. DOT Decision”) regarding the complaints filed by the T1/T3 Complainants and the TBIT Complainants. The T1/3 Complainants, TBIT Complainants and the Department subsequently filed a petition for review of the U.S. DOT Decision in the U.S. Court of Appeals for the District of Columbia Circuit (the “Court of Appeals”). Thereafter, the TBIT Complainants moved to withdraw their petition for review, which motion was granted in June 2008.

The Court of Appeals issued its opinion on August 7, 2009. The time to seek review of the Court of Appeals’ ruling has expired. The most significant conclusions reached by the Court of Appeals’ opinion and the U.S. DOT Decision are described below:

- The Court of Appeals affirmed the U.S. DOT Decision to the effect that the increased M&O Charges and the Department’s commercial compensatory methodology were non-discriminatory and not unreasonable when used to recover fully-allocated costs of maintenance and operation of the terminal, including the increasing costs for general administration, ground transportation and airport security.
- The U.S. DOT had decided that an airport does not violate requirements that its rates be reasonable if it uses a commercial compensatory method. The Court of Appeals remanded to the U.S. DOT its finding that the Department’s use of the commercial compensatory method was unjustly discriminatory as applied in setting the tariffs for Terminal 1 and Terminal 3 at LAX because the Department is bound by its Terminal Leases with, among others, certain legacy carriers to use a “useable” space method in calculating rental rates for other terminals at LAX. The Court of Appeals held that the U.S. DOT unlawfully placed the burden of persuasion upon the Department to justify its use of different methods for determining rentable space for the T1/3 Complainants and the parties to such Terminal Leases.

- The U.S. DOT had decided that fair market value is not inherently unreasonable and can be used in setting terminal rental rates, provided that fair market value is determined either by agreement or by an independent objective appraisal of what other Aeronautical Users would pay. First, the Court of Appeals found that the U.S. DOT did not explain the disparate treatment of fees for airfield and for non-airfield (i.e., terminal) space, since the U.S. DOT requires airports to set airfield fees based upon the “historic cost” but allowed airports to use any reasonable methodology (such as fair market value) to set non-airfield fees. The Court of Appeals accordingly remanded the matter to the U.S. DOT to either justify or to abandon its disparate treatment of airfield and non-airfield space. Then, the Court of Appeals held that limiting the determination of fair market value in the terminal to the consideration of lost aeronautical opportunities (as opposed to other commercial opportunities) was arbitrary and capricious, and directed the U.S. DOT on remand, either to justify or to abandon its objection to the Department’s considering non-aeronautical uses when setting terminal rents based on fair market value. However, the Court of Appeals upheld the requirement for an independent objective appraisal to determine fair market value.
- Although the U.S. DOT did not rule on the T1/3 Complainants’ assertions that LAX has monopoly power over the provision of airport services, the Court of Appeals remanded this issue, directing the U.S. DOT to explain why the case did not present the extraordinary situation in which such allegation of monopoly powers would be relevant to the fee dispute.

In November 2009, the U.S. DOT issued an Initial Notice on Remand and Request for Status and Comments inviting the litigants to (i) advise the U.S. DOT on any settlement possibilities regarding the remanded issues and (ii) provide any comments as to recommended procedures for the handling of the remanded issues. The U.S. DOT has granted an interim stay of the proceedings and extended the deadline to file procedural and evidentiary comments until January 2011. The Department is unable to predict how the U.S. DOT will rule on the remaining open issues that have been remanded.

#### ***Partial Settlements***

The Department and the TBIT Complainants have entered into a partial settlement agreement (the “TBIT Partial Settlement Agreement”) settling, among other things, certain rates and charges, pending the outcome of the petition for review of the U.S. DOT Decision in the Court of Appeals.

In January 2010, the Department and the T1/3 Complainants entered into a Stay Agreement and Partial Settlement Agreement whereby the parties agreed to resolve one of the remanded issues through the issuance of rental credits to the T1/3 Complainants affected by such remanded issue; to work diligently to attempt to resolve all remaining remanded issues by September 30, 2010 and if they are unable to do so, that the remanded proceeding shall continue; and not to terminate the Tariff Letter Agreements before September 30, 2010; unless the Department and the T1/3 Complainants jointly agree otherwise. As of the date of this Official Statement, settlement negotiations are continuing. In October 2010, the Department and the T1/3 Complainants filed a joint motion requesting an extension of the deadline for filing written submissions on certain procedural and evidentiary issues related to the remanded issues. In so doing, they effectively agreed to continue to stay the proceedings until January 18, 2011.

#### ***Certain Assumptions by the Airport Consultant Regarding the Airport Terminal Tariff***

The forecasts in the Report of the Airport Consultant assume that the rents and fees specified in the Airport Terminal Tariff (as applied pursuant to the TBIT Partial Settlement Agreement with respect to TBIT and as applied pursuant to the Tariff Letter Agreements with respect to Terminal 1, Terminal 2, Terminal 3 and a portion of Terminal 6) will continue in Terminal 1, Terminal 2, and Terminal 3 and the portion of Terminal 6 that is subject to the Airport Terminal Tariff through Fiscal Year 2016. The final resolution of the legal matters relating to the Airport Terminal Tariff could result in different terminal rentals than are assumed in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be.

#### **Terminal Leases**

Since the institution of the Airport Terminal Tariff, a number of airlines have entered into terminal leases for the use of terminal space at LAX (“Terminal Leases”) with cost recovery terms substantially similar to the Airport Terminal Tariff. United Air Lines, Inc. (“United”) has executed a Terminal Lease expiring in December 2019 for space in Terminals 7 and 8 (the “United Terminals Lease”) and for premier ticket counters in Terminal 6 at

LAX. Virgin America has executed a Terminal Lease expiring in June 2012 for space in Terminal 3. Hawaiian Airlines and Air Canada each have executed a Terminal Lease expiring in June 2018 for space in Terminal 2. Other Aeronautical Users have entered into shorter term Terminal Leases which generally contain provisions similar to the Airport Terminal Tariff.

The Department has Terminal Leases with American Airlines Inc. (“American”) for space at Terminal 4, Continental Airlines, Inc. (“Continental Airlines”) for space at Terminal 6 and Delta Air Lines (“Delta”) for space at Terminal 5. American’s Terminal Lease expires in December 2024, Continental’s Terminal Lease expires in December 2017 and Delta’s Terminal Lease expires in December 2024. These Terminal Leases differ from the Terminal Leases described above, as these Terminal Leases were entered into in connection with the issuance of certain conduit financings by the RAIC. Any early termination of American’s Terminal Lease, Continental’s Terminal Lease or Delta’s Terminal Lease would require settlement of the related conduit financings. See “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings.” The following is a description of certain provisions, policies and events relating to the Terminal Leases with American, Continental and Delta.

- Terminal rents under the American, Continental and Delta Terminal Leases were historically calculated incorporating actual requirements from the prior Fiscal Year (e.g., calendar 2010 rents are based on actual Fiscal Year 2009 requirements).
- 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. The American, Continental and Delta leases require payment of M&O Charges.
- The American, Continental and Delta Terminal Leases provide the Department with the right under certain circumstances to defease third-party debt that financed terminal improvements. See also “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings.”
- In the event that the leased premises are damaged or destroyed such that the Department cannot repair, replace or reconstruct such premises within a reasonable time, the Terminal Leases may be terminated at the tenant’s option. If American, Continental or Delta are prevented from occupying or using the terminal facilities, or are materially restricted from operating aircraft to or from LAX, by any final action, order or ruling of any federal or State governmental authority, such tenant may, at its option, terminate its lease upon 30 days’ written notice.
- In December 2006, the Department approved increased M&O Charges that included all direct and indirect terminal maintenance and operations costs, retroactive to January 1, 2006, and were higher than previous M&O Charges due to the inclusion of security costs and full indirect costs not previously included in M&O Charges by the Department. A number of airlines with Terminal Leases disputed the right of the Department to make these changes. Settlement agreements concerning, among other things, M&O Charges, were reached with each of the tenants. See “— Terminal Lease Settlements” below. The settlement agreements with American, Continental and Delta, each as amended, settle disputed M&O Charges through September 30, 2010 and permit the carriers to bring new actions against the Department for disputes concerning M&O Charges after September 30, 2010, if an agreement on future M&O Charges is not reached by such dates. The Board has approved, subject to City Council action, amendments to the settlement agreements with Continental and Delta extending these dates to December 31, 2010. See “THE DEPARTMENT OF AIRPORTS – Oversight by City Council.” As of the date of this Official Statement, settlement negotiations are continuing.

### ***Terminal Lease Settlements***

Under their respective settlement agreements, American, Continental, Delta and the Department are obligated to work diligently, along with the other airlines serving LAX to attempt to reach an agreement regarding LAX rates and charges structure, and the manner by which LAX’s future capital needs will be met. As of the date of this Official Statement, negotiations are continuing. Such negotiations are expected to include, without limitation, the following: (1) a reasonable financing plan for necessary capital improvements at LAX, including

improvements in the terminal areas and (2) ways in which the leasing arrangements at LAX can be structured to create incentives for the Department to improve operating efficiencies, limit costs and increase non-airline revenues. The Department also continues to engage in negotiations with American, Continental and Delta regarding M&O Charges. The Department is also engaged in similar discussions with other airlines operating at LAX. The Department is unable to predict whether the Department, American, Continental and Delta will reach agreement regarding the M&O Charges. In the event that agreements are not reached on M&O Charges and new litigation over M&O Charges is filed, such litigation will not affect any M&O Charges previously paid by American, Continental and Delta pursuant to their respective settlement agreements.

#### ***Certain Assumptions by the Airport Consultant Regarding Terminal Leases***

The forecasts in the Report of Airport Consultant assume that the provisions with respect to M&O Charges in the settlement agreements with American extend through Fiscal Year 2016. The forecasts in the Airport Consultant Letter assume that the terms of the United Terminals Lease extend through Fiscal Year 2016 and the provisions of all other Terminal Leases include or phase in cost recovery terms similar to the Airport Terminal Tariff through Fiscal Year 2016. New lease agreements may contain different terms and could result in different terminal rentals than are assumed in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be. Additionally, the forecasts in the Report of the Airport Consultant assume that the improvements associated with certain Department leases will be acquired during the projection period and that such acquisition will be financed from, among other things, the issuance of Additional Senior Bonds or Additional Subordinate Bonds. See APPENDIX A – “THE REPORT OF THE AIRPORT CONSULTANT.”

#### **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.

#### **Rental Credits**

From time to time the Department grants rental credits for various purposes, including to tenants to resolve disputes, to reimburse airlines for financing costs or to finance its obligations with respect to certain capital leases. Rental credits have ranged from as low as approximately \$1.4 million to as high as approximately \$49 million in the last five Fiscal Years. In Fiscal Year 2010 rental credits equaled approximately \$45 million.

Rental credits are applied as an offset to amounts owed to the Department by airlines or other tenants for amounts such as Terminal Leases and landing fees. Because these rental credits are applied as an offset to amounts owed to the Department by airlines or other tenants, the Department receives less money from these airlines or other tenants than their Terminal Leases would provide absent the rental credit. Thus, although the rental credits are not secured by any pledge of or lien on the Department’s revenues, the effect of using such rental 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 – Rental Credits.”

#### **Concession and Parking Agreements**

The Department has entered into numerous concession agreements with concessionaires for the management of, among other things, food and beverage, gift and news and duty free concessions, rental car facilities and advertising, as well as for management of LAX parking facilities.

A number of the Department’s agreements with food, beverage, news and gift concessionaires have scheduled expiration dates in December 2010. The Department has recently undertaken a comprehensive competitive selection process for certain food and beverage and retail concessions in Terminal 4, Terminal 5, Terminal 7 and Terminal 8 at LAX. As required by the Charter, certain of the concessionaire proposals received in connection with this process were acted upon by the Board of Referred Powers, while others were acted upon by the

Board. The Charter requires that the agreements with the concessionaires selected as part of the competitive process be approved or rejected by the City Council. See “THE DEPARTMENT OF AIRPORTS – Oversight by City Council.” On October 20, 2010, the City Council approved the food and beverage and retail concessions agreements in Terminal 4, Terminal 5, Terminal 7 and Terminal 8 at LAX previously approved by the Board and the Board of Referred Powers, as applicable.

Those food and beverage and retail concession areas of Terminal 4, Terminal 5, Terminal 7 and Terminal 8 that have not yet been awarded new agreements will be part of a new competitive process currently underway. Additionally, the Department plans to undertake further comprehensive competitive selection for other concession space in Terminal 1, Terminal 2, Terminal 3, Terminal 6 and TBIT and for certain LAX-wide concessions such as the duty free retail concessions. No assurance can be made that the competitive selection process and related approvals will not materially delay the award of concession agreements at LAX.

The new concession agreements with the food and beverage and retail operators are terminable with notice and extend generally through June 2021; however, the agreements with concessionaires operating in TBIT extend generally through December 31, 2012. The Department’s food and beverage and retail concessions agreements provide for a concession fee equal to a minimum annual guarantee (“MAG”) or a percentage of gross revenues. The percentage rents generally range from 12.5% to 24% of gross revenues for food and nonalcoholic beverages, 20% to 21.5% for alcoholic beverages and 20% to 20.5% for merchandise. In total, the MAGs for the Department’s food and beverage and retail concessions agreements are approximately \$38.4 million. For Fiscal Year 2010, revenues to the Department from food and beverage concessions totaled approximately \$31.1 million.

As part of the comprehensive competitive selection process, the Department plans to reconfigure some of the concession space at LAX. Agreements with existing concessionaires that would be affected by such reconfiguration will be required to be adjusted to address changes in concession space and applicable MAG formulas. Additionally, those concession agreements expiring in December 2010 which have not been replaced or renewed as part of the competitive selection process require amendments or other interim agreements for the use of the concession space. The Department is in the process of negotiating such amendments or other interim agreements.

Duty free revenues at LAX are generated from the sale of duty free merchandise at LAX. The exclusive duty free operator at LAX is DFS Group L.P. (“DFS”), which has been the duty free concessionaire at LAX since 1982. DFS’s exclusive agreement expires on December 31, 2012 with two one-year renewal options exercisable by the Department. The agreement with DFS provides for a concession fee equal to 30% of annualized gross receipts or a minimum annualized amount of \$26.0 million, whichever is greater. For Fiscal Year 2010, revenues to the Department from duty free sales at LAX were approximately \$26.3 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2010.”

Approximately 40 rental car companies operate at LAX, with vehicle rental sites located off-airport. Ten rental car companies (the “Approved 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. Customers of the other rental car companies use the free LAX Shuttle Bus to reach the off-airport rental car terminal to meet their rental car courtesy shuttle. The Approved Rental Car Companies are each required to pay annually to the Department 90% of 10% of such Approved Rental Car Company’s gross receipts derived by such Approved Rental Car Company from the operation of its automobile rental business under the Approved Rental Car Company’s agreement with the Department. For Fiscal Year 2010, the Approved Rental Car Companies paid \$56.8 million in concession fees to the Department, although their total MAGs were only slightly above \$50 million. The agreements with the Approved Rental Car Companies expire January 31, 2015. The Department also collects a rental car customer facility charge to finance the planning of and ultimately the design and development of a proposed remote consolidated rental car facility. The Department collected rental car customer facility charges for Fiscal Year 2010 of approximately \$22.3 million.

The exclusive contract with advertising concessionaire JCDecaux Airport, Inc. (“JCDecaux”) expires in April 2013 and may be extended for an additional four years, provided that the terms and conditions of the extension are agreeable to both parties. This agreement provides for an annual concession fee equal to the greater of a MAG or 70% of gross sales. The current MAG for this contract is \$13.0 million and is scheduled to increase to \$14.0 million by Fiscal Year 2013. Fiscal Year 2010 advertising revenues to the Department were approximately \$13.7 million. Gross receipts and concession fees are expected to grow in the fourth and subsequent years of the contract, as additional display locations are placed into service.

The Department has entered into an operating agreement with New South Parking-California (“New South”) for the management of certain parking facilities at LAX and VNY. The current agreement is scheduled to expire in May 2012. This agreement may be terminated by the Department and converted to a month-to-month contract on 30 days’ notice. The agreement requires New South to remit the gross revenues from the parking facilities it operates, on a daily basis, to the Department. The Department compensates New South for certain personnel expenses incurred in the management and operation of the parking facilities. For Fiscal Year 2010, parking revenues to the Department were approximately \$64.7 million.

In July 2009, the Department purchased the property adjacent to Terminal 1 at LAX, 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. Under the PNF lease, the Department receives escalating annual revenues. In Fiscal Year 2010, the Department received \$10.9 million, inclusive of base rent and percentage rent on gross revenues after certain thresholds are met.

## **FINANCIAL AND OPERATING INFORMATION CONCERNING LAX**

### **Summary of Operating Statements**

The following table summarizes the financial results from operations for LAX for the Fiscal Years 2006 through 2009 (derived from audited financial statements) and for Fiscal Year 2010 (derived from unaudited financial statements). See APPENDIX B – “AUDITED FINANCIAL STATEMENTS 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, 2009 AND 2008.”

**TABLE 12**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**HISTORICAL OPERATING STATEMENTS**  
**(DOLLARS IN THOUSANDS)<sup>(1)</sup>**

	Fiscal Year Ended June 30				
	2006	2007	2008	2009 <sup>(2)</sup>	2010 <sup>(3)</sup>
Operating revenues:					
Aviation revenue					
Landing fees	\$ 146,019	\$ 148,937	\$ 171,822	\$ 164,489	\$ 169,683
Building rentals	119,271	107,338	146,206	185,457	185,138
Other aviation revenue <sup>(4)</sup>	51,428	61,689	61,932	59,528	64,219
Concession revenue <sup>(5)</sup>	200,564	227,177	250,695	243,096	236,911
Airport sales and services	2,034	2,824	2,577	2,229	1,820
Miscellaneous revenue	1,451	2,012	2,030	2,366	1,136
Total operating revenue	<u>\$ 520,767</u>	<u>\$ 549,977</u>	<u>\$ 635,262</u>	<u>\$ 657,165</u>	<u>\$ 658,907</u>
Operating expenses:					
Salaries and benefits	\$ 231,313	\$ 255,536	\$ 291,015	\$ 298,612	\$ 317,000
Contractual services	148,606	141,306	151,155	148,627	141,253
Administrative expense	1,787	725	1,665	1,951	2,392
Materials and supplies	34,043	43,313	37,870	38,738	32,661
Utilities	23,633	20,101	27,674	29,018	28,832
Advertising and public relations	9,843	10,015	8,286	7,967	6,937
Other operating expenses	2,099	(2,472)	67	(2,002)	477
Total operating expenses before depreciation and amortization	<u>\$ 451,324</u>	<u>\$ 468,524</u>	<u>\$ 517,732</u>	<u>\$ 522,911</u>	<u>\$ 529,552</u>
Income from operations before depreciation and amortization	\$ 69,443	\$ 81,453	\$ 117,530	\$ 134,254	\$ 129,355
Depreciation and amortization	(64,571)	(72,438)	(83,908)	(86,927)	(86,976)
Operating Income	<u>\$ 4,872</u>	<u>\$ 9,015</u>	<u>\$ 33,622</u>	<u>\$ 47,327</u>	<u>\$ 42,379</u>
Non-Operating revenues (expenses):					
Passenger facility charges	\$ 114,694	\$ 116,083	\$ 116,705	\$ 103,982	\$ 110,961
Customer facility charges <sup>(5)</sup>	--	--	24,964	22,086	22,270
Interest income	33,902	39,502	49,477	56,325	44,005
Change in fair value of investments	(15,292)	10,386	22,207	--	--
Gain (loss) on sale of securities	217	1,082	--	--	--
Other non-operating revenue	1,209	810	1,096	2,306	19,692
Interest expense	(12,155)	(15,266)	(18,278)	(20,483)	(35,416)
Bond expense	(364)	(345)	(428)	(455)	(922)
Other non-operating expenses	(6,600)	--	294	(16,967)	--
Net non-operating revenue (expenses)	<u>\$ 115,611</u>	<u>\$ 152,252</u>	<u>\$ 196,037</u>	<u>\$ 146,794</u>	<u>\$ 160,590</u>
Income before capital grant contributions	\$ 120,483	\$ 161,267	\$ 229,659	\$ 194,121	\$ 202,969
Federal Grants	32,064	74,041	86,885	88,241	80,955
Inter-agency transfers	--	(43,511)	(7,188)	(470)	7,224
Special item <sup>(6)</sup>	--	--	--	(10,000)	(116,995)
Change in net assets	<u>152,547</u>	<u>191,797</u>	<u>309,356</u>	<u>271,892</u>	<u>174,153</u>
Residual equity transfers (to) from other funds	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net assets, beginning of period	\$2,024,536	\$2,177,083	\$2,368,880	\$2,678,236	\$2,950,128
Net assets, end of period	<u>\$2,177,083</u>	<u>\$2,368,880</u>	<u>\$2,678,236</u>	<u>\$2,950,128</u>	<u>\$3,124,281</u>

(1) Totals may not add due to rounding.

(2) Restated.

(3) Derived from unaudited financial statements.

(4) Includes reimbursement of security-related expenses (TSA Revenue of \$3,693 in Fiscal Year 2010 and \$7,559 in Fiscal Year 2009).

(5) For Fiscal Years 2008, 2009 and 2010, customer facility charges were reclassified from concession revenue to non-operating revenue.

(6) Special items relate to financing of lease termination payments and other settlement payments as described in further detail in "USE OF AIRPORT FACILITIES."

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

In December 2008, GASB issued Statement No. 49 (Accounting and Financial Reporting for Pollution Remediation Obligations) (“GASB 49”). This statement requires state and local governments to provide the public with information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to financial statements. The Department implemented GASB 49 in connection with the preparation of its Fiscal Year 2009 audited financial statements and created a \$12.8 million reserve as a liability for projected hazardous impacts and future environmental pollution cleanup and plans to take additional measures as they become necessary, to comply with GASB 49. See also Note 2(a) – APPENDIX B – “AUDITED FINANCIAL STATEMENTS 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, 2009 AND 2008.”

In June 2009, GASB issued Statement No. 51 (Accounting and Financial Reporting for Intangible Assets) (“GASB 51”). This statement establishes standards for accounting and financial reporting of intangible assets for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks and computer software. Retroactive reporting is required. GASB 51 becomes effective for the Department beginning in Fiscal Year 2010, however the Department has implemented GASB 51 early in connection with the preparation of its Fiscal Year 2009 audited financial statements and the Fiscal Year 2009 audited financial statements account for intangible assets in the amount of \$5.9 million. See also Note 2(b) – APPENDIX B – “AUDITED FINANCIAL STATEMENTS 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, 2009 AND 2008.”

### **Management Discussion of Fiscal Year 2010**

The following discussion of Fiscal Year 2010 results is derived from unaudited financial statements.

For Fiscal Year 2010, the Department had an increase in net assets attributable to LAX of approximately \$174.2 million compared to approximately \$271.9 million for Fiscal Year 2009. Operating revenues at LAX for Fiscal Year 2010 were approximately \$658.9 million, an increase of \$1.7 million, or 0.3%, from Fiscal Year 2009. Factors contributing to this increase are as follows:

- Revenue from landing fees increased by approximately \$5.2 million, or 3.2%, from Fiscal Year 2009. Similarly, other aviation revenues increased by approximately \$4.7 million, or 7.9%, from Fiscal Year 2009, primarily as a result of increases in land rental revenue from the acquisition of the Park One Property.
- The above-mentioned increases were, however, partially offset by decreases in: concession revenue of approximately \$6.2 million, or 2.5%, from Fiscal Year 2009; miscellaneous revenue of approximately \$1.2 million, or 52.0%, from Fiscal Year 2009; airport sales and services revenue of approximately \$0.4 million, or 18.3%, from Fiscal Year 2009 and building rental revenue of approximately \$0.3 million or 0.2%, from Fiscal Year 2009. The decline in concession revenue is primarily as a result of the \$4.7 million combined reduction of MAGs from DFS and certain other concessions.

Operating expenses, before depreciation and amortization, attributable to LAX for Fiscal Year 2010 increased by approximately \$6.6 million, or 1.3%, from Fiscal Year 2009.

- The increase in operating expenses is primarily due to increases in salary expenses, the Department’s largest operating expense, which increased by approximately \$18.4 million, or 6.2%, from Fiscal Year 2009. These increases were partially offset by reduced expenses for contractual services of approximately \$7.4 million, or 5.0%, from Fiscal Year 2009, and materials and supplies expenses of approximately \$6.1 million, or 15.7%, from Fiscal Year 2009.
- Depreciation and amortization for Fiscal Year 2010, compared to Fiscal Year 2009, did not materially change.



Net non-operating revenues for Fiscal Year 2010 increased by approximately \$13.8 million, or approximately 9.4%, from Fiscal Year 2009. This net increase is primarily as a result of the recognition of approximately \$17.7 million of revenues as a result of litigation settlements. Additionally, other non-operating expenses decreased by approximately \$17.0 million and PFC revenues increased by approximately \$7.0 million. Primarily as a result of low interest rates on investments, interest income dropped by approximately \$12.3 million while interest expenses increased by approximately \$14.9 million from Fiscal Year 2009 primarily as a result of the issuance of the Series 2010A Senior Bonds.

In Fiscal Year 2010, the Department exercised its buy-back rights relative to certain of its leased facilities. These lease terminations resulted in a net expense of approximately \$117.0 million. Federal grant contributions decreased by approximately \$7.3 million, or 8.3%, from Fiscal Year 2009, primarily as a result of a decrease in TSA grant monies. In addition, approximately \$7.2 million was paid to LAX from VNY operating income as interagency transfers for Fiscal Year 2010.

### **Management Discussion of Fiscal Year 2009**

For Fiscal Year 2009, the Department had an increase in net assets attributable to LAX of approximately \$271.9 million, compared to approximately \$309.4 million for Fiscal Year 2008. Operating revenues at LAX for Fiscal Year 2009 were approximately \$657.2 million, down approximately 0.5% from Fiscal Year 2008. Factors contributing to this decrease are as follows:

- Revenue from landing fees decreased approximately \$7.3 million, or 4.3%, from Fiscal Year 2008 and revenue from concessions decreased approximately \$32.5 million, or approximately 11.8%, from Fiscal Year 2008 due to the decrease in passenger traffic and a reclassification of approximately \$22.1 million of customer facility charges from concession revenue to non-operating revenue.
- The decreases in revenue from these two categories were offset by an approximately \$39.3 million, or approximately 26.8%, increase in revenue from building rentals which has been collected but set aside due to settlement of disputes with various airlines over terminal rents. Building rental revenues are not expected to increase in the future at a comparable rate but are expected to increase steadily.

Operating and administrative expenses, before depreciation and amortization, attributable to LAX for Fiscal Year 2009 increased by approximately \$5.2 million, or approximately 1.0% over Fiscal Year 2008. Factors contributing to this increase were as follows:

- The increase in administrative expense is due to increases in salary expenses and contractual services. These increases were offset in part by decreases in the cost of utilities, insurance and other categories.
- Depreciation and amortization for Fiscal Year 2009 increased by approximately \$3 million, or approximately 3.6%, from Fiscal Year 2008 largely as a result of newly constructed facilities being placed into service and capitalized on the Department's books.

Net non-operating revenues for Fiscal Year 2009 decreased by approximately \$24.3 million, or approximately 14.2%, from Fiscal Year 2008 primarily as a result of an approximate 10.9% decrease in PFC revenue, declining fair market value of investments offset by the reclassification of customer facility charges to non-operating revenues. Capital grant contributions declined by \$22.1 million, or 64%, due to the receipt of less FAA grant monies. TSA contributions in Fiscal Year 2009 increased by approximately \$23.5 million, or approximately 44.8%, from Fiscal Year 2008 due primarily to the TSA grant monies for in-line baggage screening projects. The Department made approximately \$470,000 of interagency transfers in Fiscal Year 2009 to pay for expenses at VNY.

**Top Revenue Providers and Sources**

The following table sets forth the top ten revenue providers at LAX for Fiscal Year 2010.

**TABLE 13  
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES  
LOS ANGELES INTERNATIONAL AIRPORT  
TOP TEN REVENUE PROVIDERS  
FISCAL YEAR 2010  
(DOLLARS IN THOUSANDS)<sup>(1)</sup>**

1. United Airlines Inc. <sup>(2)</sup>	\$64,047
2. American Airlines Inc.	63,826
3. Southwest Airlines Co. <sup>(3)</sup>	48,514
4. Delta Air Lines Inc. <sup>(4)</sup>	43,548
5. DFS Group L.P.	26,016
6. Host International Inc.	22,321
7. Alaska Airlines Inc.	21,546
8. The Hertz Corporation	20,797
9. Continental Airlines <sup>(2)</sup>	20,392
10. Avis Rent A Car System LLC	17,413

<sup>(1)</sup> Excludes revenue from the federal government. The amounts in this table reflect amounts billed by the Department to the applicable revenue provider as of June 30, 2010.

<sup>(2)</sup> In 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operation under the United Airlines name. This merger was consummated on October 1, 2010. Although the merger is complete, United and Continental have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated.

<sup>(3)</sup> In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran. The acquisition is subject to government and shareholder approval. Until the acquisition is complete, Southwest and AirTran will operate as separate airlines.

<sup>(4)</sup> As the result of a merger, the revenue presented for Delta includes revenue for Northwest. Source: Department of Airports of the City of Los Angeles.

The following table sets forth top ten revenue sources at LAX for Fiscal Year 2010.

**TABLE 14  
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES  
LOS ANGELES INTERNATIONAL AIRPORT  
TOP TEN REVENUE SOURCES  
FISCAL YEAR 2010<sup>(1)(2)</sup>  
(DOLLARS IN THOUSANDS)**

1. Building Rentals	\$ 185,138
2. Landing Fees	169,683
3. Auto Parking	64,662
4. Car Rentals	56,752
5. Lease of Ground Areas	52,555
6. Food and Beverage	31,109
7. Duty Free Sales	26,338
8. Gifts and News	16,388
9. Advertising	13,676
10. Flyaway Bus Service	8,240

<sup>(1)</sup> The amounts in this table reflect the amounts received by the Department from the applicable revenue sources as of June 30, 2010.

<sup>(2)</sup> Customer Facility Charges for Fiscal Year 2010 were approximately \$22.3 million; however, Customer Facility Charges are not included in Pledged Revenues.

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 Executive Director, 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; except that no action of the Board may become final until the expiration of five meeting days of the City Council during which the City Council has convened in regular session. The City Council may veto the action of the Board within 21 days after voting to bring the matter before it, whereupon the matter is remanded to the Board, or the action of the Board becomes final, as provided in Section 245(a) of the Charter. See "THE DEPARTMENT OF AIRPORTS – Oversight by the City Council."

### ***Fiscal Year 2011 Budget***

Department management developed the Fiscal Year 2011 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 February 2010. Budget hearings were conducted in April 2010 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 2011 Operating Budget on June 7, 2010.

The Fiscal Year 2011 LAX Operating Budget projects operating revenues of approximately \$730.7 million, 10% higher than budgeted for Fiscal Year 2010. The Department has projected that LAX aviation revenues will increase due to increased cost recovery from airline tenants at LAX. The Department has projected that non-aviation revenues are expected to be higher than for Fiscal Year 2010 as increased levels of passenger traffic contribute to greater terminal concessions and ground transportation revenues. The Fiscal Year 2011 LAX Operating Budget projects operating expenses of approximately \$567.9 million, approximately 2.4% higher than the Fiscal Year 2010 LAX Operating Budget. The Fiscal Year 2011 LAX Operating Budget does not include appropriations for the Series 2010 Subordinate Bonds Projects, the Series 2010D Senior Bonds Projects or other capital improvement projects. See "CAPITAL IMPROVEMENT PLANNING." Under the Fiscal Year 2011 LAX Operating Budget, the Department has budgeted approximately \$311.5 million for salaries, benefits and other payroll expenses for the Department's employees at LAX (representing an increase of approximately 1.9% from Fiscal Year 2010) and approximately \$51.6 million for payments to the City for fire service, supplemental police assistance and other support services and personnel costs at LAX (representing an increase of approximately 8.4% from Fiscal Year 2010). Amounts budgeted for these expenses represent approximately 64.0% of the Department's operating budget at LAX. The Department's management of the workforce at LAX has resulted in an approximate 3.0% decrease in salary expenses for LAX, however this decrease has been offset by an approximately 16.4% increase in retirement and other benefit expenses. Contractual services, including payments for services provided by the City, as discussed above, are budgeted at approximately \$176.5 million for Fiscal Year 2011 (representing an increase of approximately 4.8% from Fiscal Year 2010). Additionally, the Department has budgeted approximately \$19.6 million for replacement of vehicles and capital equipment at LAX for Fiscal Year 2011. 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 2011.

**TABLE 15**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**SUMMARY OF OPERATING BUDGET**  
**FISCAL YEAR 2011<sup>(1)</sup>**  
**(DOLLARS IN MILLIONS)**

	<b>Fiscal Year Ended June 30</b>
Operating revenues:	
Aviation revenue	
Landing fees	\$ 191.2
Building rentals	202.5
Other aviation revenue	66.4
Concession revenue	266.4
Airport sales and services	2.1
Miscellaneous revenue	2.0
Total operating revenue	\$ 730.7
Operating expenses:	
Salaries and benefits	\$ 311.5
Contractual services	176.5
Administrative expense	4.0
Materials and supplies	35.3
Utilities	30.4
Advertising and public relations	7.8
Other operating expenses	2.4
Total operating expenses	\$ 567.8
Income from operations before depreciation and amortization	\$ 162.9

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

## Historical 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 2006 through 2010.

**TABLE 16**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**FISCAL YEARS 2006-2010<sup>(1)</sup>**  
**(DOLLARS IN THOUSANDS)**

	2006	2007	2008	2009	2010
Pledged Revenues <sup>(2)</sup>					
Total Operating Revenues	\$ 518,053	\$ 546,688	\$ 632,368	\$ 654,976	\$ 658,620
Interest Income	25,366	26,026	31,409	35,268	18,086
Build America Bonds Subsidy <sup>(3)</sup>	--	--	--	--	3,088
Total Pledged Revenues	<u>\$ 543,419</u>	<u>\$ 572,714</u>	<u>\$ 663,777</u>	<u>\$ 690,244</u>	<u>\$ 679,794</u>
LAX Maintenance and Operations Expenses <sup>(4)</sup>	(447,136)	(466,668)	(515,025)	(519,495)	(527,803)
Net Pledged Revenues <sup>(5)</sup>	<u>\$ 96,283</u>	<u>\$ 106,046</u>	<u>\$ 148,752</u>	<u>\$ 170,749</u>	<u>\$ 151,991</u>
Senior Bond Aggregate Annual Debt Service	\$ 29,852	\$ 19,306	\$ 19,300	\$ 18,433	\$ 24,710
Senior Bond Debt Service Coverage Ratio	3.23x	5.49x	7.71x	9.26x	6.15x
Subordinate Bond Debt Service <sup>(6)</sup>	\$ 2,622	\$ 6,356	\$ 10,640	\$ 15,777	\$ 23,878 <sup>(7)</sup>
Total Debt Service Coverage Ratio	2.96x	4.13x	4.97x	4.99x	3.13x

<sup>(1)</sup> Derived from unaudited financial statements.

<sup>(2)</sup> As defined in the Senior Indenture.

<sup>(3)</sup> Represents cash subsidy payments from the United States Treasury received in connection with the Series 2009C Subordinate Bonds.

<sup>(4)</sup> As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.

<sup>(5)</sup> As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.

<sup>(6)</sup> Also includes actual debt service with respect to the Subordinate Commercial Paper Notes.

<sup>(7)</sup> Excludes approximately \$43.7 million in Department funds used to redeem the Los Angeles International Airport, Subordinate Revenue Bonds, 2002 Subseries C2 and Los Angeles International Airport, Subordinate Revenue Bonds, 2003 Series A in March 2010.

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

## Report of Airport Consultant; Projected Debt Service Coverage

The following table sets forth the calculations of revenues, expenses, debt service and debt service coverage on the Senior Bonds, the Subordinate Bonds and combined coverage for Fiscal Years 2011 through 2016 as projected by the Airport Consultant.

**TABLE 17**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**PROJECTED DEBT SERVICE COVERAGE**  
**FISCAL YEARS 2011-2016<sup>(1)</sup>**  
**(DOLLARS IN THOUSANDS)**

	2011	2012	2013	2014	2015	2016
Pledged Revenues <sup>(2)</sup>	\$ 738,157	\$ 807,181	\$ 882,754	\$ 984,186	\$ 1,071,827	\$ 1,131,692
LAX Maintenance and Operations Expenses <sup>(3)</sup>	\$ 557,716	\$ 585,776	\$ 615,240	\$ 680,317	\$ 714,507	\$ 750,407
Net Pledged Revenues <sup>(4)</sup>	\$ 180,442	\$ 221,404	\$ 267,514	\$ 303,869	\$ 357,320	\$ 381,285
Senior Bond Aggregate Annual Debt Service <sup>(5)</sup>	\$ 44,732	\$ 60,980	\$ 79,420	\$ 122,756	\$ 144,229	\$ 143,585
Senior Bond Debt Service Coverage Ratio <sup>(6)</sup>	4.03x	3.63x	3.37x	2.48x	2.48x	2.66x
Net Subordinate Pledged Revenues	\$ 135,711	\$ 160,425	\$ 188,094	\$ 181,113	\$ 213,091	\$ 237,700
Subordinate Bonds Aggregate Annual Debt Service <sup>(7)</sup>	\$ 40,144	\$ 47,381	\$ 54,167	\$ 63,490	\$ 73,159	\$ 75,898
Subordinate Bonds Debt Service Coverage Ratio <sup>(6)</sup>	3.38x	3.39x	3.47x	2.85x	2.91x	3.13x
Total Debt Service Coverage	2.13x	2.04x	2.00x	1.63x	1.64x	1.74x

<sup>(1)</sup> Amounts set forth in this table are projections. Actual results may differ materially from these projections. See "INTRODUCTION – Forward-Looking Statements" above.

<sup>(2)</sup> As defined in the Senior Indenture.

<sup>(3)</sup> As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.

<sup>(4)</sup> As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.

<sup>(5)</sup> Senior Bond Aggregate Annual Debt Service is net of capitalized interest and PFC revenues committed to pay Senior Lien Debt Service. Assumes the issuance of Additional Senior Bonds. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings."

<sup>(6)</sup> No Transfers were assumed for purposes of calculating debt service coverage ratios.

<sup>(7)</sup> Net of capitalized interest. For the purposes of these projections, the Airport Consultant has assumed that approximately \$147 million of Subordinate Commercial Paper Notes will be outstanding. The Airport Consultant has also assumed that the Subordinate Commercial Paper Notes outstanding after the issuance of the Series 2010D Senior Bonds will be repaid with future Senior Bonds or Subordinate Bonds. Otherwise, debt service associated with the Subordinate Commercial Paper Notes is not reflected in these projections. Assumes the issuance of Additional Subordinate Bonds. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings."

Source: The Airport Consultant and the Department of Airports of the City of Los Angeles.

The assumptions made by the Airport Consultant in projecting revenues, expenses, debt service and debt service coverage are set forth in the Report of the Airport Consultant. Although the Department and the Airport Consultant believe these assumptions to be reasonable for the purpose of the projections, they are dependent on future events, and actual conditions may differ from those assumed. To the extent actual future factors differ from those assumed by the Airport Consultant or provided to the Airport Consultant by others, the actual results will vary (possibly materially) from those forecast. See "CERTAIN INVESTMENT CONSIDERATIONS" for some of the reasons differences could occur.

The projections were developed by the Airport Consultant and are included in the Report of Airport Consultant. In the preparation of the projections in its report, the Airport Consultant has made certain assumptions with respect to conditions that may occur in the future, including the issuance of Additional Senior Bonds and Additional Subordinate Bonds. See also "INTRODUCTION – Report of the Airport Consultant."

## 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. Table 18, reported by the City Treasurer’s Office from unaudited financial statements, summarizes assets of the Pool as of June 30, 2010.

**TABLE 18**  
**CITY OF LOS ANGELES POOLED INVESTMENT FUND<sup>(1)</sup>**  
**ASSETS AS OF JUNE 30, 2010**  
**(Dollars in Millions)**

	<b>Book (Carrying) Value<sup>(2)</sup></b>	<b>Percent of Total</b>	<b>Department Carrying Value<sup>(3)</sup></b>	<b>LAX Carrying Value<sup>(4)</sup></b>
Deposits	\$ 109	1.76%	\$ 27	\$ 25
US Treasury Securities	2,668	43.07	654	601
U.S. Sponsored Agency Issues	2,177	35.15	534	491
Commercial Paper	520	8.40	128	117
Medium Term Notes	695	11.22	170	157
Guaranteed Investment Contracts <sup>(6)</sup>	25	0.40	6	5
<b>Total</b>	<b>\$ 6,194</b>	<b>100.00%</b>	<b>\$ 1,519<sup>(5)</sup></b>	<b>\$ 1,396<sup>(5)</sup></b>

<sup>(1)</sup> Derived from unaudited financial statements. Based on General Pool 9218 – Combined, Portfolio Management Report provided by City Treasurer’s Office.

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

<sup>(3)</sup> The Department’s share of the Pool, including restricted assets.

<sup>(4)</sup> Inclusive of restricted cash; fund not segregated from other funds in the Pool.

<sup>(5)</sup> Includes effect of change in market valuation of investments.

<sup>(6)</sup> Includes collateralized mortgage obligations.

Source: City Treasurer, 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, 2010 was 628 days.

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 – “AUDITED FINANCIAL STATEMENTS 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, 2009 AND 2008.”

## 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 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 \$400,000 aggregate deductible. This aviation liability coverage incorporates a foundation of comprehensive in-house claims management program, incremental claims analysts and adjustors 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 owners liability coverage.

The Department carries general all-risk property insurance with coverage limits of \$1.5 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 (both domestic and foreign). Coverage under this endorsement parallels the general all-risk limits of \$1.5 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 limited to \$100 million and the deductible is 36 hours from initial 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 \$400,000 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 October 1, 2010, there was approximately \$106.4 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 "AUDITED FINANCIAL STATEMENTS 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, 2009 AND 2008." Additionally, the Department employs an active loss prevention program.

## **CAPITAL IMPROVEMENT PLANNING**

### **LAX Master Plan**

The "LAX Master Plan," which was adopted by the Board in 2004, is a broad policy statement regarding the conceptual strategic framework for future improvements at LAX and describes how LAX can accommodate its appropriate share of the region's aviation demand, while balancing those needs with environmental concerns, safety and security and the concerns of LAX's neighbors.

The LAX Master Plan separates the commercial and private vehicle landside components of LAX from the passenger processing facilities and gates. The LAX Master Plan includes plans for a new landside Ground Transportation Center ("GTC"); a new Intermodal Transportation Center ("ITC") with connection to the Los Angeles County Metropolitan Transportation Authority's light rail line known as the Metro Green Line; new on-airport roadways to support the GTC and ITC, redevelopment of the Central Terminal Area to support a variety of enhanced security measures; and construction of an automated people mover system to connect the GTC, ITC and a proposed new consolidated rental car facility to the Central Terminal Area. The LAX Master Plan also includes the crossfield taxiways and associated projects, which were approved by the Board and the City Council in March 2009, and reconfiguration of TBIT to enhance the Airport's ability to accommodate "next-generation" aircraft, such as the Airbus A380 and the Boeing 787 and 747-8.

In December 2004, the City Council gave its final approval to the LAX Master Plan, certain associated entitlements and certified the final LAX Master Plan EIR. In January 2005, several petitioners (the "petitioners") challenged the approval of the LAX Master Plan and the LAX Master Plan EIR. The lawsuits were settled, subject to compliance with the terms of a comprehensive settlement agreement. See "—Settlement of Master Plan Litigation" below.



In 2004, the City Council adopted an ordinance that governs the implementation of the LAX Master Plan (the "LAX Specific Plan"). The LAX Specific Plan is the implementing ordinance that establishes zoning and land use regulations and procedures for the processing of future specific projects and activities anticipated under the LAX Master Plan. The LAX Specific Plan establishes procedures for review and approval of all defined projects in the LAX Master Plan. Such review is based upon an environmental study, a traffic generation report and an aviation activity analysis pursuant to the LAX Specific Plan. Pursuant to the LAX Specific Plan, the Executive Director of the Department and the Board may recommend to City Council that it approve, approve with conditions, modify or deny a request for a determination that an LAX Master Plan project complies with the LAX Specific Plan. This determination is required before grading, building or land use permits can be issued.

The LAX Specific Plan requires the Department to initiate a specific plan amendment study (the "LAX Specific Plan Amendment Study") comprehensively addressing security, traffic, aviation activity and corresponding environmental analysis consistent with the guidelines of the California Environmental Quality Act ("CEQA") in three circumstances: (i) prior to seeking approval to proceed with: (a) development of the GTC, including a baggage tunnel, associated structures and equipment; (b) development of an automated people mover from the GTC to the Central Terminal Area, including its stations and related facilities and equipment; (c) demolition of Terminal 1, Terminal 2 and Terminal 3; (d) reconfiguration of the LAX North Airfield as contemplated in the LAX Master Plan, including center taxiways; and (e) development of the on-site road improvements associated with the GTC and the people mover from the GTC to the Central Terminal Area (collectively, the "Yellow Light Projects"); (ii) if the annual traffic generation report and/or project-specific traffic study shows that any LAX Master Plan project will be generating new airport peak hour vehicle trips in excess of 8,236; and (iii) if the annual aviation activity forecasts show that the annual passengers for such year are anticipated to exceed 78.9 million.

As part of the stipulated settlement with the petitioners, the Department commenced the LAX Specific Plan Amendment Study process in February 2006. The LAX Specific Plan Amendment Study process focuses on (i) alternative designs, technologies and configurations for the LAX Master Plan that would provide solutions to the problems that the Yellow Light Projects were designed to address consistent with a practical capacity of LAX at 78.9 million annual passengers (the "Alternative Projects"), (ii) security, traffic and aviation activity of the Alternative Projects and (iii) potential environmental impacts that could result from replacement of the Yellow Light Projects with Alternative Projects, and potential mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan EIR. As part of the stipulated settlement the LAX Specific Plan was amended by the City Council in 2007 to remove the west satellite concourse (now known as the Midfield Satellite Concourse Project) and associated people mover segments from the list of projects requiring a LAX Specific Plan Amendment Study.

As part of the LAX Specific Plan Amendment Study process, the Department has consulted with the working group Advisory Committee for the LAX Specific Plan Amendment Study (the "Advisory Committee"), which is comprised of representatives from the petitioners, the City and interested parties from adjacent communities. As required by the stipulated settlement, the Advisory Committee met for the first time in March 2006 and continues to meet with Department staff to review and recommend the next steps in the LAX Specific Plan Amendment Study process. The various options that have been formulated to address the problems that the Yellow Light Projects were designed to address are a result of extensive public outreach and consultation with the Advisory Committee. Based on input received from the Advisory Committee and the community, several alternatives have been formulated for possible consideration in the EIR being prepared for the LAX Specific Plan Amendment Study. The alternatives represent a range of how the various options might be combined to form complete potential scenarios for consideration in the EIR.

The environmental analysis phase of the LAX Specific Plan Amendment Study began in calendar year 2009, but was temporarily suspended while an LAX North Airfield Safety Study was undertaken to, among other things, estimate the safety of several alternative configurations of the LAX North Airfield. Following the completion of the LAX North Airfield Safety Study in early calendar year 2010, planning and environmental analysis activities associated with the LAX Specific Plan Amendment Study resumed and are expected to culminate in the issuance of a final EIR in calendar year 2011 or 2012, which will then be considered by the Board and City Council. The cost of this process is not yet known, as the extent of the environmental analysis is expected to be determined by the range and complexity of the alternatives to be studied.

For a discussion of certain Airport System environmental matters, including the environmental impact report process, see "AIRPORT SYSTEM ENVIRONMENTAL MATTERS."

## **Settlement of Master Plan Litigation**

Several entities filed lawsuits against the City in connection with the LAX Master Plan. In 2006, the City entered into a Stipulated Settlement Agreement with the City of El Segundo, the City of Inglewood, the City of Culver City, Los Angeles County and the Alliance for a Regional Solution to Airport Congestion (“ARSAC”), which was designated a Final Judgment by the trial court on February 17, 2006. As a result of the stipulated settlement, certain other actions naming the FAA, other federal agencies and federal officials were dismissed. Generally, the stipulated settlement requires the Department to, among other things, (i) operate no more than 163 gates and discontinue passenger operations at two narrow-body equivalent gates per year starting in 2010, until the Department has discontinued passenger operations by a total of ten narrow-body equivalent gates, unless LAX is serving less than 75 million annual passengers or if, through amendments to the LAX Master Plan, LAX has 153 gates or less; (ii) create a prompt, community-based planning process to revisit and potentially replace controversial Yellow Light Projects with alternative projects; (iii) provide funding to Inglewood, Los Angeles County, El Segundo and ARSAC totaling \$266 million over a 10-year period for: (a) accelerated noise mitigation for Inglewood, Los Angeles County and El Segundo; (b) job training and increased job opportunities; (c) traffic mitigation for Inglewood and El Segundo; (d) street removal and landscaping in the dunes west of Pershing Drive; (e) street lighting in Westchester; and (f) a commitment to spend \$60 million on various air quality and environmental justice programs; (iv) invite the FAA, the Southern California Association of Governments, Southern California counties and airport operators to participate in a working group to plan for regional distribution of air traffic demand; (v) develop a regional strategic planning initiative to encourage passenger and cargo activity at other airports in the Airport System; and (vi) join a working group with ARSAC and City Council District 11 to seek input from interested parties on how the Department can address the concerns of LAX neighbors. These agreements are conditioned upon FAA approval of expenditures and use of airport revenues for the specified purposes.

The gate reductions provided for in the stipulated settlement are expected to be achieved through the build out of improved contact passenger gate facilities as approved in the FAA’s Record of Decision issued in connection with the LAX Master Plan. The requirement to reduce gates is expected to remain in effect until December 31, 2020. If LAX does not have 75 million passengers annually or if the LAX Master Plan is substantially revised pursuant to the Specific Plan Amendment Study process such that the total number of gates at LAX is reduced to 153 gates or less, then no reduction in gates is necessary.

## **Agreements Relating to Master Plan Litigation**

The Department also has entered into a Cooperation Agreement and a Community Benefits Agreement with the LAX Coalition for Economic, Environmental and Educational Justice (the “Coalition”) which provide environmental mitigation programs and jobs-related benefits to communities that would be impacted by the implementation of the LAX Master Plan. The Department also reached agreement with the Lennox and Inglewood school districts to provide noise abatement improvements at specific schools within the two school districts. Under the school settlement agreements, the Department agreed to fund, among other things, certain noise abatement and other pollution mitigation measures not to exceed \$111 million for the Lennox school district and not to exceed \$118.5 million for the Inglewood school district. Each of these school settlement agreements is conditioned upon FAA approval of expenditures and use of airport revenues for the specified purposes, which approval the FAA did not provide. The school districts sought a legislative approval from Congress which subsequently passed a law allowing the FAA to approve the collection of passenger facility charge revenues for some school settlement expenditures. The approval of such passenger facility charge collection is subject to a determination by the Secretary of Transportation that the schools are adversely affected by airport noise and the proposed improvements meet certain criteria. A letter has been sent to the Secretary of Transportation seeking a determination that the Lennox Schools are adversely affected by airport noise. The FAA has not yet made a determination.

## **Capital Improvement Plan**

Pursuant to Section 11.28.3 of the Los Angeles Administrative Code, not later than June 1 of each year, the Department is required to provide, for informational purposes only, to the Mayor, the Trade, Commerce and Tourism Committee (formerly known as the Commerce, Energy and Natural Resources Committee) of the City Council and to the City Controller, a capital plan or budget covering at least the next Fiscal Year describing: (i) the proposed capital expenditures of the Department and projects planned to be implemented by the Department, (ii) the proposed method(s) of financing such proposed expenditures including a discussion, if relevant, of financing alternatives and (iii) a description of funding sources including any proposed debt financings.

Under the Charter, the Department is obligated to submit a debt accountability and major capital improvement plan to the Mayor, the City Council and the City Controller every two years in conjunction with submittal of its annual budget. The most recent capital improvement plan submitted by the Department pursuant to the Charter was submitted on August 17, 2005 and covered the three year period ended June 30, 2008. The most recent debt accountability report was transmitted to the City Council on August 26, 2009.

### **Capital Improvement Program**

The Department approaches the development of its Capital Improvement Program (“CIP”) with a strategic focus on delivering facilities that will support LAX’s position as a premier international gateway airport and maintaining a reasonable cost structure for the airlines operating at LAX. On a formal basis the Department reviews and assesses the CIP annually, and continuously on an informal basis, in light of many factors, including, but not limited to, improved information regarding the condition and/or requirements of new and existing facilities, improved cost estimates for contemplated projects, new opportunities for investment or acquisition that arise from time to time, current and forecasted traffic levels and changes within the industry that may influence the cost of the CIP. The Department’s analysis of these factors and other information may result in changes to timing of or scope of contemplated projects and the addition or removal of projects from the CIP.

The Department is in the process of updating its CIP for Fiscal Years 2010 through 2016. The CIP will reflect the Department’s review of previously proposed projects as well as the identification of new projects. The total projects under consideration for inclusion in the CIP for the Fiscal Years 2010 through 2016 are expected to cost approximately \$5.58 billion and are expected to be financed with a combination of federal grants, passenger facility charges, Department funds and additional Senior Bonds and/or additional Subordinate Obligations. These projects, 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. The updated CIP is expected to include, among other projects, those projects to be funded or reimbursed, as applicable, with, among other things, the proceeds of the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds. Project costs, including design, engineering, construction, escalation for inflation (as appropriate) and contingency amounts, for the Series 2010 Subordinate Bonds Projects are currently estimated to be approximately \$261 million, and approximately \$1.98 billion for the Series 2010D Senior Bonds Projects. Approximately \$756.8 million of the construction of certain elements of the Bradley West Terminal Projects cost has already been funded from the Series 2010A Senior Bonds issued by the Department in March 2010.

The updated CIP is expected to include terminal projects, airfield and apron projects and infrastructure and other projects, each to be funded or reimbursed, as applicable, with, among other things, the proceeds of Additional Senior Bonds and Additional Subordinate Bonds to be issued in the future. These projects are described in the Report of the Airport Consultant and are referred to as the “Other Incorporated Projects.” See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

The Other Incorporated Projects are currently estimated to cost approximately \$2.28 billion, including design, engineering, construction, escalation for inflation (as appropriate) and contingency amounts. The Department plans to undertake the Other Incorporated Projects and any future projects only if demand at LAX warrants such projects, the costs of such projects are reasonable and the financing thereof is available at reasonable rates.

The development of the CIP will also impact the way the Department operates and structures its airline charges at LAX in the future. Due to the nature of past agreements at LAX, including the Terminal Leases with, among others, certain legacy carriers, the cost of some capital investment in some terminals has been borne by airlines while the cost of some capital investment in others has been borne by the Department. The Department has decided to pursue the implementation of an airport-wide capital charge to the airlines operating at the Airport for capital costs associated with terminal facilities. To effect this change, the Department is actively engaged in identifying those leases related to improvements previously funded by airline tenants which could be terminated on terms favorable to the Department. For example, in March 2009, the Department entered into a settlement agreement with United regarding M&O Charge disputes, which allowed the Department to repurchase Terminal 6 gate and federal inspection services improvements (among other things) from United. The Department also entered into the United Terminals Lease, which phases in cost recovery terms substantially similar to the Airport Terminal Tariff. See “USE OF AIRPORT FACILITIES – Terminal Leases.” In April 2010, the Department entered into an agreement with the tenant of Terminal 2 which, among other things, allowed the Department to terminate the long-term lease at Terminal 2. See also the discussion of these disputes in “USE OF AIRPORT FACILITIES – Terminal

Leases.” As discussed in the Report of the Airport Consultant, the Department has identified financial capacity for the purpose of entering into other such transactions in the future. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings.”

The estimated costs of, and the projected schedule for, the Department’s capital projects are subject to a number of uncertainties. In addition, it is possible that the Department may pursue projects not incorporated in the analysis reflected in the Report of the Airport Consultant. The Department may ultimately decide not to proceed with the projects described above, including the Series 2010 Subordinate Bonds Projects and the Series 2010D Senior Bonds Projects, or may proceed with them on a different schedule, resulting in different results than those included in the projections. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness” and “PLAN OF FINANCE.”

### **Passenger Facility Charges**

The PFC Acts permit public agencies controlling certain commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge each enplaning passenger a facility charge of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50. The purpose of the passenger facility charge is to develop additional capital funding sources to provide for the expansion of the national airport system. The proceeds from passenger facility charges must be used to finance eligible airport-related projects that preserve or enhance the safety, capacity or security of the national air transportation system, reduce noise from an airport that is part of such system or furnish opportunities for enhanced competition between or among air carriers. 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 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. With respect to an airline operating at LAX which is involved in bankruptcy proceedings, 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 – Effect of Airline Bankruptcies.”

Airport industry groups have requested that federal passenger facility charge regulations be changed to increase the passenger facility charge program’s maximum passenger facility charge level from its current level of \$4.50. Legislation has also been proposed to create a pilot program allowing a limited number of airports control over the passenger facility charge rate at such airport with no maximum level. Such proposals are subject to legislative approval, of which there is no assurance. The estimated capital project funding sources and other financial results reflected in the Report of the Airport Consultant are based on the assumption that the current \$4.50 passenger facility charge level at LAX is not increased through the projection period. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

The Department has received approval from the FAA to impose and use \$2,504,373,752 of PFC revenues, (including investment income) which are expected to be collected in full by March 1, 2019. Such approval is to collect a \$4.50 passenger facility charge on each enplaning passenger at LAX. The following table sets forth a summary of the Department’s approved passenger facility charge applications relating to LAX.

**TABLE 19**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**APPROVED PASSENGER FACILITY CHARGE APPLICATIONS**

Passenger Facility Charge Application	Approval Date	Initial Approval Amount	Amended Approval Amount
1	1993	\$ 100,000,000	\$ 0
2	1996	167,109,000	116,370,846
3	1996	52,027,000	50,222,938
4	1997	150,000,000	700,000,000
5	2005	267,249,968	697,779,968
6	2007	85,000,000	85,000,000
7	2010	855,000,000	855,000,000
Total		\$ 1,676,385,968	\$ 2,504,373,752
Total collected as of June 30, 2010:			\$ 1,397,448,994

Source: Department of Airports of the City of Los Angeles

PFC revenues in the amount of approximately \$855 million have been approved by the FAA to fund the Bradley West Terminal Projects, as described in the Report of the Airport Consultant. The Bradley West Terminal Projects is an Approved PFC Project. If the actual cost of the portion of the Bradley West Terminal Projects authorized by the FAA to be funded with PFC revenues is less than the amount approved by the FAA, the Department may be required to submit an amendment to the FAA to reduce the approved amount of the Bradley West Terminal Projects. PFC revenues in the amount of approximately \$785 million have been approved by the FAA to fund the LAX Noise Mitigation program, including land acquisition and soundproofing (\$485 million for land acquisition and \$300 million for soundproofing). The Department's land acquisition program involves the voluntary acquisition of properties and relocation assistance for residents near LAX who express a preference for acquisition in lieu of sound mitigation. The LAX Noise Mitigation program is currently funded with PFC revenues on a pay-as-you-go basis.

PFC revenues at LAX are to be used for a variety of Approved PFC Projects at LAX, including the payment of debt service on certain portions of bonds issued to finance all or a portion of Approved PFC Projects ("PFC Eligible Bonds"). The Department expects to collect and use a portion of PFC revenues to pay a portion of the debt service on PFC Eligible Bonds. The Series 2008A Senior Bonds, the Series 2009A Senior Bonds, the Series 2010A Senior Bonds and the Series 2010D Senior Bonds fund Approved PFC Projects and are PFC Eligible Bonds. In no event may the Department use PFC revenues to pay debt service on PFC Eligible Bonds in excess of the amounts of passenger facility charges approved by the FAA for the Approved PFC Projects.

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS – Senior Bonds – Senior Rate Covenant" and "—Passenger Facility Charges."

Pursuant to the PFC Resolution, the Department elected to irrevocably commit to use \$19 million of PFC revenues in each year between 2011 and 2014 to the payment of debt service on PFC Eligible Bonds. The Department expects, and the forecasts in the Report of the Airport Consultant assume, that the Department will use the irrevocably committed PFC revenues and certain other available PFC revenues to pay a portion of the debt service on the Series 2008A Senior Bonds, the Series 2009A Senior Bonds, the Series 2010A Senior Bonds and the Series 2010D Senior Bonds. The Department does not currently plan to use PFC revenues to pay the debt service on any Existing Subordinate Bonds, any Additional Senior Bonds or any Additional Subordinate Bonds, however, the Department may elect in the future to use PFC revenues to pay the debt service on Additional Senior Bonds or Additional Subordinate Bonds which are PFC Eligible Bonds.

The Report of the Airport Consultant assumes that PFC revenues to be collected in connection with the FAA's authorization for the Department to impose and use PFC revenues at LAX in connection with Approved PFC Projects (such as the Bradley West Terminal Projects) will be available to pay debt service on the PFC Eligible Bonds. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Debt service paid with PFC revenues is not included in the calculation of the rate covenant set forth in the Master Senior Indenture. Upon effectiveness of the Fifty-One Percent Master Senior Indenture Amendments, debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFC revenues will not be included in the additional bonds test set forth in the Master Senior Indenture. See APPENDIX D - "AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments."

The Department expects the actual amount of PFC revenues received in each Fiscal Year to 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.

### Federal Grants

Under the FAA's Airport Improvement Program ("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 cargo traffic, 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 following is a table of AIP grants authorized for acceptance by the Board from June 30, 2005 through June 30, 2010:

**TABLE 20**  
**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, 2010**

Date	Grant Amount <sup>(1)</sup>	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	<u>48.5</u>	Taxilane S improvement project
Total	\$ 172.2	

<sup>(1)</sup> Dollars in millions.

Source: Department of Airports of the City of Los Angeles

The Department expects to receive approximately \$150 million in future AIP grant funding for various apron and taxiway projects described in the Report of the Airport Consultant. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

The Recovery Act authorized \$1.1 billion in one-time nationwide funding to support infrastructure improvements at U.S. airports. In April 2009, the Board authorized the acceptance of an award to the Department of up to \$15 million in federal Recovery Act grant funding to support the construction of a new aircraft rescue and fire fighting facility at LAX. In June 2009, a Recovery Act grant offer from the FAA in the amount of \$10.8 million was executed following receipt of project bids.

Pursuant to the Aviation and Transportation Security Act, the Department is eligible to receive moneys from the federal government as reimbursement for costs associated with additional law enforcement personnel, airport surveillance and the revalidation of all airport-issued and approved identification. In September 2003, the Department of Homeland Security awarded an approximate amount of \$256 million in the form of reimbursements to the Department for the installation of in-line baggage screening systems at LAX and LA/ONT; as of August 2010, the Department had received approximately \$220.8 million for LAX and approximately \$21.4 million for LA/ONT from this in-line baggage screening systems grant. Additionally, in September 2008, January 2009 and December 2009, the Board authorized the execution of certain agreements with the Department of Homeland Security for \$25

million, \$50 million and \$150 million respectively for additional reimbursement for costs associated with the installation of in-line baggage screening systems at LAX. During Fiscal Year 2010, the Department received approximately \$4.2 million for security-related reimbursements at LAX.

The Department is subject to periodic compliance reviews by the FAA, 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 the Air Transport Association and Aircraft Owners and Pilots Association may initiate U.S. DOT proceedings relating to these types of issues.

## **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 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 currently operates under a variance that was granted in June 2005, initially for a three-year period. Caltrans has notified the Department that LAX's existing variance shall continue in effect until Caltrans acts on the Department's renewal application. Caltrans has set an informal hearing for December 2010.

In 1997, the Department adopted a Land Use Mitigation Program funding policy at LAX, which provides funding for both land acquisition and residential sound insulation programs. The goal of these programs is to reduce the number of residences in areas impacted by noise from airport operations, by voluntary acquisition of properties and relocation assistance for certain residential neighbors near LAX and acoustic treatment to certain other residential dwelling units. Acoustic treatment generally includes replacing doors and windows, modifying wood frame walls, adding insulation to attics and fitting chimneys and vents with dampers and/or acoustic louvers.

The FAA has approved the collection and use of PFC revenues in the amount of \$785 million for the Land Use Mitigation Program. As of December 31, 2009, the Department has expended approximately \$599.1 million of PFC revenues in connection with the Land Use Mitigation Program. See "CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges."

The Department maintains a Noise Management Section within the Environmental Services Division which operates the Department's noise monitoring system and prepares and submits periodic reports to Caltrans as required under the Department's various noise variances.

### **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. Several federal, City and State agencies also exercise responsibility related to the accidental discharge of hazardous materials.

Recognizing the need for a comprehensive hazardous materials management policy for protection of LAX facilities, in 1987, the Board adopted a Hazardous Materials Management policy which includes a program relating to underground tanks and hazardous substances. The Department has an Environmental Management Division 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 Management Division also monitors underground storage tanks and hazardous substances, and performs the mandated regulatory reporting on these programs.

The Department conducts annual inspections of tenant and Department operations, regarding compliance with the Department's National Pollutant Discharge Elimination System Stormwater Permit for Industrial Facilities, issued by the State Water Resources Control Board (the "Stormwater Discharge Permit"). These inspections seek to confirm compliance with the Stormwater Discharge Permit and are inclusive of hazardous material storage and handling practices for all operations at LAX. 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. Both of these programs involve the release of jet fuel to ground water underlying LAX. In both cases, the tenants, LAXFUEL Corporation ("LAXFUEL") and Continental, respectively, have accepted responsibility for the remediation and active remediation systems are in place. On July 30, 2008, LAXFUEL responded to a 174 gallon fuel release at LAX's South Cargo truck loading facility. On January 21, 2010 heavy rains caused a second fuel release in the South Cargo truck loading facility. On March 10, 2010, Airport Service Group International spilled approximately 200 gallons of jet fuel/water mixture that was discharged into the Dominguez Channel, resulting in a multi-agency response. In response to these incidents, the Department has instituted additional mechanical safeguards and supervision. The Department is also evaluating installing additional engineering controls at LAX to contain the discharge of hazardous materials on LAX property.

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. The Lahontan Regional Water Quality Control Board has issued a Cleanup and Abatement Order requiring the Department and LACSD 20 to take certain remediation actions with respect to the groundwater, the cost of which is currently estimated at approximately \$15 million. The full extent of the remediation actions that the Department may have to take with respect to the groundwater and the costs that may be incurred or contributions that will have to be made in connection therewith, however, cannot be determined at this time. No assurance can be given that such costs will not be material.

The Park One Property is also environmentally impacted. 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 Los Angeles Regional Water Quality Control Board 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 Regional Water Quality Control Board issued a letter stating that contaminated soils in all areas covered by site investigations except the northwest quadrant had been adequately addressed. Currently, the remaining portion, approximately the northwest quadrant, is under remediation using soil vapor extraction. 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. Since 1991 and through the present, Honeywell has been investigating the groundwater contamination at 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.



## **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 “FCAA”) and the California Clean Air Act (the “CCAA”), the California Global Warming Solutions Act (“AB32”), and various South Coast Air Quality Management District (“SCAQMD”) rules and regulations. LAX-owned stationary equipment that produces or controls emissions currently operate under a federal Title V operating permit.

The LAX Master Plan includes various mitigation measures designed to reduce emissions from airport operations at LAX, including: requiring 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. In addition, the projected future activities associated with implementation of the LAX Master Plan have been sent to the United States Environmental Protection Agency for approval.

As part of the environmental impact report prepared under CEQA, the Department conducted an extensive air quality analysis and adopted numerous mitigation measures designed to reduce the air quality impacts associated with implementation of the LAX Master Plan. In addition, for each project undertaken as part of the LAX Master Plan implementation, the Department must disclose project level air quality environmental impacts under a project specific CEQA study.

AB32 specifically regulates the release of certain “Greenhouse Gas” (“GHG”) emissions from stationary sources within the State. The Mandatory Reporting requirement under AB32 requires facilities that generate greater than 25,000 MTCO<sub>2e</sub> per year to report their GHG emissions. The Department owns and operates a cogeneration plant at LAX, which is expected to be subject to this requirement, 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 AB32. The State Attorney General’s Office has been using CEQA aggressively to apply the provisions of AB32 to local and regional plans as well as to projects. As a result, project level CEQA analysis prepared for LAX Master Plan-related projects must include an analysis of the project’s potential GHG emissions and impacts.

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 SCAQMD has a full-time inspector assigned to LAX. This inspector conducts routine inspections of LAX and tenant operations to verify compliance with the SCAQMD rules and regulations. In addition, the Department Environmental Services Division includes an Air Quality Section with five full-time professional staff assigned to maintain compliance with the various rules and regulations.

See also “LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT.”

## **Environmental Impact Report Process**

In December 2004, after the Board adopted the LAX Master Plan, the Board and the City Council certified an environmental impact report and adopted a comprehensive development program for the Airport, the LAX Master Plan (also known as “Alternative D”), the City’s general plan for LAX (known as the LAX Plan) and the LAX Specific Plan. In certifying the LAX Master Plan EIR, a mitigation monitoring and reporting program (the “MMRP”) was adopted to mitigate the environmental impacts associated with the LAX Master Plan. All LAX Master Plan Projects are required to incorporate the mitigation measures of the MMRP. The FAA issued the Federal Record of Decision on the environmental impact statement for Alternative D in May 2005. The LAX Specific Plan and the stipulated settlement call for the LAX Specific Plan Amendment Study, which is to comprehensively address security, traffic, aviation activity and corresponding environmental analysis prior to seeking approval to proceed with certain Yellow Light Projects, among other things.

As is described in further detail above under “CAPITAL IMPROVEMENT PLANNING – Settlement of Master Plan Litigation,” in February 2006, a stipulated settlement was reached with respect to litigation commenced by the Cities of El Segundo, Inglewood, and Culver City, the County of Los Angeles and ARSAC against the Department, the City, the City Council, the Mayor and the Board, challenging the environmental review and approval of the LAX Master Plan. This settlement removes potential litigation obstacles to allow the Department to

proceed with a series of projects in the Master Plan Program for which an LAX Specific Plan Amendment Study is not required, while it processes that Study. These include all subsequent Department, Board and/or City Council approvals for all entitlements and other actions for any of the specific project components that implement Alternative D and that are not Yellow Light Projects, including for example the crossfield Taxiways project and various other terminal, airfield and apron projects. The Alternative D State environmental review and approval was programmatic. Therefore, all site-specific projects that implement Alternative D are subject to project level environmental review.

Project level environmental reviews are complete for the south airfield improvement program, the TBIT interior project, the crossfield taxiway and associated projects, the TBIT reconfiguration project, also known as Bradley West Terminal Projects and the Central Utility Plant Project. The Department has begun project-level environmental reviews for the LAX Specific Plan Amendment Study. See “CAPITAL IMPROVEMENT PLANNING.”

## **LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT**

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 Pledged Revenues or the operation of LAX, except as described under “USE OF AIRPORT FACILITIES,” “CAPITAL IMPROVEMENT PLANNING – Settlement of Master Plan Litigation” and “—Agreements Relating to Master Plan Litigation” and “AIRPORT SYSTEM ENVIRONMENTAL MATTERS” and below.

A number of individuals have instituted litigation against the Department for damages in amounts that have not yet been specified nor determined. These claimants argue they have suffered damages due to the Department’s purchase, demolition and alleged failure to maintain neighboring properties as well as the Department’s alleged inappropriate use of, as yet, undemolished Department-owned parcels. According to the plaintiffs, the Department’s actions have caused a diminution of the value of the plaintiffs’ property, prevented the plaintiffs from using their property for its highest and best use (for example, conversions to condominiums) and lost rental income. The Department believes that these cases are without merit and successfully obtained dismissal of a number of these cases. In connection with the remaining cases, the Court has ruled that the plaintiffs are entitled to just compensation based upon the Department’s creation of condemnation blight. The Department has appealed the Court’s ruling to the California Court of Appeal. Pending the decision of the California Court of Appeal, a trial is scheduled for January 2011. No assurance can be given regarding the outcome of these remaining cases.

A fuel service provider has made a claim for damages against the Department in connection with a certain right of way license agreement granted by the Department to the provider. The provider claims that the Department offered, and the provider accepted, an extension of the right of way license agreement in connection with certain fuel pipeline relocation work undertaken by the provider. The Department disputes, among other things, that any such offer was made. The provider seeks damages in the amount of \$146.1 million for, among other things, lost profits for the loss of the extension and the right of way license agreement, reimbursement of pipeline relocation expenses and anticipatory breach of contract. The Department has denied the provider’s claim and believes that the provider’s claim is without merit. The Department is engaged in settlement negotiations with the provider. However, no assurance can be given that the provider will not file litigation or regarding the outcome of any such litigation, if filed.

In May 2009, the Department received a “Notice of Intent to Sue” alleging various violations under the FCAA, SCAQMD Rules and Regulations, the State’s Implementation Plan to attain National Ambient Air Quality Standards (“NAAQS”) and the federal False Claims Act, from a law firm writing on behalf of an individual. In August 2010, the Department was served in the lawsuit referred to in such Notice of Intent to Sue. The Department believes that its operations are in substantial compliance with the FCAA, SCAQMD Rules and Regulations, the State’s Implementation Plan to attain NAAQS and the federal False Claims Act; however, it is not possible to predict whether the Department may be found to be in violation of the FCAA, SCAQMD Rules and Regulations, the State’s Implementation Plan to attain NAAQS or the federal False Claims Act, nor the amount of damages or fines that may be payable. There can be no assurance that such amounts will not be material. The Department has filed a motion seeking dismissal of the lawsuit.

On July 23, 2008, the City filed a complaint in the Superior Court for the County of Los Angeles, California, Case Number BC394944, which named a number of defendants, including Citigroup, Inc., Citigroup Global Markets, Inc., JPMorgan Chase & Co., Morgan Stanley and UBS AG. The complaint alleges that the defendants manipulated the municipal derivatives market by various means to decrease the returns the City earned on guaranteed investment contracts and municipal derivative instruments. The complaint was removed to federal district court in the Central District of California on August 25, 2008 and subsequently consolidated for pre-trial coordination with other related actions in the Multi-District Litigation proceeding pending in the Southern District of New York, Master Docket Number 08-CV-02516 (VM). The City filed a first amended complaint on September 15, 2009, which added a number of defendants, including Citibank, N.A., Citigroup Global Markets Holdings, Inc., and Citigroup Financial Products Inc., J.P. Morgan Securities, Inc., UBS Financial Services, Inc., and UBS Securities, LLC. On June 24, 2010, the City filed a second amended complaint that added The Goldman Sachs Group, Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P., and Goldman Sachs Bank USA (formerly known as Goldman Sachs Capital Markets, L.P.) as defendants.

On December 10, 2009, the Department filed a complaint in the United States District Court, Central District of California, Case Number 09-CV-9069 (GW)(VBKx), which named a number of defendants, including Citibank, N.A., Citigroup Financial Products Inc., Citigroup Global Markets Holdings Inc., JPMorgan Chase & Co., J.P. Morgan Securities, Inc., Morgan Stanley, UBS AG, UBS Financial Services, Inc., UBS Securities, LLC, The Goldman Sachs Group, Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P., and Goldman Sachs Bank USA (formerly known as Goldman Sachs Capital Markets, L.P.). On January 27, 2010, the Department's action was transferred for pre-trial coordination with the City's action and other related actions in the Multi-District Litigation proceeding pending in the Southern District of New York. The complaint alleges that the defendants manipulated the municipal derivatives market by various means to decrease the returns the Department earned on guaranteed investment contracts and municipal derivative instruments. The Department filed a first amended complaint on May 10, 2010.

J.P. Morgan Securities LLC and Citigroup Global Markets Inc., which are defendants or affiliates of certain defendants in the above-referenced lawsuits, are underwriters of the Series 2010D Senior Bonds. In addition, the Department has been informed that J.P. Morgan Securities LLC has entered into a Dealer Agreement with UBS Financial Services Inc., a defendant in the above-referenced lawsuits, for the retail distribution of certain securities offerings, including the Series 2010D Senior Bonds and Citigroup Inc., the parent company of Citigroup Global Markets Inc., has entered into a retail brokerage joint venture with Morgan Stanley, a defendant in the above-referenced lawsuits, as a part of which Citigroup Global Markets Inc. will distribute municipal securities, including the Series 2010D Senior Bonds, to retail investors through the financial advisor network of the broker-dealer Morgan Stanley Smith Barney LLC. See 'UNDERWRITING.'

Neither the Department nor the underwriters of the Series 2010D Senior Bonds can predict the outcome of these lawsuits.

**AUTHORIZATION**

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

DEPARTMENT OF AIRPORTS OF THE  
CITY OF LOS ANGELES, CALIFORNIA

By:           /s/ Gina Marie Lindsey            
Executive Director

**APPENDIX A**  
**REPORT OF THE AIRPORT CONSULTANT**

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**AIRPORT CONSULTANT LETTER**

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Department of Airports of the City of Los Angeles, California  
Los Angeles International Airport  
Subordinate Revenue Bonds, 2010 Series B and C  
Senior Revenue Bonds, 2010 Series D

**LETTER REPORT OF THE AIRPORT CONSULTANT**

Ricondo & Associates, Inc.  
105 East Fourth Street, Suite 1700  
Cincinnati, OH 45202  
513.651.4700 telephone  
513.412.3570 facsimile

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October 20, 2010

Mr. Alan I. Rothenberg, President  
Board of Airport Commissioners  
Los Angeles World Airports  
1 World Way  
Los Angeles, CA 90045-2216

***RE: Department of Airports of the City of Los Angeles, California  
Los Angeles International Airport  
Subordinate Revenue Bonds, 2010 Series B and C  
Senior Revenue Bonds, 2010 Series D***

***Appendix A: Letter Report of the Airport Consultant***

Dear Mr. Rothenberg:

This letter report sets forth findings, assumptions, and projections of the air traffic and financial analyses developed by Ricondo & Associates, Inc. (R&A) in conjunction with the planned issuance by the Department of Airports of the City of Los Angeles, California (the Department) of its Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series B and C (the Series 2010 Subordinate Bonds), and its Los Angeles International Airport, Senior Revenue Bonds, 2010 Series D (the Series 2010D Senior Bonds), to be issued approximately three weeks after the issuance of the Series 2010 Subordinate Bonds to finance improvements at Los Angeles International Airport (the Airport or LAX). The Department, also known as Los Angeles World Airports (LAWA), is a self-supporting, proprietary department of the City of Los Angeles under the management and control of the Board of Airport Commissioners.

**Purpose of This Letter Report of the Airport Consultant**

In connection with the Series 2009 Senior Revenue Bonds and the Series 2009 Subordinate Revenue Bonds issued by the Department in December 2009 (the Series 2009 Bonds), R&A prepared the Report of the Airport Consultant dated October 23, 2009 (the Series 2009 Report), which was included as Appendix A in the Official Statement for the Series 2009 Bonds. The Series 2009 Report and the financial tables accompanying the Series 2009 Report incorporated estimates of future debt service associated with the Series 2009 Bonds as well as future Senior Revenue Bonds and Subordinate Revenue Bonds anticipated by the Department to be issued during the projection period reflected in the Series 2009 Report, specifically the Department's fiscal year (FY) ending June 30, 2010 through FY 2016 (the Projection Period).



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This letter report discusses analyses completed since the Series 2009 Report by R&A and its sub-consultant Partners for Economic Solutions with updated information and data regarding the economic base for the Airport, air traffic at the Airport, ongoing and future Airport capital projects, actual debt service, and Airport financial operations. This letter report also presents a summary of air traffic projections and updated key financial tables that reflect various updated information, refinements, and adjustments as described in detail later in this letter report. Passenger and landed weight projections have been restated to incorporate actual FY 2010 results but the FY 2016 endpoints have not changed from the projections reflected in the Series 2009 Report. Although actual FY 2010 air traffic growth was better than previously projected, given the continued uncertainty regarding the recovery of the regional and national economies, the overall projection from FY 2009 to FY 2016 has not changed. As described in more detail in the “Airport Capital Program” and “Updated Financial Analysis” sections of this letter report, and as summarized in the table on the following page, there have been no material changes to the estimated costs or funding sources for the Airport’s capital program since the Series 2009 Report, and there have been no material changes to the overall financial projections or the projections of debt service coverage ratios since the Series 2009 Report.

In March 2010, the Department issued the Series 2010A Senior Bonds to fund, in part, elements of the Bradley West Terminal Project (referred to at that time as the Series 2010A Projects). A letter report similar to this letter report, with updated financial projections, was prepared in support of the issuance of the Series 2010A Senior Bonds and was included (along with the Series 2009 Report) in the official statement for the Series 2010A Senior Bonds. The elements of the Bradley West Terminal Project are included in the Series 2010D Senior Bonds Projects described in this letter report. The financial projections reflected in this letter report have been updated since the issuance of the Series 2010A Senior Bonds.

This letter report and the accompanying updated financial tables also serve to confirm certain key findings and conclusions described in the Series 2009 Report, including:

1. For each year of the Projection Period, Net Pledged Revenues will be sufficient to meet the Department’s senior rate covenant requirement as set forth in Section 5.04 of the Senior Indenture (as defined below), and that Net Subordinate Pledged Revenues will be sufficient to meet the Department’s subordinate rate covenant requirement as set forth in Section 5.04 of the Subordinate Indenture; and
2. Projected Airport operating expenses and capital costs, including increases in annual operating and capital costs through the Projection Period related to the Series 2010 Subordinate Bonds Projects (as defined below), the Series 2010D Senior Bonds Projects, and other capital improvements described in this letter report (based on a \$4.50 PFC level at the Airport throughout the Projection Period), produce reasonable levels of airline rates and charges at the Airport during the Projection Period.



Mr. Alan I. Rothenberg, President  
 Board of Airport Commissioners  
 October 20, 2010

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**SUMMARY OF CHANGES SINCE SERIES 2009 REPORT**

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	<u>Change(s) Since Series 2009 Report</u>	<u>Estimated Impact of Change(s) to Overall/Key Financial Results</u>
Air Traffic Projections	Actual FY 2010 enplanements increased 2.4 percent from FY 2009 (the Series 2009 Report projected a 1.6 percent decrease). Enplanement and landed weight projections have been restated for FY 2011 to FY 2015 to account for actual FY 2010, but no change has been made to the FY 2016 projections reflected in the Series 2009 Report.	No material impact. Slightly higher projections of enplanements and landed weight for FY 2011 through FY 2015; projections of FY 2016 enplanements and landed weight have not changed. Compounded annual growth rate (CAGR) for FY 2010 to FY 2016 now lower at 1.5 percent (vs. 2.2 percent reflected in the Series 2009 Report).
Airport Capital Program	Refinements to costs, draws, and funding for certain projects. Overall cost is now estimated at \$5.577 billion, approximately \$29.4 million lower than reflected in the Series 2009 Report (an approximate 0.5 percent decrease).	No material impact.
Series 2010 Subordinate Bonds, Series 2010D Senior Bonds, and Future Bond Issues	Timing and amounts have been refined series by series.	No material impact. Financial results vary from year to year relative to those set forth in the Series 2009 Report, but no material impact.
Debt Service	Actual Debt Service for Series 2009 Senior Bonds, Series 2009 Subordinate Bonds, and Series 2010A Senior Bonds has been incorporated (the 2009 Report reflected estimates)	No material impact. Financial results vary from year to year relative to those set forth in the Series 2009 Report, but no material impact.
Operating Expenses	Budgeted FY 2011 expenses (which are lower than previously projected FY 2011 expenses) have been incorporated and serve as the base for expense projections. No changes to assumptions related to incremental expenses associated with projects. Expenses allocated to other airports eliminated.	Projected FY 2011-2016 LAX M&O Expenses are now lower by approximately \$20.0 million to \$27.0 million relative to expense projections reflected in the Series 2009 Report.

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**(Summary continued on next page)**

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 Board of Airport Commissioners  
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**SUMMARY OF CHANGES SINCE SERIES 2009 REPORT (continued)**

	<b>Change(s) Since Series 2009 Report</b>	<b>Estimated Impact of Change(s) to Overall/Key Financial Results</b>
Nonairline Revenues	<p>Budgeted/estimated FY 2011 nonairline revenues have been incorporated and serve as the basis for nonairline revenue projections. Minor revisions to cash subsidy payments expected from the U.S. Treasury (related to Build America Bonds) and building rents other than passenger terminals for FY 2010-2016. Park One revenues moved from parking line item to land rental line item. Non-signatory airline landing fees, gate use fees, and terminal use fees have been moved to Table 13.</p> <p>Elimination of rental car customer facility charge (CFC) from Revenues.</p>	<p>In aggregate (for changes described in the paragraph to the left), FY 2009-2016 nonairline revenues are lower by up to \$9.2 million relative to nonairline revenue projections reflected in the Series 2009 Report.</p> <p>FY 2009-2016 nonairline revenues reduced by \$22.1 to \$29.3 million.</p>
Terminal Rentals	<p>As a result of transactions related to certain terminals, the recovery of certain additional expenses and capital costs are now incorporated in projections. Refined and actual allocations of terminal project costs to airline vs. public space have also been incorporated.</p>	<p>FY 2011-2012 terminal rental payments are lower by approximately \$12.3 million to \$19.7 million, and FY 2013-2016 payments are higher by approximately \$3.2 million to \$15.7 million.</p>
Landing and Apron Fees	<p>Revised based on actual debt service, revised amortization, and budgeted FY 2011 expenses</p>	<p>FY 2011-2016 landing and apron fees now lower by approximately \$3.0 million to \$19.0 million.</p>
Projected Passenger Airline Cost per Enplanement (CPE)	<p>Revised based on refinements described above in this summary regarding future bonds, debt service, and expenses</p>	<p>No material impact. Projections of CPE are now lower.</p>
Projected Debt Service Coverage (Combined)	<p>Projected combined debt service coverage ratio calculations revised based on refinements described above to expenses, revenues, future bonds, and debt service</p>	<p>No material impact. Combined debt service coverage ratios vary from year to year relative to those set forth in the Series 2009 Report, but no material impact.</p>



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This letter report, along with the Series 2009 Report, is intended for inclusion in the Official Statements for the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds as Appendix A: Report of the Airport Consultant. Except as noted otherwise, capitalized terms in this letter report shall have the meanings set forth in the Master Trust Indenture, as amended and supplemented (referred to in this letter report as the Senior Indenture), or in the Master Subordinate Trust Indenture, as amended and supplemented (referred to in this letter report as the Subordinate Indenture). Bonds issued pursuant to the Senior Indenture and the Subordinate Indenture are referred to in this letter report as Senior Bonds and Subordinate Bonds, respectively.

### **Series 2010 Subordinate Bonds**

Proceeds of the Series 2010 Subordinate Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain ongoing and/or planned capital projects, including construction of the Bradley West Aprons Project and the Taxilane T Project (collectively referred to in this letter report as the Series 2010 Subordinate Bonds Projects), as more fully described in the “Airport Capital Program” section below; (2) fund capitalized interest; (3) fund the required deposit to the subordinate debt service reserve fund; and (4) pay the costs of issuance of the Series 2010 Subordinate Bonds.

### **Series 2010D Senior Bonds**

Proceeds of the Series 2010D Senior Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain ongoing and/or planned capital projects, including construction of various elements of the Bradley West Terminal Project and the Central Utility Plant (CUP) Project (referred to collectively in this letter report as the Series 2010D Senior Bonds Projects), as more fully described in the “Airport Capital Program” section below; (2) fund capitalized interest; (3) fund the required deposit to the senior debt service reserve fund; and (4) pay the costs of issuance of the Series 2010D Senior Bonds.

### **Future Bonds**

The Department anticipates issuing Additional Senior Bonds and Additional Subordinate Bonds subsequent to the issuance of the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds to finance other capital projects described herein that are anticipated to be completed during the Projection Period.

**This letter report and the accompanying financial tables incorporate estimated future debt service requirements for the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds, as well as all future Additional Senior Bonds and Additional Subordinate Bonds currently anticipated by the Department to be issued during the Projection Period to finance**



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**capital projects.** Such bonds are expected to fund all or a portion of the estimated costs of certain capital projects at the Airport (including, among other projects, the Series 2010 Subordinate Bonds Projects and the Series 2010D Senior Bonds Projects) that the Department expects to be completed during the Projection Period—as discussed in greater detail below in the “Airport Capital Program” and “Updated Financial Analysis” sections. Estimated debt service requirements incorporated in this letter report for the future Additional Senior Bonds and Additional Subordinate Bonds anticipated to be issued during the Projection Period (subsequent to the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds) assume level annual debt service by bond series.

The amount and timing of future bonds incorporated in the financial tables presented in this letter report vary somewhat from the assumptions reflected in the Series 2009 Report as a result of updated and refined construction draw estimates and certain funding refinements. **However, as shown in Tables 13 and 14 of this letter report, the overall financial results have not changed materially since the Series 2009 Report.**

The debt service structure and mix of future Additional Senior Bonds and Additional Subordinate Bonds (issued subsequent to the proposed issuance of the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds) may ultimately vary from what was reflected in the Series 2009 Report and from the updated financial tables presented in this letter report depending on decisions by the Department regarding optimal debt service structure and mix of Senior Bonds and Subordinate Bonds.

### **Use of Passenger Facility Charge (PFC) Revenues**

The Department expects to use certain available PFC revenues to pay a portion of the debt service associated with the Tom Bradley International Terminal (TBIT) Interior Improvements Project (funded in part with proceeds of the Series 2008A Senior Bonds and the Series 2009A Senior Bonds) and the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and to be funded in part with the proceeds of the Series 2010D Senior Bonds). The use of PFC revenues to pay portions of debt service associated with these projects has already been approved by the Federal Aviation Administration (FAA). The expected use of PFC revenues to pay portions of debt service is reflected in Table 8, included later in this letter report. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year.

Pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant (generally requiring that Net Pledged Revenues equal at least 125 percent of Aggregate Annual Debt Service on the Senior Bonds each Fiscal Year), the principal of and/or interest on Senior Bonds paid with PFC revenues is excluded from the calculation of Aggregate Annual Debt Service on the Senior Bonds. At this time, the Department does not plan to use PFC revenues to pay principal of and/or interest on any Subordinate Bonds or Subordinate Commercial Paper Notes, but may do so in the future.





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The estimated capital project funding sources, projected airline payments, and other key financial results reflected in this letter report and the Series 2009 Report are based on the assumption that the current \$4.50 PFC level at the Airport is **not** increased throughout the Projection Period. As stated in the Series 2009 Report, if the current \$4.50 maximum PFC level is increased by Congress during the Projection Period, the Department plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this letter report.

### **Updated Information Regarding the Economic Base for Air Transportation**

The Series 2009 Report concluded that the economic base of the Air Trade Area (the Los Angeles-Long Beach-Riverside Combined Statistical Area) is stable and diversified, and is capable of supporting the projected air transportation activity at the Airport. Based on a review of current demographic, income and employment data, the findings presented in the Series 2009 Report remain valid (see Chapter I *Economic Base for Air Transportation* of the Series 2009 Report). A brief discussion of the most recent unemployment data, as well as a summary of recent forecast data from Blue Chip Economic Indicators, the National Association for Business Economics (NABE), and the Los Angeles County Economic Development Corporation (LAEDC) is provided below.

The Air Trade Area produced an estimated \$854 billion in gross regional product in Calendar Year (CY) 2009 (approximately six percent of the nation's total gross domestic product or GDP). The Air Trade Area is affected by the economic conditions in the U.S. The most recently published surveys of leading economists by Blue Chip Economic Indicators (September 2010) and NABE (October 2010) indicate consensus for a modest rebound in national real GDP growth by the end of CY 2010. The forecast panels also project that the annual unemployment rate in the U.S. will range between 9.6 percent and 9.7 percent in CY 2010.

As of August 2010 (latest data currently available), the unemployment rate for the Air Trade Area was 12.6 percent (non-seasonally adjusted). This is higher than the rate for California (12.4 percent seasonally adjusted) and the U.S. (9.6 percent seasonally adjusted). By comparison, unemployment rates in September 2009 as provided in the Series 2009 Report were 12.3 percent (non-seasonally adjusted), 12.2 percent (seasonally adjusted), and 9.7 percent (seasonally adjusted) for the Air Trade Area, California, and the U.S., respectively. (Note: There are no seasonally adjusted monthly unemployment data available for the Air Trade Area.)

The NABE forecast expects moderate economic recovery in CY 2010 with annual GDP growth of 2.6 percent. The Blue Chip Economic Indicators forecast is more optimistic, forecasting 2.7 percent GDP growth in CY 2010. By comparison, data provided in the Series 2009 Report showed that Blue Chip Economic Indicators (September 2009) forecasted annual GDP growth of 2.4 percent in CY 2010, while NABE's CY 2010 annual GDP growth outlook (May 2009) was 2.0 percent.



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Similar to the forecasts from NABE and Blue Chip Economic Indicators, the *2010-2011 Economic Forecast and Industry Outlook: Mid-Year Update* from the LAEDC projects that unemployment rates in both California and the Air Trade Area will remain elevated in CY 2010. LAEDC forecasts the majority of job losses in both California and the Air Trade Area will occur in the construction, manufacturing, retail trade, and wholesale trade industries. LAEDC anticipates improved economic growth in California and the Air Trade Area in CY 2011. While automobile sales, housing-related purchases, and business investment are expected to remain subdued, growth in the Air Trade Area's entertainment, tourism, and international trade sectors are projected to support a measured recovery in CY 2011.

Based on the analysis included in Chapter I (Economic Base for Air Transportation) of the Series 2009 Report, as well as our review of the most recent unemployment data and economic forecast information discussed above, our opinion is unchanged: the Air Trade Area's economic base remains broad and diversified, and will continue to support long-term growth in demand for air transportation services at the Airport. Our review of the most recent economic data and information suggests that the traffic projections presented in the Series 2009 Report (restated in this letter report to incorporate actual FY 2010 results) remain valid.

### **Updated Information Regarding Air Traffic**

A review of more current Airport activity data since the date of the Series 2009 Report was undertaken to assess the reasonableness of the activity projections included therein for use in conjunction with the proposed issuance of the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds.

**Based on this review and actual FY 2010 results, nothing has come to our attention since the date of the Series 2009 Report that would materially adversely affect the assumptions, projections, or conclusions set forth in the Series 2009 Report or call into question the reasonableness of such assumptions, projections, or conclusions. The Series 2009 Report's enplanement and landed weight projections from FY 2011 to FY 2015 have been restated to incorporate actual FY 2010 data while FY 2016 projections remain unchanged. In the Series 2009 Report, recovery of air traffic at the Airport was projected to occur in FY 2012 (2.6 percent passenger growth) and FY 2013 (2.3 percent passenger growth). Actual FY 2010 results may be evidence that recovery is occurring earlier than previously projected. Although actual FY 2010 growth was better than previously projected, given the continued uncertainty about sustained recovery of the regional and national economies, the overall projection from FY 2009 to FY 2016 has not changed.**

For the Series 2009 Report, projections of enplanements at the Airport were prepared in September 2009 by R&A for the Near-Term (FY 2010) and the Longer-Term (FY 2011 through FY 2016). At



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the time of that report, it was estimated that FY 2010 enplanements would decrease by approximately 1.6 percent, based on planned reductions in scheduled seat capacity by the airlines. Based on actual results, however, the Airport's enplanements increased by 2.4 percent in FY 2010. In FY 2010, additional flights and seat capacity, along with higher load factors by carriers resulted in a 2.1 and 2.7 percent increase in domestic and international enplanements, respectively.

**Table 1** presents the increase in scheduled airline departures at the Airport for September 12-18 in 2009 and 2010. As shown, domestic airline departures increased 3.8 percent and international airline departures increased 1.2 percent. For the Series 2009 Report, it was assumed that flights and seat capacity at the Airport would recover at a more gradual pace through FY 2012 and FY 2013.

**Table 1**

Weekly Scheduled Departures – LAX <sup>1/</sup>

Destination	2009	2010	Percentage Change
Domestic	3,970	4,122	3.8%
International	823	833	1.2%
Total	4,793	4,955	3.4%

Note:

1/ Week of September 12 - 18.

Source: Official Airline Guide (OAG), August 2010.  
 Prepared by: Ricondo & Associates, Inc., August 2010.

Alitalia, Allegiant Air, American Eagle, Cathay Pacific, Copa, Delta, Horizon Air, JetBlue, Virgin America, and US Airways have recently offered new service or additional flights from the Airport to markets throughout the U.S. and overseas. For example, JetBlue initiated four daily nonstop flights from the Airport to New York (JFK) in May 2010; Alitalia initiated nonstop service from the Airport to Rome five times a week in June 2010; and Virgin America initiated daily nonstop service to Toronto in June 2010. Virgin America announced in August 2010 that it will initiate nonstop service from the Airport to Cancun by mid-December 2010.

In addition to the capacity increases that occurred, other recent events worth noting include:

- On September 27, 2010, Southwest Airlines announced it had entered into an agreement to purchase AirTran Airways, providing opportunities to expand its network and diversify into new markets (e.g., Hartsfield-Jackson Atlanta International Airport and Ronald Reagan Washington National Airport) and also provide access to certain leisure markets in the Caribbean and Mexico. Southwest Airlines and AirTran Airways represent passenger market



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shares of 11.7 percent and 1.0 percent, respectively, at the Airport and as of September 30, 2010, did not serve any common markets from the Airport. The merger is not expected to have a material adverse impact on enplanements and operations at the Airport.

- On August 27, 2010, United and Continental received approval from the U.S. Department of Justice for their proposed merger after agreeing to lease landing and take-off rights at Newark Liberty International Airport to Southwest. Shareholders from United and Continental (the second and seventh largest carriers at the Airport in terms of enplanements) approved the proposed merger on September 17, 2010; and the merger became legally effective on October 1, 2010. United Continental Holdings, the new holding company for United Airlines and Continental Airlines, estimates that merger integration (including operations under a single operating certificate from the FAA) will be completed within 12 to 18 months. United and Continental represent passenger market shares of 13.2 percent and 4.2 percent, respectively, at the Airport and have complementary route structures with less route overlap than at other comparable airports. The merger is not expected to have a material adverse impact on enplanements and operations at the Airport.
- Mexicana (the second largest foreign flag carrier at the Airport in terms of enplanements, with a 1.8 percent share of total enplaned passengers at the Airport in FY 2010) filed for bankruptcy protection in Mexico and under Chapter 15 of the U.S. Bankruptcy Code on August 3, 2010. On August 28, 2010, it indefinitely suspended all of its operations. Demand for air travel to Mexican markets from the Air Trade Area is strong. Service previously provided by Mexicana is likely to be provided by carriers already serving Mexican markets. Excluding Mexicana, there were eight carriers serving a total of 16 Mexican markets from the Airport in August 2010. Those markets served by Mexicana in August 2010 that are currently served by other airlines include Cancun (Delta and United), Guadalajara (Aeromexico, Alaska, Delta, and Volaris), Leon/Guanajuato (Aeromexico Connect), Los Cabos (Alaska, American, and United), Mexico City (American, Alaska, and United), Morelia (Volaris), and Puerto Vallarta (Alaska, Delta, and United). As previously mentioned, Virgin America has announced that it will initiate nonstop service from the Airport to Cancun in December 2010.

To reflect actual FY 2010 enplanements, the Series 2009 projections have been restated for FY 2011 to FY 2015, but the projection for FY 2016 has not changed. **Table 2** presents enplanement projections provided in the Series 2009 Report and shows how they have been adjusted in this letter report.



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**Table 2**  
 Historical & Projected Enplanements – LAX

Fiscal Year	Historical	Series 2009 Report Projections	Restated Projections Incorporating Actual FY 2010
2000	33,231,722		
2001	33,839,969		
2002	28,131,661		
2003	27,710,328		
2004	29,079,847		
2005	30,548,251		
2006	30,655,146		
2007	30,803,470		
2008	31,142,339		
2009	28,329,019		
2010	29,003,142	27,884,300	
2011		28,409,600	29,417,518
2012		29,143,500	29,874,607
2013		29,803,800	30,338,799
2014		30,520,800	30,810,203
2015		31,137,100	31,288,932
2016		31,775,100	31,775,100
Compounded Annual Growth Rate			
2000 - 2010	-1.4%		
2002 - 2008	1.7%		
2009 - 2016		1.7%	1.7%
2010 - 2016		2.2%	1.5%
2011 - 2016		2.3%	1.6%

Source: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc. (projected), October 2010.  
 Prepared by: Ricondo & Associates, Inc., October 2010.

See Section 2.7 of the Series 2009 Report (page A-91) for a detailed discussion of the various projection methodologies that were analyzed and used in the development of the enplanement projections.

As presented in the restated projections column of Table 2, total enplanements at the Airport are projected to increase from approximately 29.0 million in FY 2010 to 31.8 million in FY 2016 (the



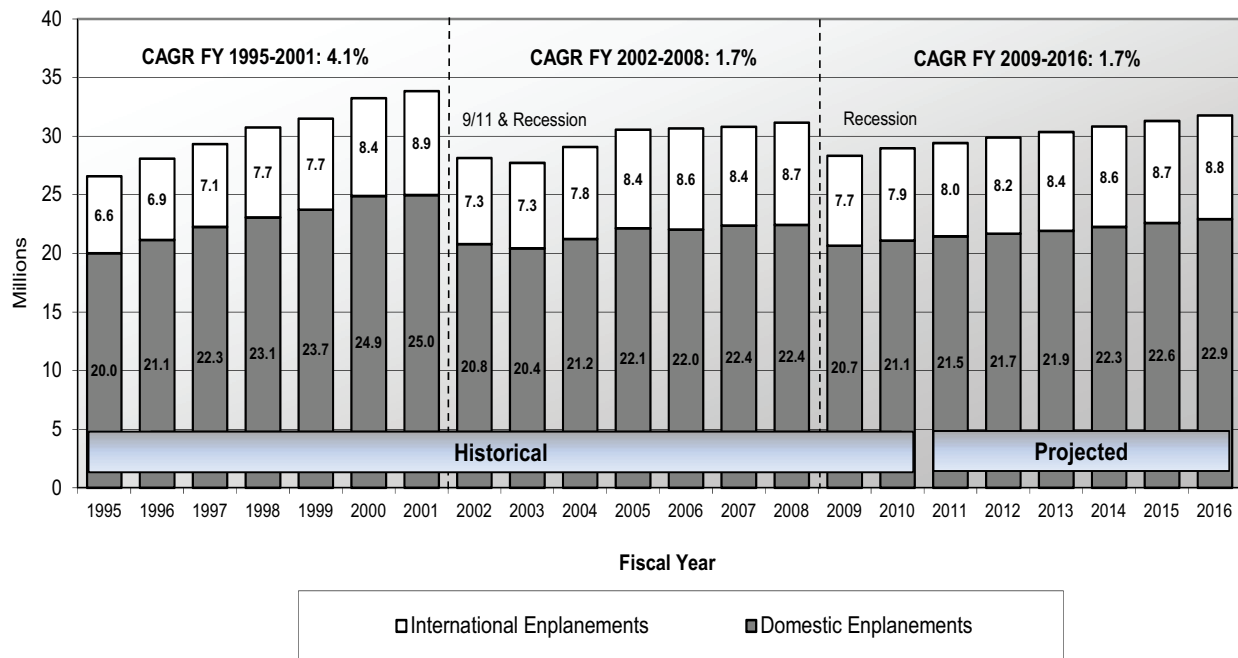
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same endpoint). This increase represents a CAGR of 1.5 percent during this period, lower than the 1.7 CAGR experienced at the Airport from FY 2002 to FY 2008, a period that began with an economic downturn and airline capacity cuts followed by a gradual economic recovery.

It is projected that as the economy gradually recovers, Airport enplanements will experience growth rates comparable to the last economic recovery. The comparable periods are shown below in **Exhibit 1**.

**Exhibit 1**

Historical & Projected Enplanements –LAX



Source: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc. (projected), October 2010.  
 Prepared by: Ricondo & Associates, Inc., October 2010.

A similar analysis was also conducted for the landed weight projections prepared for the Series 2009 Report. As shown in **Table 3**, FY 2016 landed weight (51,680,583,000) is maintained in the restated projections.



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**Table 3**

Historical and Projected Landed Weight (thousand pounds) – LAX

Fiscal Year	Historical	Series 2009 Report projections	Restated Projections Incorporating Actual FY 2010
2000	61,273,884		
2001	62,850,663		
2002	53,479,225		
2003	51,797,008		
2004	51,565,943		
2005	52,227,891		
2006	51,786,381		
2007	52,128,707		
2008	52,054,993		
2009	46,675,431		
2010	47,327,082	45,819,816	
2011		46,676,033	48,015,952
2012		47,855,038	48,713,891
2013		48,922,381	49,421,975
2014		49,965,759	50,140,352
2015		50,812,728	50,869,171
2016		51,680,583	51,680,583
<b>Compounded Annual Growth Rate</b>			
2005 - 2010	-2.0%		
2002 - 2008	-0.4%		
2009 - 2016		1.5%	1.5%
2010 - 2016		2.0%	1.5%
2011 - 2016		2.1%	1.5%

Source: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., October 2010.  
 Prepared by: Ricondo & Associates, Inc., October 2010.

**Airport Capital Program—No Material Changes Since the Series 2009 Report**

As discussed in more detail below, there have been no material changes to the Airport’s Capital Improvement Program (CIP) since the Series 2009 Report was prepared. As discussed in more detail below, the total CIP cost has decreased slightly from \$5.606 billion reflected in the Series 2009



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Report to \$5.577 billion as reflected in the tables accompanying this letter report. The list of projects included in the CIP has not changed.

For purposes of this letter report, the CIP is organized into the following categories:

- **The Series 2010 Subordinate Bonds Projects.** Includes capital projects to be funded, in part, with Series 2010 Subordinate Bond proceeds. Estimated operating expenses, capital costs (including debt service and/or amortization of cash-funded assets), and revenues associated with the Series 2010 Subordinate Bonds Projects **have been included** in the financial analysis and tables presented in this letter report. In the Series 2009 Report, the Series 2010 Subordinate Bonds Projects were included in Other Incorporated Projects.
- **The Series 2010D Senior Bonds Projects.** Includes capital projects to be funded, in part, with the Series 2010D Senior Bond proceeds. Estimated operating expenses, capital costs (including debt service and/or amortization of cash-funded assets), and revenues associated with the Series 2010D Senior Bonds Projects **have been included** in the financial analysis and tables presented in this letter report. In the Series 2009 Report, the Series 2010D Senior Bonds Projects were included in Other Incorporated Projects.
- **Other Incorporated Projects.** Includes future capital projects in the CIP that are not funded with Series 2010 Subordinate Bond proceeds or Series 2010D Senior Bond proceeds but are certain enough in terms of scope, timing, cost, or approval to incorporate in this letter report, and are expected by the Department to be completed during the Projection Period (through FY 2016). These projects are referred to in this letter report as the Other Incorporated Projects. These projects, along with the Series 2010 Subordinate Bonds Projects and the Series 2010D Senior Bonds Projects above, were reflected as the Other Incorporated Projects in the Series 2009 Report. Estimated operating expenses, capital costs (including debt service and/or amortization of cash-funded assets), and revenues associated with the Other Incorporated Projects **have been included** in the financial analysis and tables presented in this letter report.
- **Ongoing and Completed Projects.** Includes the Series 2009 Projects (capital projects that were or have been funded, in part, with Series 2009 Bond proceeds) and the cash defeasance of the Subseries 2002C2 Subordinate Bonds and Series 2003A Subordinate Bonds completed March 1, 2010. Estimated operating expenses, capital costs (including debt service and/or amortization of cash-funded assets), and revenues associated with the Ongoing and Completed Projects **have been included** in the financial analysis and tables presented in this letter report.
- **Future Projects.** These are other potential future projects at the Airport that the Department may consider (referred to as Future Projects) that **are NOT reflected** in this letter report or in the accompanying tables because the scope, timing, cost, and approval of these projects are uncertain.





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**Table 4** reflects current estimated project costs for the Series 2010 Subordinate Bonds Projects, the Series 2010D Senior Bonds Projects, Other Incorporated Projects, and Ongoing and Completed Projects—totaling \$5.577 billion. This is the same group of projects reflected in Table IV-1 of the Series 2009 Report, however the Series 2010 Subordinate Bonds Projects and the Series 2010D Senior Bonds Projects which were included in Other Incorporated Projects in the Series 2009 Report have been moved to the top of Table 4, and the Series 2009 Projects are now shown under the Ongoing and Completed Projects heading. All estimated project costs presented in Table 4 are gross costs and include design, engineering, construction, escalation for inflation (as appropriate), and contingency amounts.

**Since the 2009 Report was prepared, there have been refinements to estimated costs and expenditure schedules for certain projects (e.g., revisions based on actual bids received subsequent to the Series 2009 Report), but overall there has been no material change to overall capital program costs. Total estimated costs have decreased by approximately \$29.4 million, from \$5.606 billion to \$5.577 billion (representing an approximate 0.5 percent decrease).**

**Exhibit 2** highlights the location of key elements of the Series 2010 Subordinate Bonds Projects and the Series 2010D Senior Bonds Projects.

As shown on Table 4, the Series 2010 Subordinate Bonds Projects include the Bradley West Aprons Project and the Taxilane T Project. These projects are described in the following paragraphs.

Bradley West Aprons Project--The Bradley West Aprons Project is associated with the Bradley West Terminal Project described later in this letter report. On the west side of the proposed concourses associated with the Bradley West Project, new apron areas will be constructed along the length of the concourses to accommodate new aircraft gates. On the east side of the new concourses, the project includes demolition of the existing concourses at the Tom Bradley International Terminal (TBIT) and the construction of new apron areas to accommodate aircraft gates along the east side of the new concourses. As reflected on Table 4, the Bradley West Aprons Project is estimated to cost approximately \$164.5 million.

Taxilane T Project--The Taxilane T Project consists of (1) construction of a 3,166-foot long taxilane to connect Taxiway C on the south and Taxiway D on the north and (2) related enabling projects (e.g., required demolition, removals, etc.). Taxilane T will be constructed as part of a 300-foot wide concrete strip which will be the second part of the future dual taxilane/taxiway system replacing existing Taxiways Q and S, west of TBIT. Taxilane T will be provided with in-pavement centerline lighting and west edge markings only, designed for low visibility operations. Taxiway edge reflectors will be added at fillets at the north and south taxiway intersections. As reflected on Table 4, the Taxilane T Project is estimated to cost approximately \$96.5 million.

Table 4

Series 2010 Subordinate Bonds Projects, Series 2010D Senior Bonds Projects, Other Incorporated Projects, and Ongoing and Completed Projects—Estimated Costs <sup>1/</sup>

		Estimated Project Costs
<b>SERIES 2010 SUBORDINATE BONDS PROJECTS</b>		
Bradley West Aprons		\$ 164,470,000
Taxilane T		96,500,000
<b>TOTAL SERIES 2010 SUBORDINATE BONDS PROJECTS</b>	<b>[A]</b>	<b>\$ 260,970,000</b>
<b>SERIES 2010D SENIOR BONDS PROJECTS</b>		
Bradley West Terminal Project elements (also funded from Series 2010A Senior Bonds) <sup>2/</sup>		\$ 1,543,953,000
Central Utility Plant		438,085,000
<b>TOTAL SERIES 2010D SENIOR BONDS PROJECTS</b>	<b>[B]</b>	<b>\$ 1,982,038,000</b>
<b>OTHER INCORPORATED PROJECTS <sup>3/</sup></b>		
<b><u>Terminal Projects</u></b>		
Terminal Improvements Program <sup>4/</sup>		\$ 810,005,000
Acquisition of Existing Terminal Improvements		253,600,000
Elevators and Escalators Replacements (Terminal) - Phases 3&4		169,600,000
Program Reserve--Terminal Development and Improvements		125,000,000
	[c1]	\$ 1,358,205,000
<b><u>Airfield and Apron Projects</u></b>		
Noise Mitigation and Soundproofing		\$ 430,000,000
West Replacement Aircraft Parking		28,652,000
Pavement Management Program		142,970,000
Airfield Safety Improvements		120,000,000
Other Airfield and Apron Projects <sup>5/</sup>		28,481,000
	[c2]	\$ 750,103,000
<b><u>Infrastructure and Other Projects</u></b>		
Network Station		60,000,000
IT Infrastructure Construction		23,475,000
Seismic Retrofit of CTA Pedestrian and Vehicular Bridges		21,112,000
Other Projects <sup>6/</sup>		65,519,000
	[c3]	\$ 170,106,000
<b>TOTAL OTHER INCORPORATED PROJECTS</b>	<b>[C]=[c1]+[c2]+[c3]</b>	<b>\$ 2,278,414,000</b>
<b>ONGOING AND COMPLETED PROJECTS <sup>3/</sup></b>		
<b>The Series 2009 Projects</b>		
<b><u>Terminal Projects</u></b>		
Completion of TBIT Improvements (completed)		\$ 200,000,000
In-Line Baggage Screening System - Terminal 3		149,032,000
Elevators and Escalators Replacements (Terminal) - Phases 1&2		90,400,000
		\$ 439,432,000
<b><u>Airfield and Apron Projects</u></b>		
Crossfield Taxiway Projects <sup>7/</sup>		\$ 332,271,000
Airfield Intersection Improvements Phase 2		36,722,000
Airfield Operations Area Perimeter Fence (World Way West) Phase 3		15,419,000
Aircraft Rescue and Fire Fighting Station Construction		14,190,000
		\$ 398,602,000
<b><u>Parking Projects</u></b>		
Acquisition of Park One Property (completed)		\$ 126,562,000
Elevators and Escalators Replacements (Parking) - Phases 1&2		10,000,000
		\$ 136,562,000
<b><u>Refunding</u></b>		
Refunding - Subordinate Subseries 2002 C1 (completed)		\$ 37,400,000
<b>Total Series 2009 Projects</b>	<b>[d1]</b>	<b>\$ 1,011,996,000</b>
<b>Cash Defeasance of Certain Bonds</b>		
Cash Defeasance - Subordinate Series 2003A (completed)		\$ 23,700,000
Cash Defeasance - Subordinate Subseries 2002 C2 (completed)		20,000,000
<b>Total Cash Defeasance of Certain Bonds</b>	<b>[d2]</b>	<b>\$ 43,700,000</b>
<b>TOTAL ONGOING AND COMPLETED PROJECTS</b>	<b>[D]=[d1]+[d2]</b>	<b>\$ 1,055,696,000</b>
<b>TOTAL SERIES 2010 SUBORDINATE BONDS PROJECTS, SERIES 2010D SENIOR BONDS PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING AND COMPLETED PROJECTS</b>		<b>= [A]+[B]+[C]+[D] \$ 5,577,118,000</b>

## Notes:

1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.

2/ In the Series 2009 Report, the Bradley West Terminal Project elements were shown as two separate projects: the Bradley West Terminal Core and Bradley West Concourses. However, the same contractor has been awarded the construction contract for both projects and therefore, for the purposes of this letter report, the projects have been combined. The Series 2010A Senior Bonds were issued to partially fund the Bradley West Terminal Project and therefore, the project was listed as a Series 2010A Project for purposes of that issuance.

3/ The financial impacts, if any, associated with Other Incorporated Projects and Ongoing and Completed Projects are incorporated in the financial tables included in this letter report (with impacts reflected in the Projection Period).

4/ Includes in-line bag screening systems for terminals other than TBIT and T3; passenger boarding bridge replacements; utility improvements (including sewer, electrical, etc.); bag claim devices replacement; preconditioned air unit installation; and other terminal infrastructure improvements.

5/ Includes Airport Response Coordination Center (ARCC); Aircraft & Noise Monitoring & Management System (ANMMS); and Enhanced Access Control Monitoring System (ACAMS).

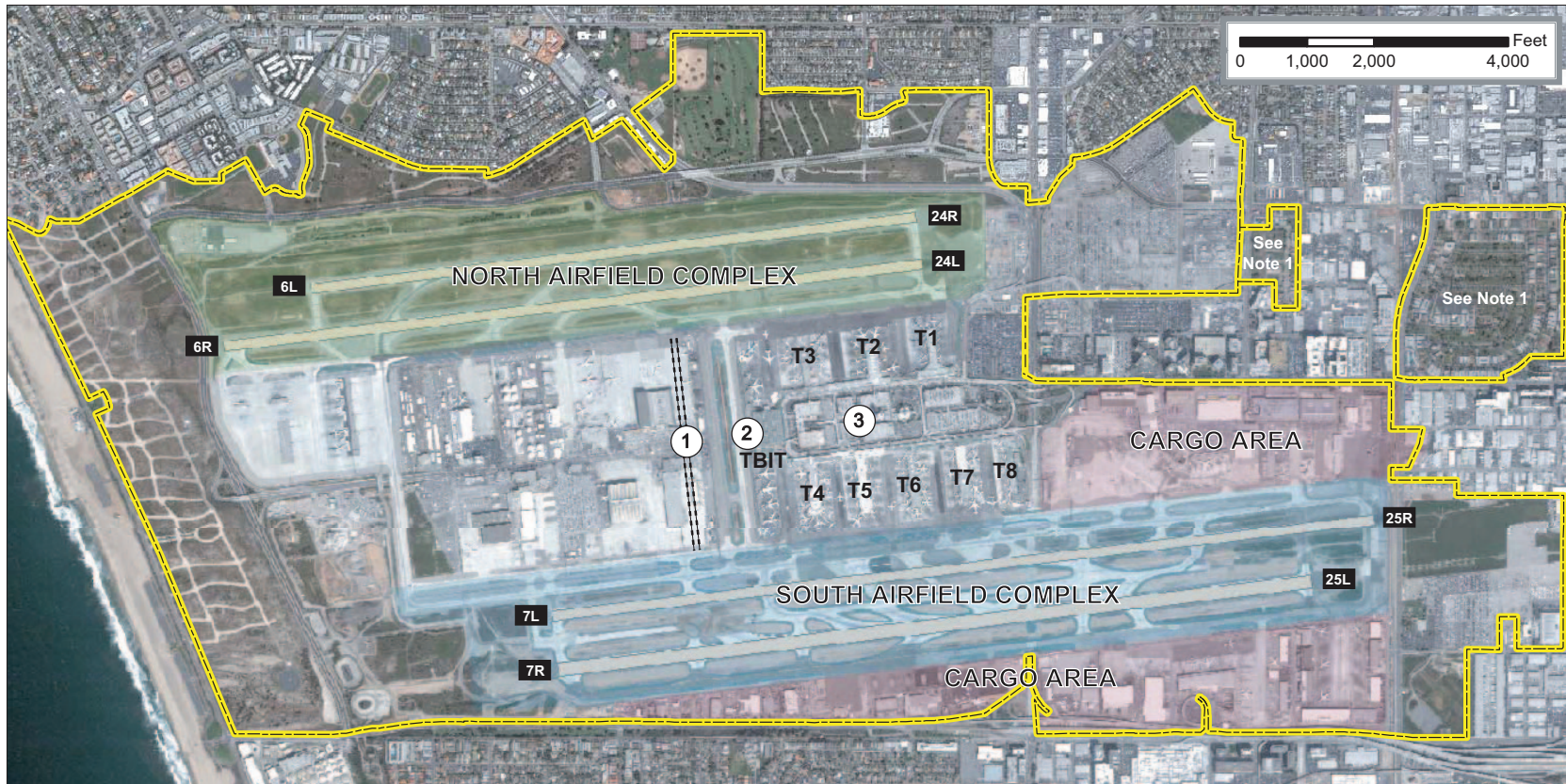
6/ Includes closed circuit television system enhancement and expansion; wired and wireless improvements; Central Terminal Area security barriers (Phase 2); Theme Building restoration; and other improvements.

7/ Includes construction of Crossfield Taxiway C13, Crossfield Taxilane S, and associated projects.

Source: City of Los Angeles, Department of Airports (October 2010).

Prepared by: Ricondo & Associates, Inc. (October 2010).

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- ① Taxilane "T" (includes enabling projects)
- ② Bradley West Terminal Project elements and Bradley West Aprons
- ③ Central Utility Plant

Note 1: To date, not all parcels in Manchester Square and the Belford Area have been acquired by the Department.

Source: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).  
 Prepared by: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).

Exhibit 2

## Series 2010 Subordinate Bonds Projects and Series 2010D Senior Bonds Projects



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The Series 2010D Senior Bonds Projects include elements of the Bradley West Terminal Project and the Central Utility Plant Project, as described in the following paragraphs. **Exhibit 3** highlights key information regarding elements of the Bradley West Terminal Project.

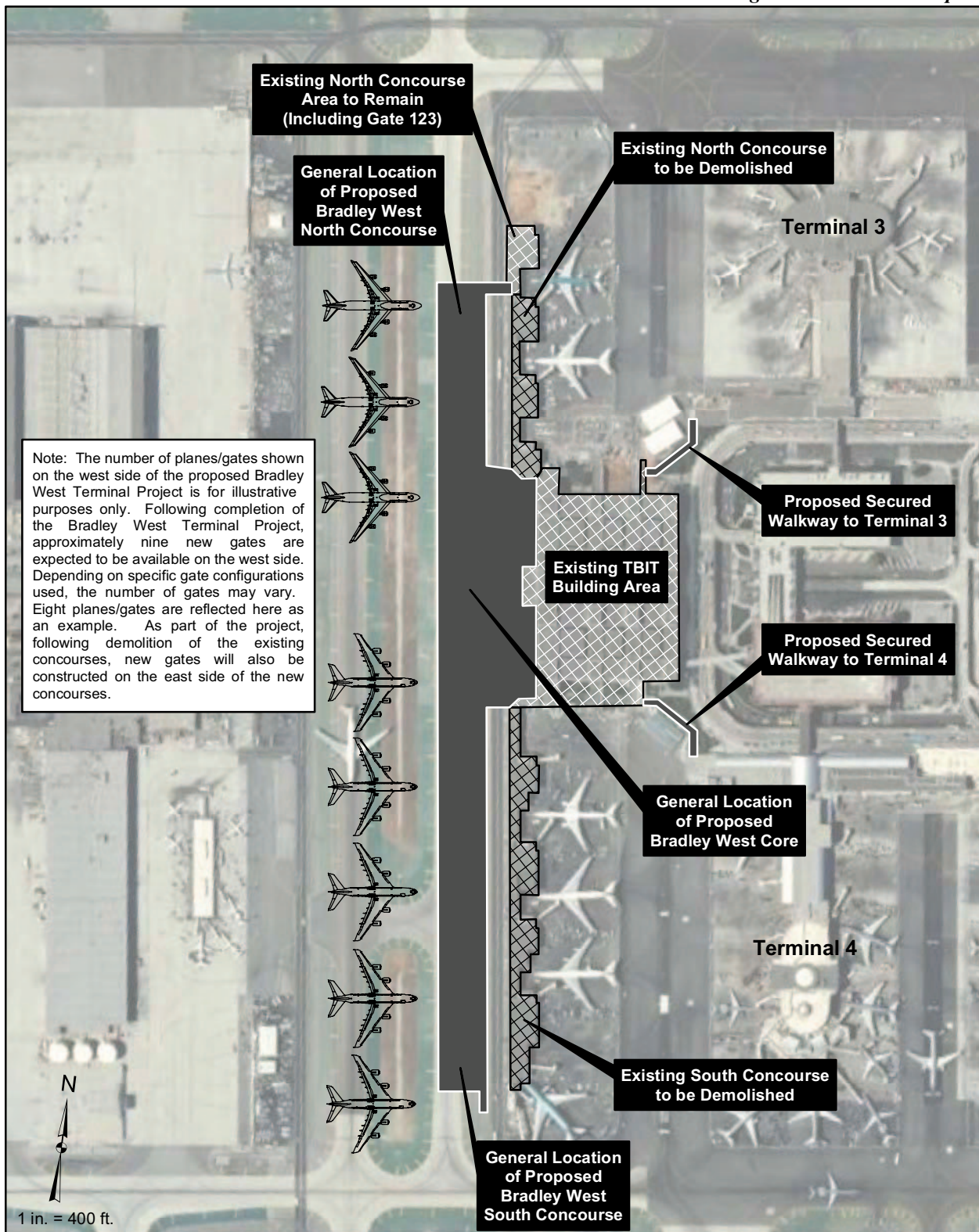
Elements of the Bradley West Terminal Project--The existing TBIT facility, including the central core and north and south concourses, occupies approximately one million square feet. The ultimate expanded and improved facility will incorporate certain areas of the existing TBIT facility (as described below), expand the existing TBIT core, and construct new north and south concourses. The expanded and improved facility is estimated to encompass a total of approximately two million square feet. As reflected on Table 4, the Bradley West Terminal Project is estimated to cost approximately \$1.5 billion. Approximately \$756.8 million of the Bradley West Terminal Project cost has been funded from proceeds of the Series 2010A Senior Bonds issued by the Department in March 2010.

The central core of TBIT currently provides for passenger processing (i.e., ticketing, baggage check/claim, security screening, concessions, etc.). As part of the Bradley West Terminal Project, the central core would be improved and enlarged to provide additional inspection counters, baggage claim units, security processing areas, and U.S. Customs and Border Protection administrative areas. Other improvements would include renovations to the existing TBIT ticket counter area and airline ticket office area, the addition of new concessions areas, expansion of the meet/greeter area, additional restrooms, and additional general circulation area. This project would improve the existing TBIT building area, as well as construct new building area west of the existing central core that will connect to the new concourses described below.

The new north and south concourses will connect to the new and expanded terminal core described above. The new concourses would replace the existing TBIT north and south concourses. With the exception of the northernmost 275 feet of the existing north concourse, which would tie into the new north concourse, the existing TBIT north and south concourses would be demolished after completion of the new Bradley West north and south concourses. Compared to the existing TBIT concourses, the new concourses would be longer (with a combined length of approximately 2,500 feet), provide larger passenger hold areas and improved concessions including new food and beverage stores, retail stores, airline lounges, passenger corridors, administrative offices, and support space.

It is expected that approximately nine new gates would be constructed on the west side of the new concourses. The twelve gates that currently exist along the east side of TBIT would be replaced by approximately nine new gates. One gate (Gate 123) on the east side of the existing north concourse would be retained. It is anticipated that many of the new gates will be specifically designed to accommodate new-generation aircraft such as the Airbus 380,





Sources: Google Earth Pro 2010 (aerial photo) and Ricondo & Associates, Inc., March 2010, based on information obtained from City of Los Angeles, Department of Airports (generalized Bradley West Terminal Project configuration).  
 Prepared by: Ricondo & Associates, Inc., (October 2010).

Exhibit 3

## Elements of the Bradley West Terminal Project



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Boeing 747-8 and Boeing 787, with features like multiple passenger loading bridges for each aircraft and larger passenger lounges and holdrooms.

The Bradley West Terminal Project also includes the addition of secured walkways connecting Terminals 3 and 4 to TBIT so passengers with connecting flights do not have to exit the terminals and go through security screening again.

Central Utility Plant Project--The CUP Project replaces the existing, outdated CUP with new systems to provide heat/steam and chilled water for space conditioning in terminal and concourse areas, and includes a new cogeneration system that would use heat/steam from the CUP to generate electricity. The project involves replacement of the existing cooling towers, construction of an underground thermal energy storage tank at the site of the existing CUP, electrical upgrades to include a new electrical substation, a retrofit of the existing Los Angeles Department of Water and Power substation, a new Facility Management System and Fire Life Safety System, as well as demolition of the existing CUP facilities.

In conjunction with replacement of the CUP, this project includes the construction of a utility tunnel between the new CUP building and the existing tunnel sections at each terminal, as well as the replacement of both chilled and hot water piping. The project will also include replacement of fans, coils, dampers, motors, and other mechanical equipment within mechanical rooms in the terminals. As reflected on Table 4, the CUP Project is estimated to cost approximately \$438.1 million.

In addition to projects in the categories discussed above (the Series 2010 Subordinate Bonds Projects, the Series 2010D Senior Bonds Projects, Other Incorporated Projects, Ongoing and Completed Projects, and Future Projects), there are other ongoing capital projects at the Airport that are smaller in terms of estimated cost and more routine in nature relative to the majority of projects listed on Table 4. These other ongoing projects (1) are not being funded with the Series 2010 Subordinate Bonds or the Series 2010D Senior Bonds, (2) were not funded with prior Bond proceeds, (3) are not expected to be funded with future Additional Senior Bonds or Additional Subordinate Bonds, and (4) are not estimated to have an impact on Airport operating expenses or revenues. Therefore, these projects are not reflected in the Series 2009 Report, this letter report, or the accompanying financial tables.

### **Updated Financial Analysis—No Material Changes to Overall Results Since the Series 2009 Report**

**As presented in the updated financial tables included below, which are similar to the financial tables that were included in Chapter IV (Financial Analysis) of the Series 2009 Report, there have been no material changes to the overall financial projections and debt service coverage ratios.**



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As mentioned previously in the section titled “Updated Information Regarding Air Traffic,” the Series 2009 Report’s enplanement and landed weight projections from FY 2011 to FY 2015 have been restated to incorporate actual FY 2010 data while FY 2016 projections remain unchanged. The updated financial tables below incorporate the restated projections.

Since the Series 2009 Report, certain financial information or data has become available and certain assumptions incorporated in the financial projections have been refined, as discussed in the sections below and reflected in the accompanying financial tables.

**Table 5** presents estimated project costs and sources of funds for the Series 2010 Subordinate Bonds Projects, the Series 2010D Senior Bonds Projects, Other Incorporated Projects, and Ongoing and Completed Projects. Various individual project costs have been refined or adjusted relative to estimates reflected in the Series 2009 Report, but overall there have been no material changes to the Airport’s CIP. Current estimated CIP costs have decreased by approximately 0.5 percent relative to estimates reflected in the Series 2009 Report, and the totals by funding source have not changed materially. Total expected funding from Transportation Security Administration (TSA), FAA Airport Improvement Program (AIP), Department, PFC pay-as-you-go, and other funds has increased by approximately \$101.9 million since the Series 2009 Report.

As a result of the minor decrease in overall CIP costs and the increase in other funding sources, the total amount of Senior Bond and Subordinate Bond proceeds required to fund project costs (including bonds issued in 2009 and 2010, and to be issued during the remainder of the Projection Period) has decreased relative to the total amount that was reflected in the Series 2009 Report by approximately \$147.4 million—from approximately \$2.935 billion to \$2.788 billion.

Funding for the Series 2010 Subordinate Bonds Projects is expected to include approximately \$80.0 million of AIP Funds, approximately \$24.3 million of Department Funds, and approximately \$156.7 million of proceeds from the proposed Series 2010 Subordinate Bonds. Following the issuance of the Series 2010 Subordinate Bonds, future bond proceeds are not expected to be required for the Series 2010 Subordinate Bonds Projects.

Funding for the Series 2010D Senior Bonds Projects is expected to include approximately \$142.2 million of Department Funds, approximately \$35.0 million of Other Funds, approximately \$305.0 million of PFC pay-as-you-go funding, approximately \$756.8 million of proceeds from the outstanding Series 2010A Senior Bonds, and approximately \$743.0 million of proceeds from the Series 2010D Senior Bonds.

**This letter report and the accompanying financial tables incorporate estimated future debt service requirements for the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds, as well as all future Senior Bonds and Subordinate Bonds currently anticipated by the Department to be issued during the Projection Period.**

**Los Angeles World Airports**  
**Los Angeles International Airport**

Table 5 (1 of 2)

Summary of the Series 2010 Subordinate Bonds Projects, Series 2010D Senior Bonds Projects, Other Incorporated Projects, and Ongoing and Completed Projects -- Costs and Funding (Based on \$4.50 PFC Level Throughout Projection Period)

	Estimated Project Costs <sup>1f</sup>	Estimated Sources of Funds						Proposed Bond Proceeds		Future Bond Proceeds <sup>3f</sup>	
		TSA Funds	AIP Funds	Department Funds	Other Funds <sup>2f</sup>	PFC Pay-As-You-Go Funds	Prior Bond Proceeds <sup>3f 4f</sup>	Series 2010 Subordinate Bond Proceeds	Series 2010D Senior Bond Proceeds <sup>3f</sup>	Subordinate	Senior <sup>3f</sup>
<b>SERIES 2010 SUBORDINATE BONDS PROJECTS</b>											
Bradley West Aprons	\$ 164,470,000	\$ -	\$ 40,000,000	\$ 17,153,000	\$ -	\$ -	\$ -	\$ 107,317,000	\$ -	\$ -	\$ -
Taxilane "T"	96,500,000	-	40,000,000	7,138,000	-	-	-	49,362,000	-	-	-
<b>TOTAL SERIES 2010 SUBORDINATE BONDS PROJECTS</b>	<b>\$ 260,970,000</b>	<b>\$ -</b>	<b>\$ 80,000,000</b>	<b>\$ 24,291,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 156,679,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>SERIES 2010D SENIOR BONDS PROJECTS</b>											
Bradley West Terminal Project elements <sup>6f</sup>	\$ 1,543,953,000	\$ -	\$ -	\$ 110,959,000	\$ -	\$ 190,000,000	\$ 756,750,000	\$ -	\$ 486,244,000	\$ -	\$ -
Central Utility Plant	438,085,000	-	-	31,285,000	35,000,000	115,000,000	-	-	256,800,000	-	-
<b>TOTAL SERIES 2010D SENIOR BONDS PROJECTS</b>	<b>\$ 1,982,038,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 142,244,000</b>	<b>\$ 35,000,000</b>	<b>\$ 305,000,000</b>	<b>\$ 756,750,000</b>	<b>\$ -</b>	<b>\$ 743,044,000</b>	<b>\$ -</b>	<b>\$ -</b>
<b>OTHER INCORPORATED PROJECTS <sup>7f</sup></b>											
<b>Terminal Projects</b>											
Terminal Improvements Program <sup>8f</sup>	\$ 810,005,000	\$ 241,880,000	\$ -	\$ 96,855,000	\$ 204,642,000	\$ 40,000,000	\$ -	\$ -	\$ -	\$ -	\$ 226,628,000
Acquisition of Existing Terminal Improvements	253,600,000	-	-	184,600,000	-	-	-	-	-	-	69,000,000
Elevators and Escalators Replacements (Terminal) - Phases 3&4	169,600,000	-	-	75,760,000	-	93,840,000	-	-	-	-	-
Program Reserve--Terminal Development and Improvements	125,000,000	-	-	75,000,000	-	50,000,000	-	-	-	-	-
<b>TOTAL TERMINAL PROJECTS</b>	<b>\$ 1,358,205,000</b>	<b>\$ 241,880,000</b>	<b>\$ -</b>	<b>\$ 432,215,000</b>	<b>\$ 204,642,000</b>	<b>\$ 183,840,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 295,628,000</b>
<b>Airfield and Apron Projects</b>											
Noise Mitigation and Soundproofing	\$ 430,000,000	\$ -	\$ -	\$ -	\$ -	\$ 430,000,000	\$ -	\$ -	\$ -	\$ -	\$ -
West Replacement Aircraft Parking	28,652,000	-	-	3,000,000	-	-	-	-	25,652,000	-	-
Pavement Management Program	142,970,000	-	44,500,000	3,470,000	-	-	-	-	-	95,000,000	-
Airfield Safety Improvements	120,000,000	-	25,000,000	5,000,000	-	-	-	-	-	90,000,000	-
Other Airfield and Apron Projects <sup>9f</sup>	28,481,000	-	300,000	4,971,000	8,691,000	14,519,000	-	-	-	-	-
<b>TOTAL AIRFIELD AND APRON PROJECTS</b>	<b>\$ 750,103,000</b>	<b>\$ -</b>	<b>\$ 69,800,000</b>	<b>\$ 16,441,000</b>	<b>\$ 8,691,000</b>	<b>\$ 444,519,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 210,652,000</b>	<b>\$ -</b>
<b>Infrastructure and Other Projects</b>											
Network Station	\$ 60,000,000	\$ -	\$ -	\$ 9,000,000	\$ -	\$ 21,000,000	\$ -	\$ -	\$ -	\$ -	\$ 30,000,000
IT Infrastructure Construction	23,475,000	-	-	-	-	23,475,000	-	-	-	-	-
Seismic Retrofit of CTA Pedestrian and Vehicular Bridges	21,112,000	-	-	-	-	21,112,000	-	-	-	-	-
Other Projects <sup>10f</sup>	65,519,000	-	-	30,204,000	2,000,000	33,315,000	-	-	-	-	-
<b>TOTAL INFRASTRUCTURE AND OTHER PROJECTS</b>	<b>\$ 170,106,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 39,204,000</b>	<b>\$ 2,000,000</b>	<b>\$ 98,902,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,000,000</b>
<b>TOTAL OTHER INCORPORATED PROJECTS</b>	<b>\$ 2,278,414,000</b>	<b>\$ 241,880,000</b>	<b>\$ 69,800,000</b>	<b>\$ 487,860,000</b>	<b>\$ 215,333,000</b>	<b>\$ 727,261,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 210,652,000</b>	<b>\$ 325,628,000</b>

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**Los Angeles World Airports**  
**Los Angeles International Airport**

Table 5 (2 of 2)

Summary of the Series 2010 Subordinate Bonds Projects, Series 2010D Senior Bonds Projects, Other Incorporated Projects, and Ongoing and Completed Projects -- Costs and Funding (Based on \$4.50 PFC Level Throughout Projection Period)

	Estimated Sources of Funds										
	Estimated Project Costs <sup>1/</sup>	TSA Funds	AIP Funds	Department Funds	Other Funds <sup>2/</sup>	PFC Pay-As-You-Go Funds	Prior Bond Proceeds <sup>3/ 4/</sup>	Proposed Bond Proceeds		Future Bond Proceeds <sup>5/</sup>	
								Series 2010 Subordinate Bond Proceeds	Series 2010D Senior Bond Proceeds <sup>3/</sup>	Subordinate	Senior <sup>3/</sup>
<b>ONGOING AND COMPLETED PROJECTS <sup>7/</sup></b>											
<b>Series 2009 Projects</b>											
<b>Terminal Projects</b>											
Completion of TBIT Improvements (completed)	\$ 200,000,000	\$ 105,000,000	\$ -	\$ -	\$ -	\$ -	\$ 95,000,000	\$ -	\$ -	\$ -	\$ -
In-Line Baggage Screening System - Terminal 3	149,032,000	113,120,000	-	912,000	-	-	35,000,000	-	-	-	-
Elevators and Escalators Replacements (Terminal) - Phases 1&2	90,400,000	-	-	9,040,000	-	36,160,000	45,200,000	-	-	-	-
<b>\$ 439,432,000</b>	<b>\$ 218,120,000</b>	<b>\$ -</b>	<b>\$ 9,952,000</b>	<b>\$ -</b>	<b>\$ 36,160,000</b>	<b>\$ 175,200,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Airfield and Apron Projects</b>											
Crossfield Taxiway Projects <sup>11/</sup>	\$ 332,271,000	\$ -	\$ 62,050,000	\$ 11,605,000	\$ -	\$ -	\$ 258,616,000	\$ -	\$ -	\$ -	\$ -
Airfield Intersection Improvements Phase 2	36,722,000	-	-	-	-	-	36,722,000	-	-	-	-
Airfield Operations Area Perimeter Fence (World Way West) Phase 3	15,419,000	-	-	-	-	-	15,419,000	-	-	-	-
Aircraft Rescue and Fire Fighting Station Construction	14,190,000	-	-	808,000	10,832,000	-	2,550,000	-	-	-	-
<b>\$ 398,602,000</b>	<b>\$ -</b>	<b>\$ 62,050,000</b>	<b>\$ 12,413,000</b>	<b>\$ 10,832,000</b>	<b>\$ -</b>	<b>\$ 313,307,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Parking Projects</b>											
Acquisition of Park One Property (completed)	\$ 126,562,000	\$ -	\$ -	\$ 41,562,000	\$ -	\$ -	\$ 85,000,000	\$ -	\$ -	\$ -	\$ -
Elevators and Escalators Replacements (Parking) - Phases 1&2	10,000,000	-	-	10,000,000	-	-	-	-	-	-	-
<b>\$ 136,562,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 51,562,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 85,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Refunding</b>											
Refunding - Subordinate Subseries 2002 C1 (completed)	\$ 37,400,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,400,000	\$ -	\$ -	\$ -	\$ -
<b>Total Series 2009 Projects</b> [d1]	<b>\$ 1,011,996,000</b>	<b>\$ 218,120,000</b>	<b>\$ 62,050,000</b>	<b>\$ 73,927,000</b>	<b>\$ 10,832,000</b>	<b>\$ 36,160,000</b>	<b>\$ 610,907,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash Defeasance of Certain Bonds</b>											
Cash Defeasance - Subordinate Series 2003 A (completed)	\$ 23,700,000	\$ -	\$ -	\$ 23,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Defeasance - Subordinate Subseries 2002 C2 (completed)	20,000,000	-	-	20,000,000	-	-	-	-	-	-	-
<b>Total Cash Defeasance of Certain Bonds</b> [d2]	<b>\$ 43,700,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 43,700,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL ONGOING AND COMPLETED PROJECTS</b> [D]=[d1]+[d2]	<b>\$ 1,055,696,000</b>	<b>\$ 218,120,000</b>	<b>\$ 62,050,000</b>	<b>\$ 117,627,000</b>	<b>\$ 10,832,000</b>	<b>\$ 36,160,000</b>	<b>\$ 610,907,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL SERIES 2010 SUBORDINATE BONDS PROJECTS, SERIES 2010D SENIOR BONDS PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING AND COMPLETED PROJECTS = [A+B+C+D]</b>											
	<b>\$ 5,577,118,000</b>	<b>\$ 460,000,000</b>	<b>\$ 211,850,000</b>	<b>\$ 772,022,000</b>	<b>\$ 261,165,000</b>	<b>\$ 1,068,421,000</b>	<b>\$ 1,367,658,000</b>	<b>\$ 156,679,000</b>	<b>\$ 743,044,000</b>	<b>\$ 210,652,000</b>	<b>\$ 325,628,000</b>
Series 2009 Report -->	\$ 5,606,488,000	\$ 460,000,000	\$ 158,474,000	\$ 885,103,000	\$ 250,639,000	\$ 917,300,000					

<b>Total Bond Proceeds Including Series 2009 Bonds, Series 2010A Bonds, Proposed Series 2010 Subordinate Bonds, Series 2010D Senior Bonds, and Subsequent Senior and Subordinate Bonds</b>	
<b>As reflected in the Series 2009 Report</b>	<b>\$ 2,934,972,000</b>
<b>As reflected above (current plan)</b>	<b>2,787,612,000</b>

Notes:

- 1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.
- 2/ Other Funds include grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other/3rd party funding.
- 3/ A portion of the debt service associated with bonds issued to fund elements of the Bradley West Terminal Project and Completion of TBIT is expected to be paid with PFC revenues.
- 4/ Prior bond proceeds for Terminal and Parking projects are from Senior Bonds and Prior bond proceeds for Airfield and Apron projects are from Subordinate Bonds.
- 5/ Includes bond proceeds from future bond issues assumed through 2015--see Table 7. Future bond proceeds used for Terminal Projects and Infrastructure and Other Projects are assumed to be from future Senior Bonds and future bond proceeds used for Airfield and Apron Projects are assumed to be from future Subordinate Bonds.
- 6/ In the Series 2009 Report, the Bradley West Terminal Project elements were shown as two separate projects: the Bradley West Terminal Core and Bradley West Concourses. However, the same contractor has been awarded the construction contract for both projects and therefore, for the purposes of this letter report, the projects have been combined. Also previously referred to as the Series 2010A Projects.
- 7/ The financial impacts, if any, associated with Other Incorporated Projects and Ongoing and Completed Projects are incorporated in the financial tables included in this letter report (with the impacts reflected in the Projection Period).
- 8/ Includes in-line bag screening systems for terminals other than TBIT and T3; passenger boarding bridge replacements; utility improvements (including sewer, electrical, etc.); bag claim devices replacement; preconditioned air unit installation; and other terminal infrastructure improvements.
- 9/ Includes Airport Response Coordination Center (ARCC); Aircraft & Noise Monitoring & Management System (ANMMS); and Enhanced Access Control Monitoring System (ACAMS).
- 10/ Includes closed circuit television system enhancement and expansion; wired and wireless improvements; Central Terminal Area security barriers (Phase 2); Theme Building restoration; and other improvements.
- 11/ Includes construction of Crossfield Taxiway C13, Crossfield Taxiway S, and associated projects.

Source: City of Los Angeles, Department of Airports (October 2010).  
Prepared by: Ricondo & Associates, Inc. (October 2010).



Mr. Alan I. Rothenberg, President  
Board of Airport Commissioners  
October 20, 2010

**Table 6** presents a listing of estimated sources and uses of funds for the proposed Series 2010 Subordinate Bonds and the proposed Series 2010D Senior Bonds. Debt service estimates for the proposed Series 2010 Subordinate Bonds are based on the following assumptions:

- Approximately \$194.4 million of Series 2010 Subordinate Bonds will be issued to fund a portion of the costs of the Series 2010 Subordinate Bonds Projects as well as capitalized interest, a subordinate reserve fund deposit, and cost of issuance amounts described in the points below.
- The Series 2010 Subordinate Bonds are issued with up to a 30-year term and an all-in true interest cost (TIC) of 5.14 percent, with debt service structured around existing Subordinate Bond debt service to approximate overall level Subordinate Bond debt service.
- Interest on the Series 2010 Subordinate Bonds is capitalized through estimated project completion dates.
- Interest earnings have been assumed for the Capitalized Interest Fund based on a 1.0 percent interest rate, and no interest earnings have been assumed for the Construction Fund.
- A portion of the proceeds of the Series 2010 Subordinate Bonds will fund a deposit to the Subordinate Reserve Fund, which is a common reserve fund for Subordinate Bonds and is required to be funded in an amount equal to the least of (a) 10 percent of the principal amount of all Subordinate Bonds, (b) Maximum Annual Debt Service for all Subordinate Bonds, or (c) 125 percent of Average Annual Debt Service for all Subordinate Bonds.

Debt service estimates for the proposed Series 2010D Senior Bonds are based on the following assumptions:

- Approximately \$875.4 million of Series 2010D Senior Bonds will be issued to fund a portion of the costs of the Series 2010D Senior Bonds Projects as well as capitalized interest, a senior reserve fund deposit, and cost of issuance amounts described in the points below.
- The Series 2010D Senior Bonds are issued with up to a 30-year term and an all-in TIC of 5.08 percent, with debt service structured around existing Senior Bond debt service to approximate overall level Senior Bond debt service.
- Interest on the Series 2010D Senior Bonds is capitalized through estimated project completion dates.
- Interest earnings have been assumed for the Capitalized Interest Fund based on a 1.0 percent interest rate, and no interest earnings have been assumed for the Construction Fund.
- A portion of the proceeds of the Series 2010D Senior Bonds will fund a deposit to the Senior Reserve Fund, which is a common reserve fund for Senior Bonds and is required to be funded in an amount equal to the least of (a) 10 percent of the principal amount of all Senior

**Table 6**

**Estimated Sources and Uses of Funds -- Series 2010 Subordinate Bonds and Series 2010D Senior Bonds**

	Series 2010 Subordinate Bonds	Series 2010D Senior Bonds	Total
<b>Sources:</b>			
Par Amount of Bonds	\$ 194,420,000	\$ 875,425,000	\$ 1,069,845,000
Original Issue Premium / (Discount)	3,888,367	49,010,738	52,899,105
<b>Total Sources</b>	<b>\$ 198,308,367</b>	<b>\$ 924,435,738</b>	<b>\$ 1,122,744,105</b>
<b>Uses:</b>			
Project costs funded with Series 2010 Subordinate Bond proceeds	\$ 156,679,000		\$ 156,679,000
Project costs funded with Series 2010D Senior Bond proceeds		743,044,000	743,044,000
Capitalized interest <sup>1/</sup>	28,676,908	120,966,648	149,643,557
Subordinate Debt Service Reserve Fund	11,663,179		11,663,179
Senior Debt Service Reserve Fund		55,244,830	55,244,830
Costs of issuance	1,289,279	5,180,261	6,469,540
<b>Total Uses</b>	<b>\$ 198,308,367</b>	<b>\$ 924,435,738</b>	<b>\$ 1,122,744,105</b>

Notes:

1/ Interest capitalized through estimated completion dates.

Sources: City of Los Angeles, Department of Airports and Public Resources Advisory Group (October 2010).

Prepared by: Ricondo & Associates, Inc. (October 2010).



Mr. Alan I. Rothenberg, President  
Board of Airport Commissioners  
October 20, 2010

Bonds, (b) Maximum Annual Debt Service for all Senior Bonds, or (c) 125 percent of Average Annual Debt Service for all Senior Bonds.

**Table 7** reflects future bond issues expected to be issued during the Projection Period (subsequent to the issuance of the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds). Table 7 reflects both future bond principal (broken into Senior Bonds and Subordinate Bonds) and the use of bond proceeds used to pay project costs. It also shows which key projects are assumed to be funded with future bond proceeds. Table 7 has been updated since the Series 2009 Report to account for changes in timing and amount of anticipated future bonds.

Debt service estimates for future bonds were based on the following assumptions:

- Future bonds issued to pay for a portion of future Terminal projects and Infrastructure and Other Projects were assumed to be Senior Bonds, with up to a 30-year term, approximately level debt service by series, and overall interest rate of 6.00 percent.
- Future bonds issued to pay for a portion of future Airfield and Apron projects were assumed to be Subordinate Bonds, with up to a 30-year term, approximately level debt service by series, and an overall interest rate of 6.00 percent.

The debt service structure and mix of future Senior Bonds and Subordinate Bonds may ultimately vary from the assumptions above depending on decisions by the Department regarding optimal debt service structure and mix of Senior Bonds and Subordinate Bonds.

- Project costs are assumed to be gross-funded (i.e., Construction Fund interest earnings are not assumed)
- Parity debt service reserves equal to Maximum Aggregate Annual Debt Service for either the Senior Bonds or the Subordinate Bonds are funded with bond proceeds.
- Bond insurance has been assumed at 100 basis points for future Senior Bonds and Subordinate Bonds.
- Interest on future bonds is capitalized through the estimated project completion dates, and interest earnings have been assumed for the Capitalized Interest Fund based on a 1.0 percent interest rate.

**Table 8** presents actual and estimated Senior Aggregate Annual Debt Service for outstanding Senior Bonds, proposed Series 2010D Senior Bonds, and future Additional Senior Bonds (as reflected on Table 7) for FY 2009 through FY 2016. Pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant, principal of and/or interest on Senior Bonds paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service. Table 8 reflects PFC revenues expected to be used by the Department each year to pay a portion of the debt service associated with the TBIT Interior Improvements Project (funded in part with proceeds of the Series 2008A Senior Bonds and

**Table 7**

**Expected Future Bond Issues (After Issuance of Series 2010 Subordinate Bonds and Series 2010D Senior Bonds) <sup>1/</sup>**

	Future 2011 Bonds	Future 2012 Bonds	Future 2013 Bonds	Future Bonds After 2013	Total Future Bonds
<b>Bond Principal</b>					
Senior Bonds	\$ 292,245,000	\$ 37,960,000	\$ 46,945,000	\$ -	\$ 377,150,000
Subordinate Bonds	-	55,400,000	128,735,000	45,730,000	229,865,000
Total Expected Future Bond Principal	<u>\$ 292,245,000</u>	<u>\$ 93,360,000</u>	<u>\$ 175,680,000</u>	<u>\$ 45,730,000</u>	<u>\$ 607,015,000</u>

**Bond Proceeds Used to Pay Project Costs**

Senior Bond Proceeds	\$ 253,811,576	\$ 30,000,000	\$ 41,816,424	\$ -	\$ 325,628,000
Subordinate Bond Proceeds	-	50,652,000	118,000,000	42,000,000	210,652,000
Total Expected Bond Proceeds Used to Pay Project Costs	<u>\$ 253,811,576</u>	<u>\$ 80,652,000</u>	<u>\$ 159,816,424</u>	<u>\$ 42,000,000</u>	<u>\$ 536,280,000</u>

	Future 2011 Bonds	Future 2012 Bonds	Future 2013 Bonds	Future Bonds After 2013
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**Key Projects Funded with Expected Future Bonds**

Funded from Senior Bond Proceeds:

Acquisition of Existing Terminal Improvements	•			
Terminal Improvements Program	•		•	
Network Station		•		

Funded from Subordinate Bond Proceeds:

Pavement Management Program		•	•	•
West Replacement Aircraft Parking		•		
Airfield Safety Improvements			•	

Notes:

1/ Debt service associated with expected future bond issues shown here is reflected on Table 8.

Sources: City of Los Angeles, Department of Airports and Public Resources Advisory Group (October 2010).

Prepared by: Ricondo & Associates, Inc. (October 2010).

**Table 8 (1 of 2)**

**Debt Service**

Net of Capitalized Interest  
Fiscal Years Ending June 30

		Actual		Estimated		Projected						
		FY 2009		FY 2010		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
<b>Existing Senior Bond Debt Service</b>												
Series 1995C	\$	475,000	\$	-	\$	-	\$	-	\$	-	\$	-
Series 1995D		-		-		-		-		-		-
Series 2002A		1,624,633		1,624,633		1,624,633		1,624,633		1,624,633		2,819,633
Series 2003B		15,917,850		15,943,850		16,184,100		16,181,350		16,185,600		16,184,850
Series 2008A		-		687,844		40,421,025		40,420,275		40,423,075		40,364,325
Series 2008B		890,934		1,434,000		1,435,500		1,434,250		1,435,250		1,433,250
Series 2009A		-		5,707,280		17,807,766		18,482,875		20,972,875		21,028,275
Series 2010A		-		-		-		-		43,522,537		63,846,000
Subtotal - Existing Senior Bond Debt Service	[A]	\$ 18,908,416	\$	25,397,607	\$	77,473,024	\$	78,143,383	\$	80,641,433	\$	124,157,870
<b>Future Senior Bond Debt Service</b>												
Proposed Series 2010D Senior Bonds	\$	-	\$	-	\$	1,805,249	\$	7,808,725	\$	9,650,512	\$	34,967,594
Future 2011 Bonds		-		-		-		9,574,230		24,103,118		24,103,118
Future 2012 Bonds		-		-		-		-		-		2,546,551
Future 2013 Bonds		-		-		-		-		2,111,503		3,410,199
Other Future Bonds		-		-		-		-		-		-
Subtotal - Future Senior Bond Debt Service	[B]	\$ -	\$	-	\$	1,805,249	\$	17,382,955	\$	33,753,631	\$	61,182,216
Total Senior Lien Debt Service	[C]=[A]+[B]	\$ 18,908,416	\$	25,397,607	\$	79,278,273	\$	95,526,337	\$	114,395,063	\$	185,340,085
Less: PFC Revenues used to pay Debt Service	[D]	\$ -	\$	(551,979)	\$	(34,546,693)	\$	(34,546,215)	\$	(34,974,941)	\$	(62,584,547)
<b>AGGREGATE ANNUAL SENIOR DEBT SERVICE <sup>11</sup></b>	[E]=[C]+[D]	\$ 18,908,416	\$	24,845,627	\$	44,731,580	\$	60,980,122	\$	79,420,123	\$	122,755,539
<b>Allocation to Direct Cost Centers</b>												
Terminal	\$	11,015,875	\$	15,005,209	\$	32,159,698	\$	48,409,944	\$	66,847,857	\$	109,947,519
Apron		416,086		427,645		429,601		429,535		429,625		442,379
Airfield		2,022,045		2,131,446		2,161,470		2,161,009		2,161,570		2,217,722
Aviation		1,921,901		1,918,822		1,944,871		1,944,605		1,945,004		1,966,743
Commercial		2,224,960		4,672,457		7,336,808		7,336,081		7,336,895		7,482,162
Subtotal - Total LAX Debt Service		\$ 17,600,867	\$	24,155,578	\$	44,032,448	\$	60,281,175	\$	78,720,951	\$	122,056,526
Exclusions		110,676		-		-		-		-		-
Other Airports		1,196,873		690,049		699,132		698,947		699,172		699,013
Aggregate Annual Senior Debt Service	[E]	\$ 18,908,416	\$	24,845,627	\$	44,731,580	\$	60,980,122	\$	79,420,123	\$	122,755,539

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**Table 8 (2 of 2)**

**Debt Service**

Net of Capitalized Interest  
Fiscal Years Ending June 30

		Actual	Estimated	Projected					
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Existing Subordinate Bond Debt Service</b>									
Series 2002 C1 <sup>2/</sup>	\$	464,518	\$ 39,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2002 C2 <sup>2/</sup>		235,536	27,000	-	-	-	-	-	-
Series 2003A <sup>2/</sup>		254,897	34,600	-	-	-	-	-	-
Series 2008C		12,384,640	15,980,149	15,983,399	15,982,305	15,980,768	15,978,368	15,983,368	15,980,199
Series 2009C		-	3,786,553	13,843,401	18,706,875	19,606,380	19,606,380	19,606,380	27,911,380
Series 2009D		-	630,810	4,829,831	5,947,864	8,357,750	8,356,750	8,352,750	-
Series 2009E		-	2,757,074	4,796,175	4,791,225	4,792,300	4,792,500	4,792,300	4,791,500
Commercial Paper <sup>3/</sup>		-	-	-	-	-	-	-	-
Subtotal - Existing Subordinate Bond Debt Service	[F]	\$ 13,339,591	\$ 23,256,075	\$ 39,452,806	\$ 45,428,269	\$ 48,737,198	\$ 48,733,998	\$ 48,734,798	\$ 48,683,079
<b>Future Subordinate Bond Debt Service</b>									
Proposed Series 2010 Subordinate Bonds	\$	-	\$ -	\$ 691,203	\$ 1,952,968	\$ 3,560,274	\$ 5,848,798	\$ 10,983,736	\$ 11,717,298
Future 2011 Bonds		-	-	-	-	-	-	-	-
Future 2012 Bonds		-	-	-	-	1,869,171	4,050,153	4,050,153	4,050,153
Future 2013 Bonds		-	-	-	-	-	4,857,042	9,390,504	9,390,504
Other Future Bonds		-	-	-	-	-	-	-	2,056,891
Subtotal - Future Subordinate Bond Debt Service	[G]	\$ -	\$ -	\$ 691,203	\$ 1,952,968	\$ 5,429,445	\$ 14,755,993	\$ 24,424,393	\$ 27,214,847
<b>AGGREGATE ANNUAL SUBORDINATE DEBT SERVICE</b>	[H]=[F]+[G]	\$ 13,339,591	\$ 23,256,075	\$ 40,144,009	\$ 47,381,237	\$ 54,166,643	\$ 63,489,991	\$ 73,159,191	\$ 75,897,926
<b>Allocation to Direct Cost Centers</b>									
Terminal	\$	32,079	\$ 2,761,737	\$ 4,796,175	\$ 4,791,225	\$ 4,792,300	\$ 4,792,500	\$ 4,792,300	\$ 4,791,500
Apron		4,236	439	-	444,889	1,540,000	1,540,000	6,674,938	7,408,500
Airfield		12,518,282	20,409,473	35,347,834	42,145,123	47,834,343	57,157,491	61,691,953	63,697,926
Aviation		46,121	5,418	-	-	-	-	-	-
Commercial		57,214	9,616	-	-	-	-	-	-
Subtotal - Total LAX Debt Service		\$ 12,657,932	\$ 23,186,682	\$ 40,144,009	\$ 47,381,237	\$ 54,166,643	\$ 63,489,991	\$ 73,159,191	\$ 75,897,926
Exclusions		464,518	39,890	-	-	-	-	-	-
Other Airports		217,141	29,503	-	-	-	-	-	-
Aggregate Annual Subordinate Debt Service	[H]	\$ 13,339,591	\$ 23,256,076	\$ 40,144,009	\$ 47,381,237	\$ 54,166,643	\$ 63,489,991	\$ 73,159,191	\$ 75,897,926
<b>TOTAL DEBT SERVICE</b>	[E]=[H]	\$ 32,248,007	\$ 48,101,703	\$ 84,875,589	\$ 108,361,359	\$ 133,586,766	\$ 186,245,530	\$ 217,387,991	\$ 219,482,632

Notes:

1/ As defined in the Senior Indenture, for purposes of meeting the Senior Rate Covenant, Senior Aggregate Annual Debt Service is net of PFC Revenues used to pay Senior Debt Service.

2/ Variable rate debt service. Debt service reflected does not include associated letter of credit fees. Subordinate Series 2002 C2 Bonds and Series 2003A Bonds were defeased on March 1, 2010 with Department Funds (cash). Subordinate Series 2002 C1 Bonds were refunded with the Series 2009E Bonds.

3/ Commercial paper outstanding as of October 1, 2010 is approximately \$147 million. The Department's current commercial paper authorization is \$500 million. Outstanding commercial paper is expected to be repaid with future bond proceeds. Debt service associated with commercial paper is not reflected in this table based on the assumption that commercial paper is refunded with future bonds.

Sources: City of Los Angeles, Department of Airports for existing Debt Service, and Public Resources Advisory Group for Proposed Series 2010 and Future Debt Service (October 2010).

Prepared by: Ricondo & Associates, Inc. (October 2010).



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the Series 2009A Senior Bonds) and the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and to be funded in part with the proceeds of the Series 2010D Senior Bonds). The use of PFC revenues to pay portions of debt service associated with these projects has already been approved by the FAA.

As shown in Table 8, Aggregate Annual Debt Service for Senior Bonds is estimated to increase from approximately \$18.9 million in FY 2009 to approximately \$143.6 million in FY 2016. Senior Aggregate Annual Debt Service reflects the use of between approximately \$34.5 million and \$75.4 million of PFC revenues to pay Senior Bond debt service in certain Fiscal Years. PFC revenues estimated to be used to pay Senior Bond terminal debt service are lower in FY 2011 through FY 2016 relative to amounts that were reflected in the Series 2009 Report. The actual amount of PFC revenues that the Department will use to pay debt service may vary from year to year.

Table 8 also presents estimates of Subordinate Aggregate Annual Debt Service for outstanding Subordinate Bonds, proposed Series 2010 Subordinate Bonds, and future additional Subordinate Bonds (as reflected on Table 7) for FY 2009 through FY 2016. Subordinate Aggregate Annual Debt Service is estimated to increase from \$13.3 million in FY 2009 to approximately \$75.9 million in FY 2016. At this time, the Department does not expect to use PFC revenues to pay for debt service on outstanding Subordinate Bonds or expected future Additional Subordinate Bonds.

Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service amounts projected on Table 8 vary from year to year relative to the projections on Table IV-4 in Chapter IV (Financial Analysis) of the Series 2009 Report primarily as a result of:

- (1) the incorporation of actual Series 2009 debt service and actual Series 2010A Senior Bond debt service (the Series 2009 Report reflected estimates),
- (2) the Department's defeasance of then-outstanding Subseries 2002C1 Subordinate Bonds in November 2009 and then-outstanding Subseries 2002C2 Subordinate Bonds and Series 2003A Subordinate Bonds in March 2010,
- (3) refinements to estimated bond funding for certain projects and allocations of debt service (e.g., allocations of terminal debt service to airline areas vs. public space),
- (4) refinements to the timing and structure of debt service associated with the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds and future bonds, and
- (5) adjustments to PFC revenues expected to be used by the Department (pursuant to FAA approvals already obtained) to pay certain terminal debt service.





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Senior Aggregate Annual Debt Service projected for FY 2016 is now approximately \$19.2 million lower compared to the Series 2009 Report. Subordinate Aggregate Annual Debt Service projected for FY 2016 is now approximately \$4.3 million lower compared to the Series 2009 Report.

**Table 9** presents historical and projected LAX M&O Expenses for actual FY 2009 through projected FY 2016. Budgeted FY 2011 LAX M&O Expenses (equal to approximately \$557.7 million) serve as the base for LAX M&O Expense projections. Projections of future LAX M&O Expenses assume a 5.0 percent annual base growth rate for all categories of M&O Expenses to account for the anticipated impacts of inflation, staffing and operational requirements, and activity increases.

The Department expects that the elements of the Bradley West Terminal Project will result in approximately \$34.2 million of additional Terminal M&O Expenses starting in FY 2014. Estimated LAX M&O Expenses associated with elements of the Bradley West Terminal Project were developed using estimates of increased total terminal square footage and current LAX M&O Expenses associated with TBIT. Expenses associated with increased space were discounted to account for higher efficiency in newer facilities (e.g., lower utility costs).

LAX M&O Expenses associated with the Series 2009 Projects (which were estimated in the Series 2009 Report) are now incorporated within the FY 2011 Budget.

Certain operating expenses allocable to other airports operated by the Department that were reflected in the Series 2009 Report as LAX M&O Expenses are now deducted from LAX M&O Expenses, as shown on Table 9. The current presentation of LAX M&O Expenses on Table 9 is consistent with how the Department calculates and presents LAX M&O Expenses in its audited financial statements. As shown in Table 9, the expenses allocable to other airports that are deducted range from approximately \$9.8 million to \$13.4 million for FY 2009 to FY 2016.

As shown in Table 9, LAX M&O Expenses are projected to increase from \$557.7 million in FY 2011 to \$750.4 million in FY 2016, representing a CAGR of 6.1 percent. The CAGR for LAX M&O Expenses between actual FY 2009 and projected FY 2016 is 5.4 percent.

**Table 10** presents Airport revenues other than airline terminal, landing, and apron fees (referred to as nonairline revenues) for actual FY 2009 through projected FY 2016. Changes to nonairline revenues since the Series 2009 Report include (1) the incorporation of estimated/budgeted FY 2011 amounts as the projection base (vs. budgeted FY 2010 in the Series 2009 Report), (2) the elimination of CFCs as nonairline revenues to be consistent with the provisions of the Senior Indenture, and (3) cash subsidy payments expected to be received from the U.S. Treasury (related to Build America Bonds) in connection with the Series 2009C Subordinate Bonds have been revised based on actual debt service, and payments estimated for the Series 2010C Subordinate Bonds have been added.

**Table 9**

**Summary of LAX Maintenance and Operation Expenses <sup>1/</sup>**

Fiscal Years Ending June 30

	Actual		Budget		Projected				
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
<b>BY TYPE OF EXPENSE</b>									
Salaries and Benefits	\$ 293,812,259	\$ 296,466,846	\$ 302,633,763	\$ 317,765,451	\$ 333,653,724	\$ 368,541,410	\$ 386,968,230	\$ 406,316,892	
Contractual Services	148,027,368	163,377,400	171,664,216	180,247,427	189,259,798	209,049,788	219,501,927	230,476,874	
Administrative Services	1,934,991	3,621,000	3,878,800	4,072,740	4,276,377	4,723,196	4,959,706	5,207,441	
Materials and Supplies	38,715,860	37,549,800	37,108,700	38,964,135	40,912,342	45,189,959	47,449,857	49,822,150	
Utilities	28,937,999	29,799,019	30,419,879	31,940,873	33,537,917	37,044,813	38,896,553	40,841,331	
Advertising and Public Relations	7,949,934	8,150,800	6,512,300	6,837,915	7,179,811	7,930,801	8,326,741	8,743,528	
Other Operating Expenses	13,501,946	16,727,200	15,305,900	16,071,195	16,874,755	18,639,492	19,571,417	20,549,638	
LAX M&O EXPENSES BEFORE ADJUSTMENTS	\$ 532,880,357	\$ 555,692,065	\$ 567,523,558	\$ 595,899,736	\$ 625,694,723	\$ 691,119,459	\$ 725,674,432	\$ 761,957,854	
ADJUSTMENTS <sup>2/</sup>	(13,385,326)	(11,623,083)	(9,808,039)	(10,123,441)	(10,454,613)	(10,802,343)	(11,167,460)	(11,550,833)	
<b>LAX M&amp;O EXPENSES</b>	<b>\$ 519,495,031</b>	<b>\$ 544,068,981</b>	<b>\$ 557,715,520</b>	<b>\$ 585,776,296</b>	<b>\$ 615,240,110</b>	<b>\$ 680,317,116</b>	<b>\$ 714,506,972</b>	<b>\$ 750,407,020</b>	
Annual % change	0.9%	4.7%	2.5%	5.0%	5.0%	10.6%	5.0%	5.0%	
Compound annual growth rate FY 2009 to FY 2016								5.4%	
Equipment and Vehicles	3,349,680	1,719,000	1,719,000	1,804,950	1,895,198	2,092,957	2,198,455	2,307,928	
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	\$ 522,844,710	\$ 545,787,981	\$ 559,434,520	\$ 587,581,246	\$ 617,135,308	\$ 682,410,073	\$ 716,705,427	\$ 752,714,948	
<b>SUMMARY BY COST CENTER</b>									
Terminal	\$ 241,741,665	\$ 266,584,523	\$ 268,852,318	\$ 282,294,934	\$ 296,409,680	\$ 345,473,164	\$ 362,746,673	\$ 380,884,256	
Apron	24,021,152	25,909,912	26,464,470	27,787,693	29,177,078	30,635,932	32,167,728	33,776,115	
Airfield	114,538,517	111,337,172	112,768,987	118,407,437	124,327,808	130,544,199	137,071,409	143,924,979	
Aviation	41,838,179	43,923,905	48,547,496	50,974,871	53,523,614	56,199,795	59,009,785	61,960,274	
Commercial	87,828,256	86,484,808	88,986,091	93,435,396	98,107,165	103,012,524	108,163,150	113,570,307	
Exclusions / Other	12,876,940	11,547,660	13,815,158	14,680,916	15,589,962	16,543,460	17,546,683	18,599,017	
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	\$ 522,844,710	\$ 545,787,981	\$ 559,434,520	\$ 587,581,246	\$ 617,135,308	\$ 682,409,073	\$ 716,705,427	\$ 752,714,948	

Notes:

1/ Pursuant to the Senior Indenture.

2/ Includes administrative costs allocated to other airports and other adjustments for certain expenses not defined as LAX M&O expenses.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).

Prepared by: Ricondo & Associates, Inc. (October 2010).

*Los Angeles World Airports*  
**Los Angeles International Airport**

**Table 10**  
**Summary of Airport Revenues Other Than Airline Terminal Rentals, Landing Fees, and Apron Fees**  
Fiscal Years Ending June 30

	Actual		Estimated		Projected			
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Aviation Revenues <sup>1/</sup></b>								
Building Rent - Other than Passenger Terminals	\$ 27,833,340	\$ 31,537,244	\$ 32,483,361	\$ 33,457,862	\$ 34,461,598	\$ 35,495,446	\$ 36,560,309	\$ 37,657,118
Land Rentals <sup>2/</sup>	45,185,689	52,554,714	67,853,067	63,472,339	65,150,287	67,022,370	68,974,019	70,910,301
Plane Parking	684,459	729,146	736,000	769,066	803,624	839,728	877,462	918,159
Fuel Fees	282,084	104,511	300,000	313,478	327,564	342,280	357,661	374,250
Other Aviation Revenue <sup>3/</sup>	8,452,800	4,342,583	5,449,000	5,693,803	5,949,653	6,216,954	6,496,317	6,797,622
<b>TOTAL AVIATION REVENUES</b>	<b>\$ 82,438,372</b>	<b>\$ 89,268,198</b>	<b>\$ 106,821,428</b>	<b>\$ 103,706,547</b>	<b>\$ 106,692,726</b>	<b>\$ 109,916,778</b>	<b>\$ 113,265,767</b>	<b>\$ 116,657,449</b>
Annual % change	-15.7%	8.3%	19.7%	-2.9%	2.9%	3.0%	3.0%	3.0%
<b>Concession Revenues</b>								
Auto Parking	\$ 67,270,881	\$ 64,661,504	\$ 69,555,000	\$ 73,107,996	\$ 76,842,487	\$ 80,767,741	\$ 84,893,505	\$ 89,230,022
Duty Free	30,501,729	26,338,058	27,500,000	29,419,000	31,448,000	36,450,000	38,559,000	40,743,000
Car Rental	56,890,487	56,752,079	58,000,000	61,257,000	64,697,000	68,331,000	72,168,000	76,221,000
Food & Beverage	31,792,225	31,108,837	31,108,837	32,540,000	34,037,000	39,059,000	40,856,000	42,736,000
Gifts & News	17,106,410	16,713,332	16,840,000	17,444,000	18,069,000	20,552,000	21,289,000	22,052,000
Bus, Limo & Taxi	5,882,230	5,917,266	7,151,400	7,480,394	7,824,523	8,184,483	8,561,004	8,954,845
Foreign Exchange	6,612,887	6,381,000	6,500,000	6,799,027	7,111,810	7,438,983	7,781,207	8,139,175
Bus Service VNY to LAX	5,999,175	8,240,475	8,748,600	9,151,072	9,572,059	10,012,413	10,473,026	10,954,828
Telecommunications	2,457,372	1,629,758	1,500,000	1,569,006	1,641,187	1,716,688	1,795,663	1,878,271
Other Concession Revenue <sup>4/</sup>	5,346,944	5,493,442	5,600,000	5,857,623	6,127,098	6,408,970	6,703,809	7,012,212
Terminal Advertising <sup>5/</sup>	13,134,578	13,675,560	13,675,560	14,085,826	14,508,401	14,943,653	15,391,963	15,853,722
<b>TOTAL CONCESSION REVENUES</b>	<b>\$ 242,994,918</b>	<b>\$ 236,911,311</b>	<b>\$ 246,179,397</b>	<b>\$ 258,710,944</b>	<b>\$ 271,878,565</b>	<b>\$ 293,864,932</b>	<b>\$ 308,472,177</b>	<b>\$ 323,775,076</b>
Annual % change	-3.1%	-2.5%	3.9%	5.1%	5.1%	8.1%	5.0%	5.0%
<b>Airport Sales and Services</b>								
Airfield Bus	\$ 1,720,875	\$ 1,223,821	\$ 1,545,400	\$ 1,596,877	\$ 1,650,069	\$ 1,705,033	\$ 1,761,827	\$ 1,820,513
Other Sales & Services	507,759	596,295	599,600	611,548	623,753	636,221	648,960	661,975
<b>TOTAL AIRPORT SALES &amp; SERVICES</b>	<b>\$ 2,228,634</b>	<b>\$ 2,063,128</b>	<b>\$ 2,237,000</b>	<b>\$ 2,303,489</b>	<b>\$ 2,372,053</b>	<b>\$ 2,442,757</b>	<b>\$ 2,515,671</b>	<b>\$ 2,590,866</b>
Annual % change	-13.5%	-7.4%	8.4%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Miscellaneous Revenues</b>								
Miscellaneous Revenues	\$ 2,366,364	\$ 1,135,675	\$ 2,008,000	\$ 2,108,400	\$ 2,213,820	\$ 2,324,511	\$ 2,440,737	\$ 2,562,773
Build America Bond federal subsidy (Series 2009C)	-	3,088,005	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233
Build America Bond federal subsidy (Series 2010C)	-	-	691,203	1,508,079	1,508,079	1,508,079	1,508,079	1,508,079
<b>TOTAL MISCELLANEOUS</b>	<b>\$ 2,366,364</b>	<b>\$ 4,223,680</b>	<b>\$ 9,561,436</b>	<b>\$ 10,478,712</b>	<b>\$ 10,584,132</b>	<b>\$ 10,694,823</b>	<b>\$ 10,811,049</b>	<b>\$ 10,933,086</b>
Annual % change	16.6%	78.5%	126.4%	9.6%	1.0%	1.0%	1.1%	1.1%
<b>TOTAL NONAIRLINE REVENUES</b>	<b>\$ 330,028,288</b>	<b>\$ 332,466,316</b>	<b>\$ 364,799,261</b>	<b>\$ 375,199,692</b>	<b>\$ 391,527,476</b>	<b>\$ 416,919,291</b>	<b>\$ 435,064,664</b>	<b>\$ 453,956,478</b>
Annual % change	-6.5%	0.7%	9.7%	2.9%	4.4%	6.5%	4.4%	4.3%
Compound annual growth rate FY 2009 to FY 2016								4.7%

Notes:

1/ Other than Airline Terminal Rentals, Landing Fees, and Apron Fees.

2/ Beginning with FY 2010, includes revenues associated with the Park One Property. FY 2011 Land Rentals include one-time revenues of approximately \$6.0 million.

3/ Includes TSA revenue, federal grants--operating revenue, and other aviation fees. FY 2009 and FY 2010 includes substantial amounts of TSA revenue for utilities reimbursement, transportation security, canine and explosive program costs, and law enforcement officer staffing. Approximately \$4.9 million of TSA revenue is included in the FY 2011 Budget amount.

4/ Includes luggage carts and ATM revenue.

5/ This revenue item started in FY 2007.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).

Prepared by: Ricondo & Associates, Inc. (October 2010).



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In general, projections of nonairline revenues (for both the Series 2009 Report and in this letter report) were based on a review of historical trends; budgeted revenues; anticipated impacts of inflation; impacts related to projects in the CIP; current and assumed future lease provisions; and projected growth in Airport activity. As described in greater detail in the Official Statements for the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds, various contracts between the Department and concessionaires for services at the Airport (including food and beverage, gift/news, rental cars, parking, and advertising, among others) expire within the Projection Period. As examples, contracts for food and beverage and news/gift services in terminals other than TBIT expire in December 2010; contracts for food and beverage and gifts/news services in TBIT expire in December 2012; and contracts for rental car services expire in January 2015. For purposes of the financial projections accompanying this letter report, it was assumed (as in the financial projections contained in the Series 2009 Report) that the general business terms and payments associated with these various contracts expiring within the Projection Period extend through the end of the Projection Period.

Between FY 2004 and FY 2009, nonairline revenues grew at a CAGR of 4.8 percent. As shown in Table 10, nonairline revenues are projected to increase to \$454.0 million in FY 2016, a CAGR of 4.7 percent for FY 2009 to FY 2016. Nonairline revenues projected for FY 2016 are approximately \$36.7 million lower relative to the FY 2016 projection reflected in the Series 2009 Report (primarily as a result of the elimination of CFC revenues).

**Table 11** presents projected terminal rentals associated with the Long-Term Leases (LTL), the Airport Terminal Tariff, and leases with provisions similar to the Tariff. Terminal rental payments are broken into three categories—(1) LTL Terminal M&O Expense Payments; (2) Airport Terminal Tariff M&O Expense Payments; and (3) Debt Service and Other Payments. For detailed information regarding the various types of terminal leases at the Airport, please refer to the “USE OF AIRPORT FACILITIES” section in the Official Statements for the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds.

The increase in terminal rental payments reflected at the bottom of Table 11 between FY 2010 and FY 2016 is primarily a result of (1) increased debt service and amortization associated with the TBIT Interior Improvements, elements of the Bradley West Terminal Project, and the Terminal Improvements Program; and (2) increased M&O Expenses related to these same terminal projects.

Terminal payments reflected on Table 11 were updated subsequent to the Series 2009 Report to incorporate the following:

- Terminal rent calculations and schedules implemented by the Department for CY 2010 (estimates for CY 2010 were reflected in the Series 2009 Report).

**Table 11**

**Airline Terminal Rental Payments**

Reflected on a Calendar Year Basis and a Fiscal Year Basis (Ending June 30)

		Projected						
		CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016
<b>1. Long-Term Lease (LTL) Terminal M&amp;O Expense Payments--T4,T5,T7,T8, and Portion of T6</b>								
M&O Expense Rent <sup>1/</sup>	[A]	\$ 31,044,971	\$ 40,425,994	\$ 46,823,978	\$ 53,760,696	\$ 61,274,026	\$ 64,337,727	\$ 67,554,613
<b>2. Tariff Terminal M&amp;O Expense and Terminal Special Expense Payments--T1,T2,T3,TBIT, and Portion of T6</b>								
Terminal Regular Expenses <sup>1/</sup>		\$ 64,942,625	\$ 65,657,702	\$ 68,940,587	\$ 73,313,784	\$ 77,486,653	\$ 99,444,278	\$ 104,416,492
Terminal Special Expenses <sup>1/</sup>		6,380,768	6,677,966	6,990,023	7,317,684	7,540,108	7,901,353	8,223,193
Total Tariff Terminal M&O Expense Payments	[B]	\$ 71,323,394	\$ 72,335,668	\$ 75,930,610	\$ 80,631,468	\$ 85,026,760	\$ 107,345,632	\$ 112,639,685
<b>3. Debt Service and Other Payments <sup>2/</sup></b>								
Terminal Capital Charges <sup>3/</sup>		\$ 20,196,583	\$ 31,477,890	\$ 58,100,003	\$ 75,031,672	\$ 111,558,010	\$ 122,041,027	\$ 123,770,783
Federal Inspection Services Charges <sup>4/</sup>		16,648,537	27,010,716	30,431,036	40,754,355	63,247,295	65,743,279	67,515,363
Other Rent <sup>5/</sup>		3,079,951	3,141,550	3,204,381	3,268,469	3,333,838	3,400,515	3,468,525
	[C]	\$ 39,925,072	\$ 61,630,156	\$ 91,735,421	\$ 119,054,496	\$ 178,139,143	\$ 191,184,821	\$ 194,754,671
<b>TOTAL FOR ALL TERMINALS (CY BASIS)</b>	<b>= [A] + [B] + [C]</b>	<b>\$ 142,293,436</b>	<b>\$ 174,391,818</b>	<b>\$ 214,490,010</b>	<b>\$ 253,446,660</b>	<b>\$ 324,439,929</b>	<b>\$ 362,868,180</b>	<b>\$ 374,948,969</b>
		<b>Estimated</b>	<b>Projected</b>					
		<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>TOTAL FOR ALL TERMINALS (FY BASIS) <sup>6/</sup></b>		<b>\$ 153,600,525</b>	<b>\$ 158,342,627</b>	<b>\$ 194,440,914</b>	<b>\$ 233,968,335</b>	<b>\$ 288,943,294</b>	<b>\$ 343,654,054</b>	<b>\$ 368,908,574</b>

Notes:

- 1/ Based on applicable actual prior FY M&O Expenses.
- 2/ Assumes the acquisition of certain terminal improvements, including T5 and T6 in CY 2010 (T7 and T8 was completed in CY 2009; T2 was completed in July 2010). Debt Service and Other Payments are based on amounts applicable to the current CY shown.
- 3/ Includes payments related to terminal facilities including applicable terminal debt service, debt service coverage, ground rent, and amortization of assets that were paid for with Department funds. Excludes any existing or future debt service allocated to Terminal 4, with the exception of the applicable terminal portion of debt service associated with the Central Utility Plant project.
- 4/ Includes payments related to FIS facilities including applicable debt service, debt service coverage, and amortization of assets that were paid for with Department funds.
- 5/ Includes Terminal 4 space and ground rent.
- 6/ For example, FY 2011 is roughly equal to 1/2 of CY 2010 Terminal Rentals plus 1/2 of CY 2011 Terminal Rentals.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).  
Prepared by: Ricondo & Associates, Inc. (October 2010).

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- Revisions to Terminal Capital Charges as a result of changes to the timing, structure, and allocation of actual and future terminal debt service.
- Revised PFC amounts expected to be used by the Department to pay terminal debt service.
- In December 2009, the Department closed a transaction with United Airlines for the acquisition of certain existing Terminal 7 and Terminal 8 improvements, which will allow the Department to recover certain additional capital and operating expense amounts related to those terminals (to be phased in over several years starting with CY 2011). These estimated additional amounts were not incorporated in the financial projections reflected in the Series 2009 Report but have been incorporated in the estimated terminal rents reflected in the financial tables that follow in this letter report.
- In July 2010, the Department closed a transaction with the LAX Two Corporation (LAX Two) which involved the redemption of outstanding Regional Airports Improvement Corporation bonds related to Terminal 2, the termination of the existing terminal lease between LAX Two and the Department, and the execution of new leases between the Department and Air Canada and Hawaiian Airlines. In addition to giving the Department control of the gates in Terminal 2, the new leases will allow the Department to recover capital and operating expense amounts allocable to the airlines in Terminal 2. These estimated additional amounts were not incorporated in the financial projections reflected in the Series 2009 Report but have been incorporated in the estimated terminal rents reflected in the financial tables that follow in this letter report.
- The Department is currently negotiating with certain airlines regarding potential changes to leasing arrangements and future capital improvements related to certain terminals. Based on information from the Department related to the status of those negotiations and potential transaction and lease terms, the financial projections reflected in this letter report assume that the Department will recover certain additional capital and operating expense amounts (to be phased in over several years starting with CY 2011). These estimated additional amounts were not incorporated in the financial projections reflected in the Series 2009 Report but have been incorporated in the estimated terminal rents reflected in the financial tables that follow in this letter report. Please refer to the "USE OF AIRPORT FACILITIES – Terminal Leases" section in the Official Statements for the Series 2010 Subordinate Bonds and the Series 2010D Senior Bonds, as applicable, for more detailed information.

The terminal rental payments reflected on Table 11 are now approximately \$12.3 million to \$19.7 million lower for FY 2011 to FY 2012 and approximately \$3.2 million to \$15.7 million higher for FY 2013 to FY 2016 relative to the Series 2009 Report.

**Table 12** presents the calculation of Landing Fee and Apron Fee requirements and rates for FY 2011 through FY 2016, under the Landing Fee and Apron Fee rate methodologies contained in the Operating Permit. Changes to projected Landing Fees and Apron Fees since the Series 2009 Report

**Table 12**  
**Landing and Apron Fees**  
Fiscal Years Ending June 30

	Budget		Projected			
	FY 2011 <sup>1/</sup>	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Landing Fee</b>						
Operating Expense	\$ 112,768,987	\$ 118,407,437	\$ 124,327,808	\$ 130,544,199	\$ 137,071,409	\$ 143,924,979
Amortization Expense	13,320,654	13,542,581	13,947,083	12,853,080	11,974,145	11,288,601
Senior Lien Debt Service	2,161,470	2,161,009	2,161,570	2,217,722	1,343,661	2,270,142
Subordinate Lien Debt Service	35,347,834	42,145,123	47,834,343	57,157,491	61,691,953	63,697,926
Credit for Build America Bonds subsidy (Series 2009C)	(6,862,233)	(6,862,233)	(6,862,233)	(6,862,233)	(6,862,233)	(6,862,233)
Credit for Build America Bonds subsidy (Series 2010C)	(691,203)	(1,508,079)	(1,508,079)	(1,508,079)	(1,508,079)	(1,508,079)
Debt Service Coverage <sup>2/</sup>	-	-	-	-	-	-
M&O Reserve	854,617	1,391,426	1,460,998	3,042,011	1,606,680	1,687,093
Van Nuys Reliever Net Costs	2,264,809	2,313,783	2,241,185	2,165,320	2,086,041	2,003,195
<b>TOTAL AIRFIELD REQUIREMENT</b>	<b>\$ 159,164,935</b>	<b>\$ 171,591,046</b>	<b>\$ 183,602,675</b>	<b>\$ 199,609,510</b>	<b>\$ 207,403,576</b>	<b>\$ 216,501,623</b>
Total Landed Weight (000's) <sup>3/</sup>	47,436,583	48,887,426	49,596,290	50,315,057	51,044,656	51,856,458
Landing Fee Rate <sup>4/</sup>	\$ 3.34	\$ 3.51	\$ 3.70	\$ 3.97	\$ 4.06	\$ 4.18
<b>Apron Fee</b>						
Operating Expense	\$ 26,464,470	\$ 27,787,693	\$ 29,177,078	\$ 30,635,932	\$ 32,167,728	\$ 33,776,115
Amortization Expense	2,863,493	4,193,969	5,848,963	5,556,302	5,122,755	5,017,579
Senior Lien Debt Service	429,601	429,535	429,625	442,379	303,936	627,645
Subordinate Lien Debt Service	-	444,889	1,540,000	1,540,000	6,674,938	7,408,500
Debt Service Coverage <sup>2/</sup>	-	-	-	-	-	-
M&O Reserve	200,560	326,538	342,865	713,895	377,053	395,925
<b>TOTAL APRON REQUIREMENT</b>	<b>\$ 29,958,124</b>	<b>\$ 33,182,624</b>	<b>\$ 37,338,532</b>	<b>\$ 38,888,508</b>	<b>\$ 44,646,411</b>	<b>\$ 47,225,763</b>
Passenger Landed Weight (000's) <sup>3/</sup>	41,516,828	42,445,785	43,062,759	43,688,701	44,323,741	45,030,747
Apron Fee Rate	\$ 0.72	\$ 0.78	\$ 0.87	\$ 0.89	\$ 1.01	\$ 1.05
<b>COMBINED RATE</b>	<b>\$ 4.06</b>	<b>\$ 4.29</b>	<b>\$ 4.57</b>	<b>\$ 4.86</b>	<b>\$ 5.07</b>	<b>\$ 5.22</b>

Notes:

1/ With the exception of Amortization and Debt Service in FY 2011, amounts reflected in this table are as reflected in FY 2011 Budget.

2/ Debt service coverage is 0.25x for Senior Lien Debt Service and 0.15x for Subordinate Lien Debt Service. Only debt service coverage above and beyond amortization expenses is included in the Landing Fee and Apron Fee calculation.

3/ Landed weight reflected for FY 2011 is budgeted amount; thereafter it is as projected in this letter report.

4/ For FY 2011, the FY 2011 Budget rate is reflected on this table. The calculated FY 2011 rate based on requirements reflected on this page would be approximately \$0.02 (two cents) higher than the budget rate of \$3.34 as a result of current estimates of debt service and amortization.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).

Prepared by: Ricondo & Associates, Inc. (October 2010).



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Board of Airport Commissioners  
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include the incorporation of actual Series 2009 Subordinate Bond debt service, refinements to future Subordinate Bond debt service allocated to the Airfield and Apron Cost Centers, and the incorporation of the FY 2011 Budget, none of which are material changes.

Because the Department establishes the Landing Fee based on a compensatory methodology using total airline landed weight as a divisor, the Airport does not expose itself to any risk of reduced landing fee revenues that might result from loss of airline service or other such disruptions. Similarly, the Apron Fee is calculated by dividing the Apron requirement (comprised of the same cost items described above but allocable to the Apron cost center) by the total estimated maximum gross landed weight of the passenger airlines.

**Table 13** presents passenger airline CPE for actual FY 2009, estimated FY 2010, and projected FY 2011 through FY 2016. Projections of passenger airline CPE reflected on Table 13 have not changed materially from projections reflected on Table IV-9 in Chapter IV (Financial Analysis) of the Series 2009 Report. Based on the estimates and calculations described in the previous sections of this letter report, passenger airline CPE (in future dollars) is estimated to increase from approximately \$11.09 in FY 2010 to \$19.17 in FY 2016. This projected increase during the Projection Period can be attributed to increases in terminal, airfield, and apron-related debt service and amortization costs (associated with the Series 2010 Subordinate Bonds Projects, Series 2010D Senior Bonds Projects, Other Incorporated Projects, and Ongoing and Completed Projects); assumed growth in base M&O Expenses allocable to airline-related Cost Centers; and incremental M&O Expenses associated with various terminal improvements.

Table 13 also reflects an approximation of current and future debt service amounts paid directly and independently (payments are not made to the Department) by certain LTL carriers in connection with certain outstanding bonds previously issued by the Regional Airports Improvement Corporation (RAIC). As noted on Table 13, it is estimated that such payments decrease starting in FY 2012 following the Department's planned acquisition of certain existing terminal improvements.

**Table 14** presents projected cash flow and debt service coverage ratios for the Airport for FY 2011 through FY 2016. Table 14 incorporates all of the various refinements, adjustments, and updates discussed previously for airline payments, nonairline revenues, expenses, and debt service since the Series 2009 Report was prepared. Projected Senior Bond debt service coverage ratio exceeds the 1.25 coverage requirement in each year of the Projection Period. In addition, the Subordinate Bond debt service coverage ratio is projected to also exceed the 1.15 coverage ratio requirements in each year of the Projection Period.<sup>1</sup>

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<sup>1</sup> In Table 14, annual debt service presented represents estimated "actual" annual debt service payments required (rather than Maximum Annual Debt Service associated with certain additional bonds tests) so that cash flow for the Airport can be projected.



**Table 13**

**Passenger Airline Cost per Enplaned Passenger**  
Fiscal Years Ending June 30

	Actual		Estimated		Projected			
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Airline Revenues</b>								
Airline Terminal Rentals (all terminals combined)	\$ 157,623,790	\$ 153,600,525	\$ 158,342,627	\$ 194,440,914	\$ 233,968,335	\$ 288,943,294	\$ 343,654,054	\$ 368,908,574
Signatory Airline Landing and Apron Fees	159,406,530	179,304,396	189,123,059	204,773,670	220,941,206	238,498,018	252,049,987	263,727,386
Airline Terminal Rentals and Signatory Airline Landing and Apron Fees	\$317,030,320	\$332,904,921	\$347,465,686	\$399,214,584	\$454,909,541	\$527,441,312	\$595,704,041	\$632,635,961
Non-Signatory landing fees	1,413,288	659,850	1,200,000	1,253,911	1,310,256	1,369,122	1,430,644	1,496,999
Non-Signatory terminal use fees <sup>1/</sup>	4,859,912	6,477,275						
Non-Signatory gate use fees <sup>1/</sup>	63,350	11,250						
Less Landing Fees - Cargo Airline	(19,297,336)	(18,278,947)	(18,600,331)	(19,830,741)	(21,219,668)	(23,070,622)	(23,972,277)	(25,025,017)
Total Passenger Airline Revenues	\$304,069,534	\$321,774,349	\$330,065,355	\$380,637,754	\$435,000,129	\$505,739,812	\$573,162,408	\$609,107,942
Enplanements	28,329,019	29,003,142	29,417,518	29,874,607	30,338,799	30,810,203	31,288,932	31,775,100
<b>Passenger Airline Cost Per Enplanement</b>	<b>\$10.73</b>	<b>\$11.09</b>	<b>\$11.22</b>	<b>\$12.74</b>	<b>\$14.34</b>	<b>\$16.41</b>	<b>\$18.32</b>	<b>\$19.17</b>
Series 2009 Report -->	\$10.77	\$11.33	\$12.59	\$13.95	\$15.01	\$16.58	\$18.74	\$19.71
Approximation of LTL Terminal Third Party Debt Service Payments <sup>2/</sup>	\$45,691,000	\$45,906,000	\$45,906,000	\$24,948,000	\$24,949,000	\$24,949,000	\$24,949,000	\$24,945,000
Passenger Airline Revenues including Third Party Debt Service Payments above	\$349,760,534	\$367,680,349	\$375,971,355	\$405,585,754	\$459,949,129	\$530,688,812	\$598,111,408	\$634,052,942
Per Enplanement	\$12.35	\$12.68	\$12.78	\$13.58	\$15.16	\$17.22	\$19.12	\$19.95

Notes:

- 1/ For FY 2011 through FY 2016, terminal use fees and gate use fees are included in the "Airline Terminal Rentals (all terminals combined)" row.  
2/ Includes approximations of debt service payments paid directly by T2, T4, T5, T6, T7, and T8 airlines for outstanding third party debt related to terminal improvements at the Airport (on a Fiscal Year basis) through FY 2011. Thereafter, only T4 debt service payments are included. Payments are approximated based on outstanding principal amounts, scheduled sinking fund payments, and related interest rates. It should be noted that certain outstanding principal amounts are large bullet maturities beyond the Projection Period.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).  
Prepared by: Ricondo & Associates, Inc. (October 2010).

**Table 14**  
**Airport Cash Flow and Debt Service Coverage**  
Fiscal Years Ending June 30

		Projected					
		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Airline Terminal Rentals, Landing Fees, and Apron Fees	Table 13	\$ 348,665,686	\$ 400,468,495	\$ 456,219,797	\$ 528,810,434	\$ 597,134,685	\$ 634,132,959
Aviation Revenues	Table 10	106,821,428	103,706,547	106,692,726	109,916,778	113,265,767	116,657,449
Concession Revenues	Table 10	246,179,397	258,710,944	271,878,565	293,864,932	308,472,177	323,775,076
Airport Sales & Services	Table 10	2,237,000	2,303,489	2,372,053	2,442,757	2,515,671	2,590,866
Miscellaneous Revenues	Table 10	9,561,436	10,478,712	10,584,132	10,694,823	10,811,049	10,933,086
Investment Earnings		24,692,890	31,513,001	35,006,658	38,456,020	39,627,311	43,602,415
<b>Total Pledged Revenues</b>	[A]	\$ 738,157,837	\$ 807,181,189	\$ 882,753,931	\$ 984,185,745	\$ 1,071,826,660	\$ 1,131,691,852
LAX M&O Expenses	[B]	\$ 557,715,520	\$ 585,776,296	\$ 615,240,110	\$ 680,317,116	\$ 714,506,972	\$ 750,407,020
<b>Net Pledged Revenues</b>	[C]=[A]-[B]	\$ 180,442,317	\$ 221,404,893	\$ 267,513,820	\$ 303,868,629	\$ 357,319,688	\$ 381,284,832
Senior Aggregate Annual Debt Service <sup>1/</sup>	[D]	\$ 44,731,580	\$ 60,980,122	\$ 79,420,123	\$ 122,755,539	\$ 144,228,800	\$ 143,584,707
Subordinate Aggregate Annual Debt Service	[E]	40,144,009	47,381,237	54,166,643	63,489,991	73,159,191	75,897,926
M&O Reserve		4,748,629	8,226,524	8,637,850	18,967,253	10,017,815	10,519,199
<b>Total - Other Requirements</b>	[F]	\$ 89,624,218	\$ 116,587,883	\$ 142,224,615	\$ 205,212,782	\$ 227,405,806	\$ 230,001,831
<b>NET FUNDS REMAINING</b>	[G]=[C]-[F]	90,818,099	104,817,011	125,289,205	98,655,846	129,913,882	151,283,000
<b>SENIOR BOND DEBT SERVICE COVERAGE</b>							
Pledged Revenues	= [A]	\$ 738,157,837	\$ 807,181,189	\$ 882,753,931	\$ 984,185,745	\$ 1,071,826,660	\$ 1,131,691,852
LAX M&O Expenses	= [B]	\$ 557,715,520	\$ 585,776,296	\$ 615,240,110	\$ 680,317,116	\$ 714,506,972	\$ 750,407,020
<b>Net Pledged Revenues</b>	[C]=[A]-[B]	\$ 180,442,317	\$ 221,404,893	\$ 267,513,820	\$ 303,868,629	\$ 357,319,688	\$ 381,284,832
Senior Aggregate Annual Debt Service <sup>1/</sup>	= [D]	\$ 44,731,580	\$ 60,980,122	\$ 79,420,123	\$ 122,755,539	\$ 144,228,800	\$ 143,584,707
<b>Senior Bond Debt Service Coverage <sup>2/</sup></b>	<b>= [C] / [D]</b>	<b>4.03</b>	<b>3.63</b>	<b>3.37</b>	<b>2.48</b>	<b>2.48</b>	<b>2.66</b>
	Series 2009 Report -->	3.52	3.47	3.03	2.45	2.33	2.52
<b>SUBORDINATE BOND DEBT SERVICE COVERAGE</b>							
<b>NET PLEDGED REVENUES</b>	= [C]	\$ 180,442,317	\$ 221,404,893	\$ 267,513,820	\$ 303,868,629	\$ 357,319,688	\$ 381,284,832
LESS: Senior Aggregate Annual Debt Service	= [D]	44,731,580	60,980,122	79,420,123	122,755,539	144,228,800	143,584,707
<b>NET SUBORDINATE PLEDGED REVENUES</b>	[H]=[C]-[D]	\$ 135,710,738	\$ 160,424,771	\$ 188,093,698	\$ 181,113,090	\$ 213,090,888	\$ 237,700,125
<b>SUBORDINATE AGGREGATE ANNUAL DEBT SERVICE</b>	= [E]	\$ 40,144,009	\$ 47,381,237	\$ 54,166,643	\$ 63,489,991	\$ 73,159,191	\$ 75,897,926
<b>Subordinate Bond Debt Service Coverage <sup>2/</sup></b>	<b>= [H] / [E]</b>	<b>3.38</b>	<b>3.39</b>	<b>3.47</b>	<b>2.85</b>	<b>2.91</b>	<b>3.13</b>
	Series 2009 Report -->	4.22	3.88	3.53	3.00	2.77	3.09
<b>TOTAL DEBT SERVICE COVERAGE</b>							
<b>NET PLEDGED REVENUES</b>	= [C]	\$ 180,442,317	\$ 221,404,893	\$ 267,513,820	\$ 303,868,629	\$ 357,319,688	\$ 381,284,832
<b>SENIOR AND SUBORDINATE BOND DEBT SERVICE</b>	[I]=[D]+[E]	\$ 84,875,589	\$ 108,361,359	\$ 133,586,766	\$ 186,245,530	\$ 217,387,991	\$ 219,482,632
<b>Total Debt Service Coverage <sup>2/</sup></b>	<b>= [C] / [I]</b>	<b>2.13</b>	<b>2.04</b>	<b>2.00</b>	<b>1.63</b>	<b>1.64</b>	<b>1.74</b>
	Series 2009 Report -->	2.20	2.12	1.92	1.65	1.57	1.69

Notes:

1/ Senior Aggregate Annual Debt Service is net of PFC Revenues committed to pay Senior Lien Debt Service.

2/ No Transfers were assumed for purposes of calculating debt service coverage ratios.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2010).  
Prepared by: Ricondo & Associates, Inc. (October 2010).



Mr. Alan I. Rothenberg, President  
Board of Airport Commissioners  
October 20, 2010

The Senior Bond, Subordinate Bond, and overall debt service coverage ratios vary from year to year relative to projections reflected on Table IV-10 in Chapter IV (Financial Analysis) of the Series 2009 Report, as a result of the various refinements, adjustments, and updates to debt service, expenses, and revenues discussed in sections above, but are not materially different.

### **Confirmation of Series 2009 Report Findings**

On the basis of the assumptions and analyses described in the Series 2009 Report and in this letter report and its experience in preparing financial projections for airport operators, R&A is of the opinion that, for each Fiscal Year of the Projection Period, Net Pledged Revenues will be sufficient to meet the Department's senior rate covenant requirement, as set forth in Section 5.04 of the Senior Indenture, and that Net Subordinate Pledged Revenues will be sufficient to meet the Department's subordinate rate covenant requirement, as set forth in Section 5.04 of the Subordinate Indenture.

Additional findings of our analyses include the following:

- The Series 2010 Subordinate Bonds Projects, the Series 2010D Senior Bonds Projects, and other capital improvements described in this letter report and reflected in the accompanying financial tables are expected (1) to be completed during the Projection Period, (2) to be funded in part with the Series 2010 Subordinate Bonds, the Series 2010D Senior Bonds, and anticipated future Additional Senior Bonds and Additional Subordinate Bonds, and (3) to provide Airport facilities sufficient to satisfy future airline and air passenger needs through the Projection Period.
- Airport operating and capital costs, including increased costs related to the Series 2010 Subordinate Bonds Projects, the Series 2010D Senior Bonds Projects, and other capital improvements described in this letter report (based on a \$4.50 PFC level at the Airport throughout the Projection Period), are expected to produce reasonable levels of airline rates and charges at the Airport during the Projection Period. Average airline cost per enplanement (future dollars) at the Airport is projected to increase from approximately \$11.09 in FY 2010 to approximately \$19.17 in FY 2016. As stated in the Series 2009 Report, if the current \$4.50 maximum PFC level is increased by Congress during the Projection Period, the Department plans to seek FAA approval for a higher PFC level at the Airport and use additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this letter report.
- The amount of Department funds reflected in the estimated funding plan for the Series 2010 Subordinate Bonds Projects, the Series 2010D Senior Bonds Projects, and other capital improvements described in this letter report was based on an internal Department requirement that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to 365 days worth of LAX M&O Expenses.



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Board of Airport Commissioners  
October 20, 2010

- Airline rates and charges, together with other Pledged Revenues, are projected to be sufficient to ensure that all operating and maintenance expenses, debt service, and fund deposit requirements are satisfied in each year of the Projection Period (through FY 2016).
- Senior Bond debt service coverage is projected to range from 3.37x to 4.03x in FY 2011 to FY 2013. In FY 2014 and FY 2015, when future Senior Bond principal begins to amortize (including Series 2010D Senior Bond principal), Senior Bond debt service coverage is projected to be 2.48x. Senior Bond debt service coverage is projected to increase to 2.66x in FY 2016. In each year of the Projection Period, Senior Bond debt service coverage exceeds the 1.25x Senior Bond rate covenant requirement.
- Subordinate Bond debt service coverage is projected to range from 2.85x to 3.47x in FY 2011 to FY 2016. In each year of the Projection Period, Subordinate Bond debt service coverage exceeds the 1.15x Subordinate Bond rate covenant requirement.
- Between FY 2011 and FY 2013, debt service coverage for combined senior and subordinate debt is projected to range from a high of 2.13x in FY 2011 to a low of 2.00x in FY 2013. In the period FY 2014 to FY 2015, debt service coverage for combined senior and subordinate debt is projected to range from 1.63x to 1.64x. Debt service coverage for combined senior and subordinate debt is projected to increase to 1.74x in FY 2016.

The techniques used in the Series 2009 Report and in this letter report are consistent with industry practices for similar studies in connection with airport revenue bond sales. The information and assumptions incorporated in the Series 2009 Report and in this letter report regarding the Airport were provided by or reviewed and agreed to by the Department. Accordingly, the forecasts reflect the Department's current plans at the Airport (recognizing that these plans are subject to change during the Projection Period) and, in R&A's judgment and the judgment of the Department's management, fairly present the expected level of financial results during the Projection Period. While R&A believes the approach and assumptions utilized are reasonable, although some assumptions regarding future trends and events may not materialize. Achievement of projections described in the Series 2009 Report and in this letter report, therefore, is dependent upon the occurrence of future events, and variations may be material. R&A has no responsibility to update this letter report for events or circumstances occurring after the date of this letter report.

Sincerely,

RICONDO & ASSOCIATES, INC.

**2009 REPORT OF THE AIRPORT CONSULTANT**

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Department of Airports of the City of Los Angeles, California  
Los Angeles International Airport  
Senior Revenue Bonds, 2009 Series A  
Subordinate Revenue Bonds, 2009 Series C and D  
Subordinate Refunding Revenue Bonds, 2009 Series E

**REPORT OF THE AIRPORT CONSULTANT**

Ricondo & Associates, Inc.  
105 East Fourth Street, Suite 1700  
Cincinnati, OH 45202  
513.651.4700 telephone  
513.412.3570 facsimile

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October 23, 2009

Mr. Alan I. Rothenberg, President  
Board of Airport Commissioners  
Los Angeles World Airports  
1 World Way  
Los Angeles, CA 90045-2216

***RE: Department of Airports of the City of Los Angeles, California  
Los Angeles International Airport  
Senior Revenue Bonds, 2009 Series A  
Subordinate Revenue Bonds, 2009 Series C and D  
Subordinate Refunding Revenue Bonds, 2009 Series E***

***Appendix A: Report of the Airport Consultant***

Dear Mr. Rothenberg:

This report sets forth findings, assumptions, and projections of the air traffic and financial analyses developed by Ricondo & Associates, Inc. (R&A) in conjunction with the planned issuance by the Department of Airports of the City of Los Angeles, California (the Department), of its Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the Series 2009 Senior Bonds), and its Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series C and D (the Series 2009 C and D Subordinate Bonds) to finance improvements at Los Angeles International Airport (the Airport or LAX). The Department also plans to issue its Los Angeles International Airport Subordinate Refunding Revenue Bonds, 2009 Series E (the Series 2009 Subordinate Refunding Bonds) to refund all of its outstanding Subseries 2002 C1 Subordinate Revenue Bonds. The Series 2009 C and D Subordinate Bonds and the Series 2009 Subordinate Refunding Bonds are collectively referred to in this report as the Series 2009 Subordinate Bonds. The Series 2009 Senior Bonds and the Series 2009 Subordinate Bonds are collectively referred to in this report as the Series 2009 Bonds.

This report is intended for inclusion in the Official Statement for the Series 2009 Bonds as Appendix A: Report of the Airport Consultant.

**Department of Airports of the City of Los Angeles**

The Airport is owned by the City of Los Angeles, California (the City) and operated and maintained by the Department (which is also known as Los Angeles World Airports, or LAWA), a self-supporting, proprietary department of the City under the management and control of the Board of Airport Commissioners (the Board).



Mr. Alan I. Rothenberg, President  
Board of Airport Commissioners  
October 23, 2009

The City, acting through the Department, currently operates and maintains the Airport, LA/Ontario International Airport (LA/ONT), and Van Nuys Airport (VNY). In addition, the Department maintains LA/Palmdale Regional Airport (LA/PMD and, together with the Airport, LA/ONT, and VNY, the Airport System) although LA/PMD is not currently certificated by the FAA. Pledged Revenues and Maintenance and Operating Expenses (M&O Expenses) include certain income, revenue, and expenses derived from the Airport, as described in greater detail in Chapter 4 of this report, but exclude income, revenue, and expenses received by the Department from the other airports in the Airport System.

### **Series 2009 Bonds**

Proceeds of the Series 2009 Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain ongoing and/or planned capital projects, including the completion of interior improvements to the Tom Bradley International Terminal at the Airport, elevator/escalator improvements (Phase 1 and 2), in-line baggage screening improvements, acquisition of the Park One property (adjacent to Airport property), construction of crossfield taxiway projects, airfield intersection improvements, and other improvements (these projects are collectively referred to in this report as the Series 2009 Projects); (2) refund outstanding Subseries 2002 C1 Subordinate Revenue Bonds; (3) reimburse the Department for certain prior expenditures with respect to the Series 2009 Projects; (4) refund outstanding commercial paper notes, the proceeds of which were used to finance a portion of the costs of the Series 2009 Projects; (5) fund capitalized interest; (6) fund debt service reserve funds; and (7) pay the costs of issuance of the Series 2009 Bonds, all as more fully described in this report.

### **Other Potential Refundings**

In addition to issuing the Series 2009 Subordinate Refunding Bonds to refund all outstanding Subseries 2002 C1 Subordinate Revenue Bonds, the Department may potentially issue Senior Refunding Revenue Bonds, 2009 Series B (the Series 2009 Senior Refunding Bonds) to provide funds for the purchase of Series 2008 A and B Senior Revenue Bonds that may be tendered by investors. The Department likely would issue the Series 2009 Senior Refunding Bonds only if the Department expects the tender/refunding will result in annual debt service savings. The potential issuance of the Series 2009 Senior Refunding Bonds (or any other potential refunding bonds not mentioned above) and any associated debt service savings have not been assumed or discussed in the remainder of this report and have not been incorporated in the accompanying financial tables.



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The Department is also planning to use Department funds (cash) and/or commercial paper proceeds to defease all outstanding Subseries 2002 C2 Subordinate Revenue Bonds and all outstanding Series 2003 A Subordinate Revenue Bonds with Department funds prior to the end of FY 2010. The planned defeasance of these two outstanding series is incorporated in the financial tables accompanying this report.

### **Future Bonds**

The Department anticipates issuing additional Senior Bonds and Subordinate Bonds subsequent to the issuance of Series 2009 Bonds to finance other capital projects described in this report that are anticipated to be completed during the projection period (as described in Sections 3.4 and 4.7 of this report). This report and the accompanying financial tables incorporate estimated future debt service requirements for the Series 2009 Bonds, as well as future Senior Bonds and Subordinate Bonds anticipated by the Department to be issued during the projection period Fiscal Year<sup>1</sup> (FY) 2010 through FY 2016 (the Projection Period). Such bonds are expected to fund all or a portion of the estimated costs of certain capital projects at the Airport (including, among other projects, the Series 2009 Projects) that the Department expects to be completed during the Projection Period. Estimated debt service requirements incorporated in this report for the Series 2009 Bonds and the future Senior and Subordinate Bonds anticipated to be issued during the Projection Period assume level annual debt service by bond series.

### **Senior and Subordinate Bond Indentures**

Except as noted otherwise, capitalized terms in this report shall have the meanings set forth in the Master Trust Indenture, as amended and supplemented (referred to in this report as the Senior Indenture) or in the Master Subordinate Trust Indenture, as amended and supplemented (referred to in this report as the Subordinate Indenture). Bonds issued pursuant to the Senior and Subordinate Indentures are referred to in this report as Senior Bonds and Subordinate Bonds, respectively.

Senior Bonds are secured by a pledge of Pledged Revenues (as defined in the Senior Indenture). Subject to a proposed amendment, following the Pledge Change Date, Senior Bonds will be secured by a pledge of Net Pledged Revenues (as defined in the Senior Indenture). The Series 2009 Senior Bonds will be issued pursuant to the Senior Indenture and the Tenth Supplemental Trust Indenture.

Subordinate Bonds are secured by Subordinate Pledged Revenues (as defined in the Subordinate Indenture). On or after the Pledge Change Date, the definition of Subordinate Pledged Revenues will change. The Series 2009 Subordinate Bonds will be issued pursuant to the Subordinate Indenture and the Fifth Supplemental Subordinate Trust Indenture.

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<sup>1</sup> The Department's fiscal year (Fiscal Year or FY) is the 12-month period ending June 30.



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The Senior and Subordinate Indentures require that certain covenants be met while any Senior or Subordinate Bonds are outstanding and that certain financial tests be met before future Senior or Subordinate Bonds can be issued, including additional bonds tests described in greater detail in Chapter 4 of this report.

### **Use of PFC Revenues**

The Department plans to use certain passenger facility charge (PFC) revenues to pay a portion of the principal of and interest on the Series 2009 Senior Bonds, future Senior Bonds, and Outstanding Series 2008 Senior Bonds. Given the level of annual PFC revenues at the Airport (FY 2009 PFC collections excluding interest earnings were \$104.8 million) and substantial existing PFC Fund balances available to apply to projects undertaken during the Projection Period, the Department expects to use PFC revenues and available PFC Fund balances, particularly in the early years when debt service becomes payable, to pay certain principal and interest to help reduce the impact of future debt service on airline rates and charges. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year (allowing the Department to apply PFC revenues strategically to help manage to desired financial results—e.g., lower airline payments).

Pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant (generally requiring that Net Pledged Revenues equal at least 125 percent of Aggregate Annual Debt Service on the Senior Bonds each Fiscal Year), the principal of and/or interest on Senior Bonds paid with PFC revenues is excluded from Aggregate Annual Debt Service on the Senior Bonds. At this time, the Department does not plan to use PFC revenues to pay principal of and/or interest on any Subordinate Bonds or Subordinate Commercial Paper Notes.

The estimated capital project funding sources, projected airline payments, and other key financial results reflected in this report are based on the assumption that the current \$4.50 PFC level at the Airport is **not** increased to a higher PFC level throughout the Projection Period. The Department is actively involved in nationwide efforts to increase the current \$4.50 maximum PFC level nationwide. The Department plans to seek FAA approval for a higher PFC level at the Airport if in fact the maximum PFC level is increased by federal law. If the maximum PFC level is increased and the Department obtains approval to increase the PFC level at the Airport during the Projection Period, the Department plans to use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this report. If the current \$4.50 maximum level is not increased during the Projection Period and/or the Department is not able to obtain approval for a higher PFC level at the Airport during the Projection Period, the Department expects to explore other funding alternatives and seek other ways to reduce the level of projected airline payments reflected in this report.



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## **Report of the Airport Consultant and Findings**

This report includes examinations of the underlying economic base of the Air Trade Area (as defined in this Report) for the Airport (Chapter 1); the historical and projected air traffic activity at the Airport, including assumptions (Chapter 2); a description of existing facilities and various planned and ongoing projects that are expected to be completed during the Projection Period (Chapter 3); and projected debt service, expenses, and revenues, with consideration of the anticipated impacts of the capital projects expected to be completed during the Projection Period (Chapter 4). Chapter 1 of this report has been prepared by Partners for Economic Solutions, a consulting firm based in Washington, D.C. specializing in regional economic analysis, as a subconsultant to R&A.

On the basis of the assumptions and analyses described in this report and its experience in preparing financial projections for airport operators, R&A is of the opinion that, for each Fiscal Year of the Projection Period, Net Pledged Revenues will be sufficient to meet the Department's senior rate covenant requirement, as set forth in Section 5.04 of the Senior Indenture, and that Net Subordinate Pledged Revenues will be sufficient to meet the Department's subordinate rate covenant requirement, as set forth in Section 5.04 of the Subordinate Indenture. Additional findings of these analyses include the following:

### ***Economic Base***

- The economic base of the Airport's Air Trade Area, as defined in this report, is broad and diversified and will continue to support long-term growth in demand for air transportation services at the Airport.
- The Air Trade Area has a substantial population base with approximately 18.4 million residents in 2009. It is ranked as the second largest metropolitan area in the United States. Population in the Air Trade Area is projected to grow during the forecast period at a rate comparable to that of the State of California (State or California) and the United States (U.S. or nation)
- At an estimated \$60,030 in 2009, the Air Trade Area's median household income is 9.7 percent higher than that of the U.S. and 2.6 percent lower than that of California. In addition, more than 2.2 million of the Air Trade Area's households earn more than \$75,000 per year, the income category that generates the greatest demand for airline travel, according to the Travel Industry Association.
- In 2009, 19 companies in the Air Trade Area are listed among the top 500 U.S. companies by *Fortune* magazine when ranked by annual revenue. The Air Trade Area has the fifth highest number of Fortune 500 headquarters in the United States. Major companies that are headquartered in the Air Trade Area include Walt Disney, Northrop Grumman, Amgen and Mattel.



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- 255 Air Trade Area companies have 3,692 branches, subsidiaries, or affiliates in foreign countries, and 998 foreign firms have 1,882 operations in the Air Trade Area.
- The Air Trade Area offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. The number of visitors to the Air Trade Area reached approximately 25.6 million in 2008 and generated \$13.8 billion in overnight visitor spending.
- Although the Air Trade Area is well-positioned with a broad and diverse economic base, its economic outlook is subject to overall economic conditions in the U.S. Recent surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for a modest rebound in real GDP growth by the end of 2009, and moderate economic recovery in 2010.
- At 12.3 percent (as of August 2009, non-seasonally adjusted), the unemployment rate in the Air Trade Area is higher than rates for the State and the nation. Similar to forecasts from NABE and Blue Chip Economic Indicators, a recent report from the Los Angeles County Economic Development Corporation (LAEDC) projects that unemployment rates in both California and the Air Trade Area will remain elevated in 2010. As with the U.S. overall, economic growth in California and the Air Trade Area is expected to resume in 2010 as household spending stabilizes and businesses bring production capacity and inventory stocks into alignment with sales. Economic recovery in the Air Trade Area is generally expected to follow statewide and national trends, and to support growth in projected activity at the Airport during the Projection Period.

### ***Air Traffic***

- As of August 2009, the Airport was served by 72 scheduled and nonscheduled passenger airlines and 17 all-cargo carriers.
- For the week ending September 18, 2009 the airlines serving the Airport provided nonstop service to 83 domestic markets with a total of 3,970 weekly flights; and nonstop service to 53 international markets with a total of 823 weekly flights.
- The Airport is one of the busiest airports in the world. In calendar year (CY) 2008, the Airport ranked 6<sup>th</sup> worldwide and 3<sup>rd</sup> nationwide in total passengers; 4<sup>th</sup> worldwide and 4<sup>th</sup> nationwide in total operations; and 13<sup>th</sup> worldwide and 5<sup>th</sup> nationwide in total cargo.<sup>2</sup>
- The Airport serves one of the nation's largest origin-destination (O&D) passenger bases, and was ranked second in the nation in the number of total O&D passengers in FY 2008.

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<sup>2</sup> *ACI Traffic Data 2008*, Airports Council International (dated July 28, 2009).



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- No airline dominates in shares of enplanements or provides hubbing activity at the Airport. Approximately 70 percent of domestic enplanements at the Airport are O&D passengers, with the remaining 30 percent being connecting passengers. When international enplanements are included, approximately 75 percent of total enplanements at the Airport are O&D passengers.
- The Airport is also one of the nation's premier international gateways and the only international gateway serving Southern California. In CY 2008, the Airport served approximately 99.6 percent of total Los Angeles region international enplanements and approximately 71.8 percent of total Los Angeles region enplanements.
- Total enplanements at the Airport increased from 26.6 million in FY 1995 to 33.8 million in FY 2001, with a compounded annual growth rate (CAGR) of 4.1 percent. This substantial growth was fueled, in part, by the stimulation of passenger demand from intense competition and fare wars among airlines (e.g., Southwest and Shuttle by United) serving the West Coast corridor.
- Between FY 2002 and FY 2008, total enplanements at the Airport increased at a CAGR of 1.7 percent, reaching 31.1 million enplanements in FY 2008.
- In FY 2009, due to the global economic downturn and capacity reductions by U.S. and foreign flag carriers, domestic enplanements at the Airport decreased 7.9 percent from FY 2008, and international enplanements at the Airport decreased by 12.0 percent from FY 2008.<sup>3</sup> Total enplanements at the Airport decreased 9.0 percent in FY 2009, to 28.3 million.
- Based on an analysis of scheduled domestic and international departing seats, service announcements, and industry information regarding further reductions in seating capacity for CY 2009, total enplanements at the Airport are projected to decrease by 1.6 percent in FY 2010, relative to FY 2009 enplanements. Domestic passenger activity at the Airport is expected to decrease by 1.0 percent in FY 2010, and international activity at the Airport is expected to decrease 3.1 percent in FY 2010, relative to FY 2009 levels.
- The activity projections provided herein are lower than the projections included in the feasibility report we prepared in July 2008 (with a FY 2007 base year) in support of the Department's issuance of the Series 2008 Bonds (the 2008 Report). In the 2008 Report, our estimate of Airport activity for FY 2008 was close to the actual FY 2008 results (30.9 million enplanements projected versus 31.1 million actual). However the severity of cutbacks in airline service, increases in fuel prices, and worldwide recessionary impacts that occurred soon after the issuance of the Series 2008 Bonds contributed to a 9.0 percent decrease in

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<sup>3</sup> This 7.9 percent decrease in domestic enplanements at the Airport in FY 2009 was similar to the 7.8 percent decrease in domestic enplanements nationwide forecast by the Federal Aviation Administration (FAA) in April 2009 for federal FY ending September 30, 2009.





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enplanements in FY 2009 and was not anticipated in the 2008 Report. In addition our current estimate of a further (although less significant) decline in Airport activity in FY 2010 was not anticipated in the 2008 Report. Accordingly, current projections of Airport activity (reflected in this report) are substantially lower than the projections presented in the 2008 Report.

- It is expected that in the long term the Airport will maintain its role as one of the premier airports worldwide, both in service to domestic O&D passengers and as an international gateway. The Air Trade Area's broad and diverse economic base is expected to continue to support long-term growth in passenger demand, with regional demand continuing to be predominantly served at the Airport, including international travel and nonstop travel to major medium- and long-haul markets.
- Although there is still uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation are expected to improve in CY 2010 (which includes the first half of FY 2011), and recovery in passenger activity at the Airport is expected beginning in FY 2011, with total Airport enplanements projected to increase 1.9 percent relative to FY 2010.
- As discussed in Section 2.7 (Projections of Airport Activity), longer-term growth in total enplanements at the Airport is expected through the remainder of the Projection Period. Annual growth in total enplanements at the Airport is projected to range from 2.0 percent to 2.6 percent for FY 2012 through FY 2016.
- The activity projections provided herein for the Airport are more conservative when compared to the most recent nationwide projections prepared by the FAA in April 2009. The FAA's annual forecasts for the nation are prepared for federal budgeting and planning purposes and, therefore, can result in higher activity projections than those prepared by airport bond feasibility consultants for studies such as this report.
- The general growth pattern for Airport enplanements for actual FY 2009 through the end of the Projection Period (FY 2016) (increasing from 28.4 million in FY 2009 to 31.8 million in FY 2016) is similar to the general growth pattern and the actual increase in enplanements for the historical period FY 2002 to FY 2008 (in which enplanements increased from 28.1 million to 31.1 million). See Section 2.1 for detailed information. The first year in each of these periods (FY 2002 and FY 2009) reflected a substantial decrease from the prior year. The projected CAGR for Airport enplanements between actual FY 2009 and FY 2016 is 1.7 percent. The actual CAGR for Airport enplanements between FY 2002 to FY 2008 was 1.7 percent.

### ***Financial Analysis***

- The Series 2009 Projects and other capital improvements described in this report and reflected in the accompanying financial tables are expected (1) to be completed during the Projection Period, (2) to be funded in part with the Series 2009 Bonds and assumed





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additional future Senior Bonds and Subordinate Bonds, and (3) to provide Airport facilities sufficient to satisfy future airline and air passenger needs through the Projection Period. The estimated financial impacts of the Series 2009 Projects and other capital improvements described in this report are reflected within the Projection Period.

- Airport operating and capital costs, including increased costs related to the Series 2009 Projects and other capital improvements described in this report (based on a \$4.50 PFC level at the Airport throughout the Projection Period), are expected to produce reasonable levels of airline rates and charges at the Airport during the Projection Period. Average airline cost per enplanement (future dollars) at the Airport is projected to increase from approximately \$10.77 in FY 2009 to approximately \$19.71 in FY 2016. As previously stated, if the maximum PFC level is increased by federal law, the Department plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this report. If the current \$4.50 maximum PFC level is not increased during the Projection Period and/or the Department is not able to obtain approval for a higher PFC level at the Airport during the Projection Period, the Department expects to explore other funding alternatives and seek other ways to reduce the level of projected airline payments reflected in this report.
- The amount of Department funds reflected in the estimated funding plan for the Series 2009 Projects and other capital improvements was based on an internal Department requirement that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to 365 days worth of LAX Maintenance and Operation Expenses.
- The Department and many of the airlines operating at the Airport have been involved in negotiations and various legal matters in recent years regarding certain aspects of the Airport's terminal rental rates. These negotiations and legal matters have involved both the airlines that are parties to long-term terminal leases as well as those airlines without long-term leases that are operating under the LAX Passenger Terminal Tariff or lease agreements with provisions similar to the LAX Passenger Terminal Tariff (discussed in Section 4.6 of this report). The Department has worked closely with the airlines and has reached various settlement agreements with the airlines on various issues related to terminal rents at the Airport. Please refer to the "AGREEMENTS FOR USE OF AIRPORT FACILITIES" section of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information. The financial projections reflected in this report incorporate assumptions discussed in Section 4.6 of this report regarding the Department's plan to issue future Senior Bonds to help fund the acquisition of certain existing terminal improvements that were previously and independently financed by certain long-term terminal lease tenants at the Airport. The final resolution of the ongoing negotiations and/or legal matters related to terminal rentals at the Airport could result in terminal rental revenues different than those



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reflected in the financial tables accompanying this report for FY 2010 to FY 2016. However, the assumptions incorporated in the projections of terminal rental revenues reflected in this report (see Section 4.6 of this report) provide a reasonable basis for purposes of projecting Terminal rents and charges during the Projection Period.

- Airline rates and charges, together with other Pledged Revenues, are projected to be sufficient to ensure that all operating and maintenance expenses, debt service, and required fund deposit requirements are satisfied in each year of the Projection Period (through FY 2016).
- In FY 2010, debt service coverage for senior debt is projected to be 7.31x. In FY 2011, when the Series 2008A Senior, Series 2009 Senior, and planned Series 2010 Senior Bond principal begins to amortize, senior debt service coverage is projected to decrease to 3.52x. Between FY 2012 and FY 2013, senior debt service coverage is projected to range from 3.03x to 3.47x. In FY 2014, when planned Series 2011 Senior and subsequent series Senior Bond principal begins to amortize, senior debt service coverage is projected to decrease to 2.45x. In FY 2015, when nearly all future senior debt service is in effect, senior debt service coverage is projected to decrease to 2.33x. In FY 2016, when maximum annual senior debt service is reached, senior debt service coverage is projected to increase to 2.52x. In each year of the Projection Period, senior debt service coverage exceeds the 1.25x rate covenant requirement.
- Between FY 2011 and FY 2015, debt service coverage for combined senior and subordinate debt is projected to range from a high of 2.20x in FY 2011 to a low of 1.57x in FY 2015. In FY 2016, once overall debt service requirements have stabilized, debt service coverage for combined senior and subordinate debt is projected increase to 1.69x.

The techniques used in this report are consistent with industry practices for similar studies in connection with airport revenue bond sales. The information and assumptions incorporated in this report regarding the Airport were provided by or reviewed and agreed to by the Department. Accordingly, the forecasts reflect the Department's current plans at the Airport (recognizing that these plans are subject to change during the projection period) and, in R&A's judgement and the judgment of the Department's management, fairly present the expected level of financial results during the projection period. While R&A believes the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not materialize. Achievement



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of projections described in this report, therefore, is dependent upon the occurrence of future events, and variations may be material. R&A has no responsibility to update this report for events or circumstances occurring after the date of this report.

Sincerely,

A handwritten signature in black ink that reads "Ricondo &amp; Associates, Inc." in a cursive, flowing script.

RICONDO & ASSOCIATES, INC.

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## I. Economic Base for Air Transportation

The demand for air transportation activity, to a large degree, depends upon the demographic and economic characteristics of an airport's air trade area (i.e., the geographical area primarily served by an airport). The correlation between activity at Los Angeles International Airport (the Airport or LAX) and the economic vitality of the surrounding region is particularly strong as most of the Airport's passenger activity is origin and destination (O&D) activity, meaning that passengers either begin or end their trips at the Airport (whether they reside, work, commute for work or vacation in the Los Angeles region), as opposed to connecting through the Airport to other airports. Based on detailed calculations using actual passenger data, O&D passengers accounted for approximately 75 percent of total passengers at the Airport in CY 2008.

This chapter profiles the Los Angeles regional economy, including current conditions and trends.<sup>1</sup> In particular, this chapter presents data that indicate that the Airport's air trade area has an economic base capable of supporting increased demand for air travel and freight services at the Airport during the projection period.

For the purposes of this Chapter, the "Air Trade Area" refers to the Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles CSA), except where noted otherwise. As presented in **Exhibit I-1**, the Air Trade Area is comprised of five counties: Los Angeles County, Orange County, Ventura County, Riverside County, and San Bernardino County.

### 1.1 Summary

**Table I-1** provides an overview of the key economic indicators presented and discussed in this chapter. A summary of key socioeconomic trends in the Air Trade Area includes the following:

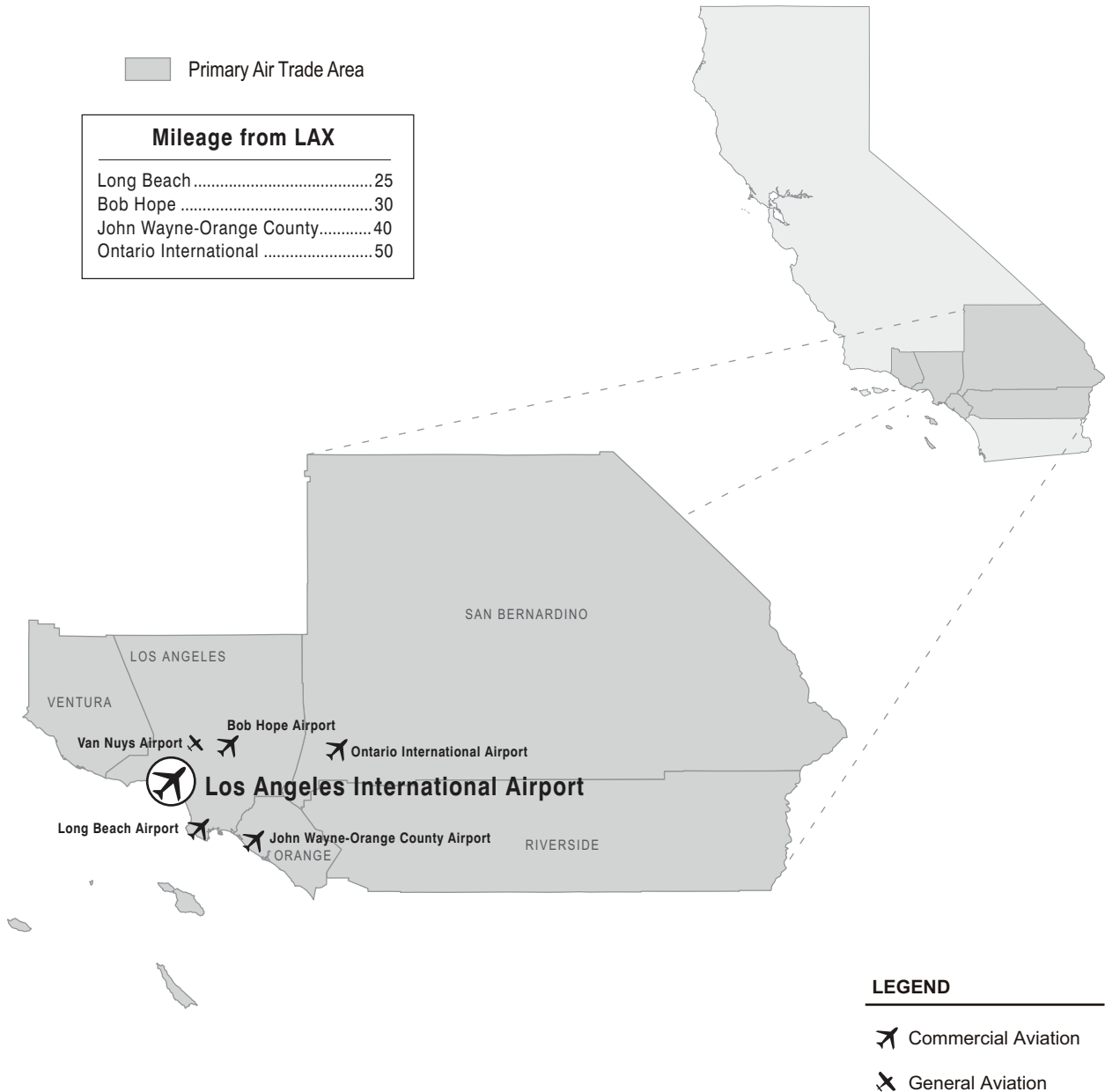
- **Population.** The Air Trade Area has a substantial population base with approximately 18.4 million residents in 2009. It is ranked as the second largest metropolitan area in the United States.<sup>2</sup> Population in the Air Trade Area increased at a compounded annual growth rate (CAGR) of 1.3 percent between 2000 and 2009, compared with 1.2 percent in California and 1.0 percent in the U.S. Between 2009 and 2015, population in the Air Trade Area is projected to increase at a rate comparable to that of both California and the U.S.
- **Income.** Median household income in the Air Trade Area in 2009 was 9.7 percent higher than that of the U.S.<sup>3</sup> and 2.6 percent lower than that of California. In addition, more than 2.2 million of the Air Trade Area's households earned more than \$75,000 in 2009, the income category that generates the greatest demand for airline travel according to the Travel Industry Association. As measured by the number of households with annual income of \$75,000 or more, the Air Trade Area is the second wealthiest market in the United States exceeded only by the New York-New Jersey-Bridgeport CSA. Income projections show continued growth in the number of the Air Trade Area's households with income greater than \$75,000 between 2009 and 2014. This suggests a continuing ability by the Air Trade Area's households to draw on discretionary income for spending on air travel.

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<sup>1</sup> This chapter has been prepared by Partners for Economic Solutions, a consulting firm based in Washington, D.C. that specializes in regional economic analysis.

<sup>2</sup> ESRI, Market Profile of the Los Angeles-Long Beach-Riverside Combined Statistical Area, May 2009.

<sup>3</sup> ESRI, Market Profile of the Los Angeles-Long Beach-Riverside Combined Statistical Area, May 2009.



Note: The Department maintains LA/Palmdale Regional Airport, although it is not currently certificated by the FAA.

Source: Map Resources 2007  
 Prepared by: Ricondo & Associates, Inc., August 2009.

**Exhibit I-1**

**LAX Air Trade Area**

**Table I-1**

Summary of Key Economic Indicators

	Air Trade Area	California	United States
<b>Note: Best performing numbers or rates in each row are shown in bold and underlined font</b>			
Population			
2000	16,438,250	34,004,051	282,194,308
2009 (Estimated)	18,432,448	37,933,734	309,731,508
2015 (Projected)	19,265,749	41,715,070	326,038,477
Population Growth <sup>1/</sup>			
2000-2009 (Estimated)	<b><u>1.3%</u></b>	1.2%	1.0%
2009-2015 (Estimated)	0.7%	0.8%	<b><u>0.9%</u></b>
Median Household Income			
2009 (Estimated)	\$60,030	<b><u>\$61,614</u></b>	\$54,719
2014 (Projected)	\$62,594	<b><u>\$64,088</u></b>	\$56,938
% 2009 Households in \$75,000-Above	38.3%	<b><u>39.6%</u></b>	33.3%
Growth In Civilian Labor Force <sup>1/</sup>			
1998-2008	<b><u>1.3%</u></b>	1.3%	1.1%
1998-2003	<b><u>1.5%</u></b>	<b><u>1.5%</u></b>	1.2%
2003-2008	<b><u>1.2%</u></b>	1.1%	1.1%
Unemployment Rate			
1998	5.8%	6.0%	<b><u>4.5%</u></b>
2003	6.4%	6.8%	<b><u>6.0%</u></b>
2008	7.2%	7.2%	<b><u>5.8%</u></b>
August 2009	12.3%	12.2%	<b><u>9.7%</u></b>
Growth in Nonagricultural Employment, 1998-2008 <sup>1/</sup>	1.1%	0.9%	<b><u>1.2%</u></b>
Employment By Industry, 2008			
Services	<b><u>44.9%</u></b>	44.0%	43.1%
Trade	<b><u>15.0%</u></b>	14.2%	14.6%
Fin/Ins/Real Estate	<b><u>11.2%</u></b>	10.5%	9.3%
Government	10.9%	13.0%	<b><u>13.6%</u></b>
Manufacturing	<b><u>8.6%</u></b>	7.6%	8.2%
Construction	6.2%	7.6%	<b><u>7.7%</u></b>
Transportation/Utilities	3.3%	2.9%	<b><u>3.6%</u></b>

Note:

1/ Compounded annual growth rate.

Sources: Various sources indicated on Tables I-3 through I-13 of this chapter

Prepared by: Partners for Economic Solutions, September 2009

- **Unemployment.** The seasonally adjusted annual unemployment rates for the Air Trade Area have been below those for the State of California in all years from 1998 through 2008 with the exception of 2000 and 2008 when they were equal. When the same comparison is made to the U.S., the Air Trade Area's unemployment rate was higher from 1998 through 2004, lower in 2005 and 2006, and then higher again in both 2007 and 2008. In August 2009 (latest data available), the non-seasonally adjusted unemployment rate for the Air Trade Area was 12.3 percent. This is above the rate in California overall where the seasonally adjusted unemployment rate was 12.2 percent. The seasonally adjusted unemployment rate for the U.S. was 9.7 percent in August 2009.<sup>4</sup>
- **Nonagricultural Employment.** Nonagricultural employment in the Air Trade Area grew by a CAGR of 1.1 percent during the 1998-2008 period, compared with 0.9 percent for the State of California and 1.2 percent for United States during this period. Measured by percentages, employment in major industry divisions (services, trade, manufacturing, transportation, utilities, etc.) in the Air Trade Area is generally consistent with that of California and the U.S. and indicate that the Air Trade Area has a diversified employment base.

As evidenced by the points above and the data reflected in Table I-1, the economic base of the Air Trade Area is relatively stable and diversified, and is capable of supporting the projected air transportation activity at the Airport (shown on Table II-25 of this report). This projected demand is supported by strong projected population growth, projected household income growth, a significant percentage of households in higher income categories, labor force growth, and growth in nonagricultural employment, as well as other key socioeconomic points regarding the Air Trade Area summarized below:

- **Potential Housing Market Stabilization.** Since 2008, foreclosure activity has been a major driver of home sales in the Air Trade Area, especially in Riverside and San Bernardino Counties. Although recovery in the Air Trade Area's housing market remains difficult to forecast, signs of stabilization are appearing. In addition, State and federal tax credit programs for first-time buyers have helped propel sales in the Air Trade Area, most notably for homes priced below \$500,000.<sup>5</sup>
- **Diversified Economy.** In spite of the current recession, the Air Trade Area's economy remains one of the nation's most dynamic and diverse. Basic industries extend far beyond the familiar three tiers of aerospace, entertainment and tourism that are typically associated with the Air Trade Area's economy. The 18 major industries that provide the Air Trade Area's economic base range from health services and bio-medicine to apparel design and toy manufacturing.<sup>6</sup> The Air Trade Area's diverse economy yielded more than \$793 billion in gross regional product in 2008 — accounting for more than 46 percent of California's gross state product in that year.<sup>7</sup> The distribution among the categories of nonagricultural employment in the Air Trade Area generally mirrored that of the nation in 2008, providing the area with an economic base as diversified as the national economy.

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<sup>4</sup> 2009 seasonally adjusted unemployment data for the Air Trade Area will be released in 2010.

<sup>5</sup> "July Sales and Price Report," California Association of Realtors, August 25, 2009, <http://www.car.org/newsstand/newsreleases/julysalesandpricereport>, accessed August 27, 2009.

<sup>6</sup> L.A. Stats, Los Angeles County Economic Development Corporation, April 2009.

<sup>7</sup> Woods & Poole Economics, Inc., *2008 Complete Economic and Demographic Data*.

- **Large Number of Fortune 500 Companies Stimulates Demand for Business Travel.** In 2009, 19 companies in the Air Trade Area were listed among the top 500 U.S. companies by *Fortune* magazine when ranked by annual revenue. The Air Trade Area has the fifth highest number of Fortune 500 headquarters in the United States. Major companies that are headquartered in the Air Trade Area include Walt Disney, Northrop Grumman, Amgen, and Mattel.
- **Extensive International Business Network.** Data indicate that 255 companies in the Air Trade Area have 3,692 branches, subsidiaries, or affiliates in foreign countries. In addition, 998 foreign firms have 1,882 branches, subsidiaries, or affiliates in the Air Trade Area.<sup>8</sup> In 2008, total trade activity (both imports and exports) between the Los Angeles Customs District and the rest of the world was valued at \$431.9 billion.<sup>9</sup> Over \$78.7 billion in goods from the Los Angeles Customs District<sup>10</sup> were conveyed by air (18 percent of the total), and the Los Angeles Customs District accounted for more than 59 percent of California's total trade by air.
- **Diversified Population.** The Air Trade Area's population is very diverse: 49.4 percent of the region's residents are non-white, compared with 28.0 percent for the nation as a whole. Persons of Hispanic origin make up 46.6 percent of the Air Trade Area's population, compared with 15.7 percent in the U.S.<sup>11</sup> This population diversity serves as a source of demand for both domestic and international air travel. According to survey data from the Travel Industry Association and Claritas Inc., ethnically and racially diverse social groups show stronger proportional demand for air travel compared to their share of total U.S. households.<sup>12</sup>
- **Significant Tourism Stimulates Demand for Leisure Travel.** The Air Trade Area offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. Approximately 25.6 million people traveled to the Air Trade Area in 2008 and generated \$13.8 billion in overnight visitor spending.<sup>13</sup>

The broad economic base of the Air Trade Area summarized above has contributed to the Airport's position as one of the busiest airports worldwide in 2008 in terms of passengers and cargo tonnage.<sup>14</sup> The strength of key socioeconomic factors for the Air Trade Area (large population, high household

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<sup>8</sup> *Directory of American Firms Operating in Foreign Countries*, 20<sup>th</sup> edition, Uniworld Business Publications, Inc., 2009; *Directory of Foreign Firms Operating in the United States*, 14<sup>th</sup> edition, Uniworld Business Publications, Inc., 2008.

<sup>9</sup> FT 920 U.S. Merchandise Trade: Selected Highlights February 2009, U.S. Dept. of Commerce, Bureau of the Census, [www.census.gov/foreign-trade/Press-Release/2008pr/12/ft920](http://www.census.gov/foreign-trade/Press-Release/2008pr/12/ft920), accessed June 23, 2009.

<sup>10</sup> Detailed trade data (commodity, value, air value, vessel value) are tracked by Customs District and are published by the Foreign Trade Division of the U.S. Department of Commerce. These data can be used to make regional comparisons of total imports and exports, or imports and exports of particular commodities. The U.S. is classified into 55 Customs Districts, three of which are in California.

<sup>11</sup> ESRI, Market Profile of the Los Angeles-Long Beach-Riverside Combined Statistical Area, May 2009.

<sup>12</sup> See Section 1.3.3.

<sup>13</sup> Los Angeles Convention and Visitors Bureau, Los Angeles Tourism by Numbers: 2008 Quick Facts, <http://discoverlosangeles.com/business-services/research-and-reports/LAquickfacts08.pdf>, accessed June 23, 2009.

<sup>14</sup> Based on statistics from Airports Council International (ACI), <http://www.airports.org>, Data Centre, Traffic Data, accessed July 23, 2009.

income, diverse population) create a source of demand for air travel at the Airport. In addition, the Air Trade Area's mild climate and visitor attractions make it a top domestic and international air travel destination.

Although the Air Trade Area is well-positioned with a broad and diverse economic base, it still remains subject to overall economic conditions in the U.S. The national recession that began in December 2007 has been characterized by steep declines in housing construction, consumer spending and business investment. Recent surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics indicate consensus for a modest rebound in national real GDP growth by the end of 2009 and moderate economic recovery in 2010.<sup>15</sup>

Similar to forecasts from NABE and Blue Chip Economic Indicators, a recent report from the Los Angeles County Economic Development Corporation (LAEDC) projects that unemployment rates in both California and the Air Trade Area will remain elevated in 2010. LAEDC forecasts the majority of job losses in both California and the Air Trade Area will occur in the manufacturing, retail trade, construction, and finance/insurance/real estate industries. As with the U.S. overall, growth in California and the Air Trade Area is expected to resume in 2010 as household spending stabilizes and businesses bring production capacity and inventory stocks into alignment with sales.<sup>16</sup>

As described in more detail in Section 1.8 below and in Section 2.7 of this report, the methodologies employed in projecting airline traffic activity at the Airport included (among other methodologies) statistical linear regression modeling, which utilized certain local socioeconomic factors discussed in this chapter as the independent variable and enplanements as the dependent variable. As described in Section 2.7, the projection of enplanements using regression modeling with local socioeconomic factors provided a comparison benchmark for the ultimate projection of enplanements. The ultimate projection of enplanements incorporated in this report and the accompanying financial tables (in Chapter 4) resulted in a similar CAGR for FY 2009 to FY 2016 relative to the CAGR for each of the projections based on regression modeling with socioeconomic factors.

In addition, specific assumptions regarding the timing of economic recovery in the Air Trade Area and the State (described in Section 1.7 below) were incorporated into projections of airline activity (described in Section 2.7). Given the level of uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation, projected passenger enplanements at the Airport are conservatively assumed to recover at a slower pace than previously experienced following past U.S. recessions and as recently as those experienced at the Airport in FY 2004 and FY 2005.

## **1.2 Air Trade Area<sup>17</sup>**

The Air Trade Area is served by five major passenger service airports: LAX; Bob Hope Airport in Burbank (BUR); Long Beach Airport (LGB); LA/Ontario International Airport (LA/ONT); and John Wayne Airport (SNA) in Orange County. Each of the five airports caters to particular types of

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<sup>15</sup> *NABE Outlook*, May 2009, National Association for Business Economics; *Blue Chip Economic Indicators*, Vol. 34, No. 9 September 10, 2009, Aspen Publishers.

<sup>16</sup> *2009-2010 Mid-Year Update: Economic Forecast and Industry Outlook*, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation, July 2009.

<sup>17</sup> The Air Trade Area refers to the Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles CSA) which is comprised of Los Angeles County, Orange County, Ventura County, Riverside County, and San Bernardino County.

passenger demand, owing to each facility's geographic proximity to businesses and population concentrations in the Air Trade Area, as well as to the availability of specific types of air services. The BUR, LGB, LA/ONT, and SNA airports draw passengers primarily from their surrounding areas for short- and medium-haul domestic service. LA/Palmdale Regional Airport (LA/PMD), which is located approximately 60 miles north of LAX in northeast Los Angeles County, no longer offers commercial air service.

Because of its significantly greater capacity, LAX captures demand from the entire Air Trade Area for international service and for most long-haul domestic trips. Exhibit I-1 graphically illustrates the location of the Air Trade Area within the State of California, and the location of the five commercial service airports within the Air Trade Area. The Air Trade Area is also served by Van Nuys Airport (VNY), a general aviation airport located in the San Fernando Valley, approximately 26 miles from LAX.

### 1.3 Demographic Profile

Data for population growth, age distribution, race, ethnicity, and educational attainment for the Air Trade Area are discussed below and are presented in Tables I-3 through I-6 which follow. Parallel data for California and the U.S. are also shown to provide a basis of comparison for trends in the Air Trade Area.

#### 1.3.1 Population Growth

As measured by population, the Air Trade Area, with just over 18.4 million people in 2009, is the second-largest of the 126 Combined Statistical Areas (CSA) in the United States. Only the New York-New Jersey-Bridgeport CSA, with approximately 22.2 million people, represents a larger market for air transportation. Further, the Air Trade Area has approximately 8.4 million more people than the third-largest consolidated market in the United States (the Chicago-Naperville-Michigan City CSA). (See **Table I-2**.)

**Table I-2**  
Population for Major Consolidated US Markets (2009)

Rank	Combined Statistical Area	Estimated Population
1	New York-Newark-Bridgeport	22,227,2845
<b>2</b>	<b>LOS ANGELES-LONG BEACH-RIVERSIDE</b>	<b>18,432,448</b>
3	Chicago-Naperville-Michigan City	9,980,213
4	Washington-Baltimore-Northern Virginia	8,428,585
5	Boston-Worcester-Manchester	7,540,533

Source: ESRI, May 2009  
Prepared by: Partners for Economic Solutions, August 2009

Population growth is a key factor creating demand for air travel. According to the 2000 U.S. Census, the Air Trade Area had a population of more than 16 million; and by 2009 it had increased to more than 18.4 million. (See **Table I-3**.) The Air Trade Area added 1,994,198 to its population between

**Table I-3**  
Population Trends (2000-2020)

	Historical		Projected	
	2000	2009	2015	2020
Air Trade Area	16,438,250	18,432,448	19,265,749	20,252,264
California	34,004,051	37,933,734	39,675,945	41,715,070
United States	282,194,308	309,731,508	326,038,477	342,020,014
<b>Compounded Annual Growth Rate</b>		<b>2000-2009</b>	<b>2009-2015</b>	<b>2015-2020</b>
Air Trade Area		1.3%	0.7%	1.0%
California		1.2%	0.8%	1.0%
United States		1.0%	0.9%	1.0%

Source: Woods & Poole Economics Inc., November 2008; ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009



2000 and 2009 (or, over 221,000 per year), and its compounded annual growth rate (CAGR) over the nine-year period was similar to that of both California and the U.S. In 2009 the Air Trade Area accounted for 48.6 percent of California's population, and 6.0 percent of the U.S. population.

The Air Trade Area population forecast for the period 2009 to 2015 reflects a CAGR of 0.7 percent per year, nearly equaling the forecasted CAGR for California (0.8 percent) and for the U.S. (0.9 percent). It is expected that an increase in new residents in the Air Trade Area (833,301 between 2009 and 2015 and 986,515 between 2015 and 2020) will generate additional demand for air service at the Airport.

### **1.3.2 Age Distribution**

**Table I-4** shows that the median age in the Air Trade Area in 2009 (33.2 years) was lower than in both California (34.3 years) and the U.S. (36.9 years). This reflects a higher percentage of residents aged 19 years and below and a lower percentage of residents aged 55 years and above.

Business and leisure air travel frequency varies by age group. According to the Travel Industry Association's 2006 *Domestic Travel Market Report* (latest data available), in the U.S. persons between the ages of 35 and 54 account for 46 percent of air trips, compared with persons between 18 and 34 years (26 percent of total air trips) and persons 55 years and over (27 percent).

In 2009, Air Trade Area residents aged 35 to 54 made up 27.6 percent of the population, compared with 27.9 percent of the population in California and 28.3 percent in the U.S. This is the age group that tends to travel the most, particularly for business, and is represented in the Air Trade Area on a level commensurate with the population in both California and the U.S.

### **1.3.3 Population Diversity**

The Air Trade Area's diverse population strengthens the competitiveness of the region and also contributes to demand for air travel. In a global economy, cultural diversity within a region's labor force is a distinct economic advantage, since employees with cultural and linguistic ties to international markets give companies an edge in establishing trade and investment opportunities.<sup>18</sup> A culturally diverse population also engenders business, family, and cultural ties that create demand for air travel services to and from homeland countries. Survey data from the Travel Industry Association and Claritas Inc. indicate that several ethnically and racially diverse social groups show stronger proportional demand for air travel compared to their share of total U.S. households.<sup>19</sup>

As shown in **Table I-5**, the racial and ethnic composition of the Air Trade Area differs from that of California and of the nation as a whole. Data in Table I-5 show that the percentage of white residents in the Air Trade Area in 2009 (50.6 percent) was somewhat lower than that of California (54.5 percent), and significantly lower than the percentage in the U.S. overall (72.0 percent). Asians constituted a much larger share (11.6 percent) of the Air Trade Area's population compared with the U.S. (4.7 percent), but constituted a slightly smaller percentage when compared with California (12.5 percent). Black or African Americans represented 6.9 percent of Air Trade Area residents, compared with 6.2 percent of California's population and 12.7 percent of the U.S. population.

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<sup>18</sup> Frederic Docquier, "Skilled Migration and Business Networks", *Open Economies Review*, October 2008.

<sup>19</sup> 2006 *Domestic Travel Market Report*, Travel Industry Association.

**Table I-4**  
Age Distribution (2009)

	Air Trade Area	California	United States
Total Population	18,432,448	37,933,734	309,731,508
By Age Group:			
19 and Under	30.2%	29.0%	27.2%
20 – 24	7.5%	7.4%	6.9%
25 – 34	14.7%	14.5%	13.3%
35 – 44	14.0%	13.9%	13.7%
45 – 54	13.6%	14.0%	14.6%
55 – 64	9.7%	10.3%	11.4%
65 and Above	10.3%	10.9%	12.9%
Total	100.0%	100.0%	100.0%
Median Age	33.2	34.3	36.9

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

**Table I-5**  
Population by Race and Ethnicity (2009)

	Air Trade Area	California	United States
Total Population	18,432,448	37,933,734	309,731,508
<b>Race</b>			
White	50.6%	54.5%	72.0%
Black or African American	6.9%	6.2%	12.7%
American Indian and Alaska Native	0.8%	0.9%	0.9%
Asian or Pacific Islander	11.6%	12.5%	4.7%
Other Race	24.3%	19.8%	6.8%
More than One Race	5.8%	6.1%	2.9%
Total	100.0%	100.0%	100.0%
Persons of Hispanic Origin <sup>1/</sup>	46.6%	38.3%	15.7%

Note:

1/ Population data are broken down into U.S. Census defined race groups. Hispanic population is not a race group but rather a description of ethnic origin. Hispanics are included in all of the Census defined race groups.

Sources: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

The percentage of Hispanics in the Air Trade Area is dramatically higher than in California or the U.S. overall. As shown in Table I-5, in 2009 46.6 percent of Air Trade Area were Hispanic, compared with 38.3 percent statewide and 15.7 percent nationally.

### **1.3.4 Education**

In absolute terms, the Air Trade Area is home to a large number of educated adults. According to data shown in **Table I-6**, more than 3.9 million people, or more than 34 percent of the Air Trade Area population over the age of 25 have a post-secondary degree (associate, bachelor's, graduate or professional). Although this percentage is nearly identical to that of the U.S. overall, it lags the percentage in California as a whole, where 36.6 percent of the population over the age of 25 have post-secondary degrees.

In the Air Trade Area, 3.9 million residents over the age of 25 hold a bachelor's degree, a graduate degree, or a professional degree. According to the Travel Industry Association's 2006 *Domestic Travel Market Report* (latest data available), persons with a college degree are more likely to use air service. The survey data indicate that 56 percent of air travelers are college graduates, while 24 percent have had some college and just 20 percent never attended college.<sup>20</sup>

## **1.4 Income**

Because 30.2 percent of the Air Trade Area's 18.4 million residents in 2009 were 19 years of age or younger (compared with 29.0 percent in California and 27.2 percent in the U.S. — see age distribution data in Table I-4), and because the majority of this group was presumably still in school and not full-time workers, or hold entry-level jobs, the 2009 per capita income figures for the Air Trade Area are skewed with a downward bias and slightly lagged those of California, although they closely matched those of the U.S. (See **Table I-7**). However, the Air Trade Area's estimated 2009 median household income is significantly higher than that of the U.S., but is lower than California's. In 2009, the Air Trade Area's median household income of \$60,030 was 9.7 percent higher than that of the U.S. (\$54,719) and 2.7 percent lower than California's (\$61,614). Income forecasts for 2014 show that this trend is expected to continue as the Air Trade Area will reach a median household income level of \$62,594, compared to \$64,088 in California and \$56,938 in the U.S.

For the purpose of assessing the Air Trade Area as an air travel market, it is useful to examine the distribution of high income households rather than per capita income data. As measured by the number of households with annual income of \$75,000 or more, the Air Trade Area is the second wealthiest market in the United States exceeded only by the New York-New Jersey-Bridgeport CSA (see **Table I-8**). In 2009, an estimated 2.2 million Air Trade Area households have an income of \$75,000 or more. According to the Travel Industry Association's 2006 *Domestic Travel Market Report* (latest data available), 62 percent of airplane trips are taken by travelers with an annual household income of \$75,000 or more. Data in **Table I-9** show that between 2009 and 2014, the number of households with income greater than \$75,000 in the Air Trade Area is projected to increase by 180,153.

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<sup>20</sup> 2006 *Domestic Travel Market Report*, Travel Industry Association.

**Table I-6**

Educational Attainment (2009)

	Air Trade Area	California	United States
Population 25 years and over	11,464,486	24,131,967	203,796,862
Less than 9th Grade	12.3%	10.5%	6.5%
9th - 12th Grade, No Diploma	10.8%	9.7%	9.7%
High School Graduate	22.5%	22.2%	29.8%
Some College, No Degree	20.1%	21.0%	19.9%
Post-Secondary Degree	34.3%	36.6%	34.1%
<i>Associate Degree</i>	7.2%	7.5%	7.2%
<i>Bachelor's Degree</i>	17.8%	18.7%	17.1%
<i>Graduate/Professional Degree</i>	9.3%	10.4%	9.8%
Total	100.0%	100.0%	100.0%

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

**Table I-7**  
**Income Trends (2009-2014)**

	Air Trade Area	California	United States
<u>Per Capita Income</u>			
2009 estimate	\$25,727	\$28,199	\$27,277
2014 forecast	\$26,838	\$29,471	\$28,494
CAGR 2009-2014	0.8%	0.9%	0.9%
<u>Median Household Income</u>			
2009 estimate	\$60,030	\$61,614	\$54,719
2014 forecast	\$62,594	\$64,088	\$56,938
CAGR 2009-2014	0.8%	0.8%	0.8%

Note: CAGR = Compounded annual growth rate

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

**Table I-8**

Households with Income of \$75,000 or More (2009)

Rank	Combined Statistical Area	Estimated Households with Income of \$75,000 or More
1	New York-Newark-Bridgeport	3,631,663
<b>2</b>	<b>LOS ANGELES-LONG BEACH-RIVERSIDE</b>	<b>2,247,039</b>
3	Washington-Baltimore-Northern Virginia	1,600,223
4	Chicago-Naperville-Michigan City	1,573,714
5	San Jose-San Francisco-Oakland	1,471,239

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, August 2009

## 1.5 Employment

### 1.5.1 1998-2008 and July 2009 Labor Force Trends and Unemployment Rates

**Table I-10** shows that between 1998 and 2008, the Air Trade Area labor force grew at a CAGR of approximately 1.6 percent — higher than the labor force CAGR in both California (1.5 percent), and the U.S. (1.2 percent). In absolute terms, the labor force in the Air Trade Area increased by 1,099,000 workers between 1998 and 2008.

Although the seasonally adjusted annual unemployment rate in the Air Trade Area exceeded that of the U.S. from 1998 through 2004, it was lower than the national unemployment rate in 2005 and 2006, and was higher again in both 2007 and 2008. The Air Trade Area’s unemployment rate was lower than the State’s in all years from 1998 through 2008 with the exception of 2000 and 2008 when they were equal.

In August 2009 (latest data available), the unemployment rate for the Air Trade Area was 12.3 percent (non-seasonally adjusted).<sup>21</sup> This is higher than the rate for California overall where the unemployment rate was 12.2 percent (seasonally adjusted). The unemployment rate for the U.S. was 9.7 percent in August 2009 (seasonally adjusted).

### 1.5.2 Major Employers in the Air Trade Area

As shown in **Table I-11**, major private sector employers in the Air Trade Area include internationally dominant aerospace companies (Boeing, Lockheed, Northrop Grumman), pharmaceutical and biotechnology companies (Allergan, Amgen, Baxter Healthcare), Walt Disney, a regional grocery chain, health care providers, and national retailers. In addition to providing a major source of local employment, these companies depend on air passenger and freight service for the continued health and expansion of their business enterprises. LAX’s role as an international passenger and air cargo hub make it an important resource for large employers in the Air Trade Area.

The Air Trade Area is headquarters for 19 companies on the list of Fortune 500 firms by annual revenue (see **Table I-12**). These companies operate throughout the U.S., Asia, Europe, and other

<sup>21</sup> 2009 seasonally adjusted unemployment data for the Air Trade Area will be released in 2010.

**Table I-9**

Households with Income of \$75,000 and Above (2009-2014)

Location	2009 (Estimate)	2014 (Forecast)	CAGR 2009-2014
Air Trade Area	2,247,039	2,427,192	180,153
California	5,011,045	5,424,014	412,969
United States	38,821,890	42,403,938	3,582,048

Note: CAGR = Compounded annual growth rate

Source: ESRI, May 2009

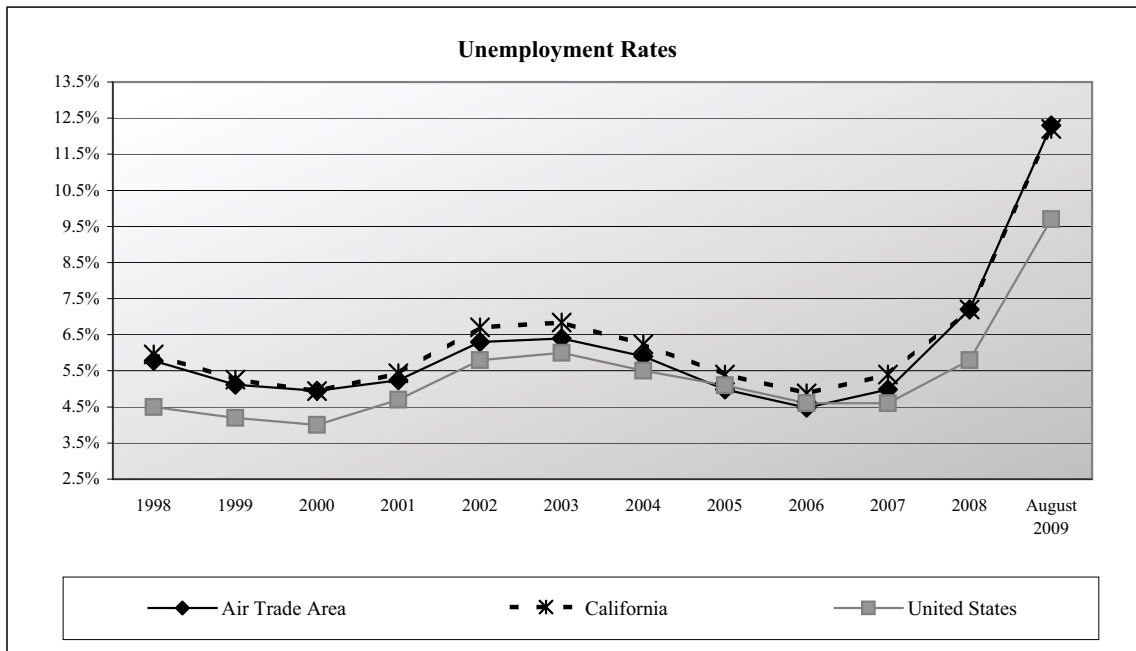
Prepared by: Partners for Economic Solutions, September 2009



**Table I-10**

Civilian Labor Force and Unemployment Rates (1998-2009)

Civilian Labor Force				Unemployment Rates			
Year	Air Trade Area	California	United States	Year	Air Trade Area	California	United States
1998	7,739,300	16,166,900	137,673,000	1998	5.8%	6.0%	4.5%
1999	7,875,900	16,430,600	139,368,000	1999	5.1%	5.3%	4.2%
2000	7,969,500	16,857,500	140,863,000	2000	4.9%	4.9%	4.0%
2001	8,139,800	17,152,100	141,815,000	2001	5.2%	5.4%	4.7%
2002	8,252,700	17,343,600	144,448,000	2002	6.3%	6.7%	5.8%
2003	8,336,900	17,418,700	146,233,000	2003	6.4%	6.8%	6.0%
2004	8,451,500	17,538,800	148,164,000	2004	5.9%	6.2%	5.5%
2005	8,588,000	17,740,400	148,843,000	2005	5.0%	5.4%	5.1%
2006	8,680,100	17,901,900	152,196,000	2006	4.5%	4.9%	4.6%
2007	8,778,700	18,188,100	153,124,000	2007	5.0%	5.4%	4.6%
2008	8,838,300	18,391,800	154,287,000	2008	7.2%	7.2%	5.8%
August 2009	8,807,500	18,391,000	154,577,000	August 2009	12.3%	12.2%	9.7%
<b>Compounded Annual Growth Rate</b>							
1998 - 2008	1.6%	1.5%	1.2%				



Note: August 2009 data for the Air Trade Area are not seasonally adjusted; 2009 seasonally adjusted unemployment data for the Air Trade Area will be released in 2010

Sources: State of California Employment Development Department, Labor Market Information; U.S. Dept. of Labor, Bureau of Labor Statistics, September 2009

Prepared by: Partners for Economic Solutions, September 2009

**Table I-11**

**Major Private Sector Employers in the Air Trade Area**

Company Name	Industry	Location(s)
ABM Industries	Facility Services	Commerce
Allergan	Pharmaceuticals	Irvine
Amgen	Biotechnology	Thousand Oaks
AT&T Inc.	Telecommunications	Cerritos, Los Angeles, Anaheim
Bank of America	Financial Services	Brea, Los Angeles
Baxter Healthcare	Medical Devices	Westlake Village
Boeing	Aerospace	El Segundo, Huntington Beach, Seal Beach
CVS Caremark	Health Care	La Habra
Edison International	Utility	Rosemead
Fedex Corp.	Delivery Services	Los Angeles
First American Corp.	Title Insurance	Santa Ana
Fluor	Engineering Services	Aliso Viejo
Kaiser Permanente	Health Care	Anaheim, Panorama City, Pasadena, Fontana
Kroger	Grocery Retailer	Compton, Santa Ana
Lockheed Martin	Defense Systems	Palmdale
Northrop Grumman	Defense Systems	Los Angeles
Stater Bros. Holdings Inc.	Grocery Retailer	Colton
Target	Retailer	Los Angeles, Santa Ana, Fontana
The Home Depot	Retailer	Orange
The Irvine Company	Real Estate Development	Newport Beach
United Health Group	Health Care	Irvine
United Parcel Service	Delivery Services	Los Angeles
Verizon Communications Inc.	Telecommunications	Long Beach, Huntington Beach, Pomona
Vons	Grocery Retailer	Arcadia
Walmart	Retailer	San Bernardino
Walt Disney	Entertainment	Burbank, Anaheim
Wells Fargo	Financial Services	Los Angeles, Irvine
Yum Brands	Restaurants	Irvine

Sources: *The Lists 2009*, January 2009, Los Angeles Business Journal; *2009 Book of Lists*, January 2009, Orange County Business Journal; Major Employers in Riverside County, San Bernardino County, Ventura County, Employment Development Department, State of California, September 2009

Prepared by: Partners for Economic Solutions, September 2009

**Table I-12**

**Fortune 500 Headquarters Located in the Air Trade Area**

Company	Industry	Headquarters	Revenue (\$ million)	Fortune 500 Rank
Walt Disney	Entertainment	Burbank	37,843	60
Ingram Micro	Technology	Santa Ana	34,362	67
Northrop Grumman	Aerospace	Los Angeles	33,940	69
Occidental Petroleum	Energy	Los Angeles	24,480	98
DIRECTV Group	Telecommunications	El Segundo	19,693	126
Health Net	Health Care	Woodland Hills	15,366	165
Amgen	Biotechnology	Thousand Oaks	15,003	168
Edison International	Utility	Rosemead	14,112	184
Jacobs Engineering Group	Engineering	Pasadena	11,252	241
Reliance Steel & Alum.	Steel	Los Angeles	8,718	298
Western Digital	Technology	Lake Forest	8,074	319
Dole Food	Food Processing	Westlake Village	7,732	329
Avery Dennison	Paper Products	Pasadena	6,710	376
First American Corp.	Financial Services	Santa Ana	6,213	398
Mattel	Toy Manufacturing	El Segundo	5,918	415
DaVita	Health Care	El Segundo	5,660	433
AECOM Technology	Engineering	Los Angeles	5,216	458
CB Richard Ellis Group	Real Estate Services	Los Angeles	5,130	464
Broadcom	Technology	Irvine	4,658	495
<b>Total Revenue</b>			<b>270,080</b>	

Source: *Fortune*, May 4, 2009

Prepared by: Partners for Economic Solutions, September 2009

international locations and their activities extend to a network of more than 947 overseas offices, manufacturing plants, and other facilities.<sup>22</sup> The reliance of these companies and their international suppliers, customers, and partners on face-to-face meetings and conferences, combined with their just-in-time inventory practices, suggests that the Air Trade Area will continue to be a significant source of demand for both business air travel and air freight shipments over the long term.

Two hundred fifty-five Air Trade Area companies have 3,692 branches, subsidiaries, or affiliates in foreign countries. In addition, 998 foreign firms have 1,882 branches, subsidiaries, or affiliates in the Air Trade Area.<sup>23</sup>

### 1.5.3 Historical Employment Trends by Industry

An analysis of nonagricultural employment trends by major industry divisions, presented in **Table I-13**, indicates the sources of jobs in the local economy. In this table, employment trends in the Air Trade Area are compared to data for California and the U.S. in 2000 and 2008. Non-agricultural employment in the Air Trade Area increased from approximately 9.1 million workers in 2000 to more than 9.9 million workers in 2008. This increase represents a 1.1 percent CAGR during this period. Measured by percentages, major industry divisions in the Air Trade Area in 2008 were largely consistent with those of California and the U.S. and indicate that the Air Trade Area has a diversified employment base that is expected to provide the region with a foundation for recovery following periodic downturns in the business cycle.

#### 1.5.3.1 Construction

The construction industry employed more than 621,000 workers in the Air Trade Area in 2008, accounting for 6.2 percent of total nonagricultural employment. This percentage is lower than in California and the U.S. where construction jobs accounted for 7.6 percent and 7.7 percent respectively of nonagricultural employment in 2008.

Development projects for public facilities are providing support to the construction industry in the Air Trade Area. Examples of current projects include:

- **Port of Long Beach \$750 Million Middle Harbor Redevelopment Project.** The \$750 million Middle Harbor Redevelopment Project has a 10-year build-out period and will expand and combine two existing container cargo terminals to create a 342-acre facility.<sup>24</sup>
- **UCLA Life Sciences Building.** The 175,000 square-foot, \$122.9 million UCLA Life Sciences Building will be the new home of UCLA's Biological Sciences Department.<sup>25</sup>
- **California State University Long Beach Research and Science Building.** This \$86.8 million, 160,000 square-foot building will provide facilities for the university's biology, physics, sciences, chemistry and geology departments.<sup>26</sup>

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<sup>22</sup> *Directory of American Firms Operating in Foreign Countries*, 20<sup>th</sup> edition, Uniworld Business Publications, Inc., 2009.

<sup>23</sup> *Directory of American Firms Operating in Foreign Countries*, 20<sup>th</sup> edition, Uniworld Business Publications, Inc., 2009; *Directory of Foreign Firms Operating in the United States*, 14<sup>th</sup> edition, Uniworld Business Publications, Inc., 2008.

<sup>24</sup> Middle Harbor Redevelopment Project Fact Sheet, [www.polb.com](http://www.polb.com), accessed June 25, 2009.

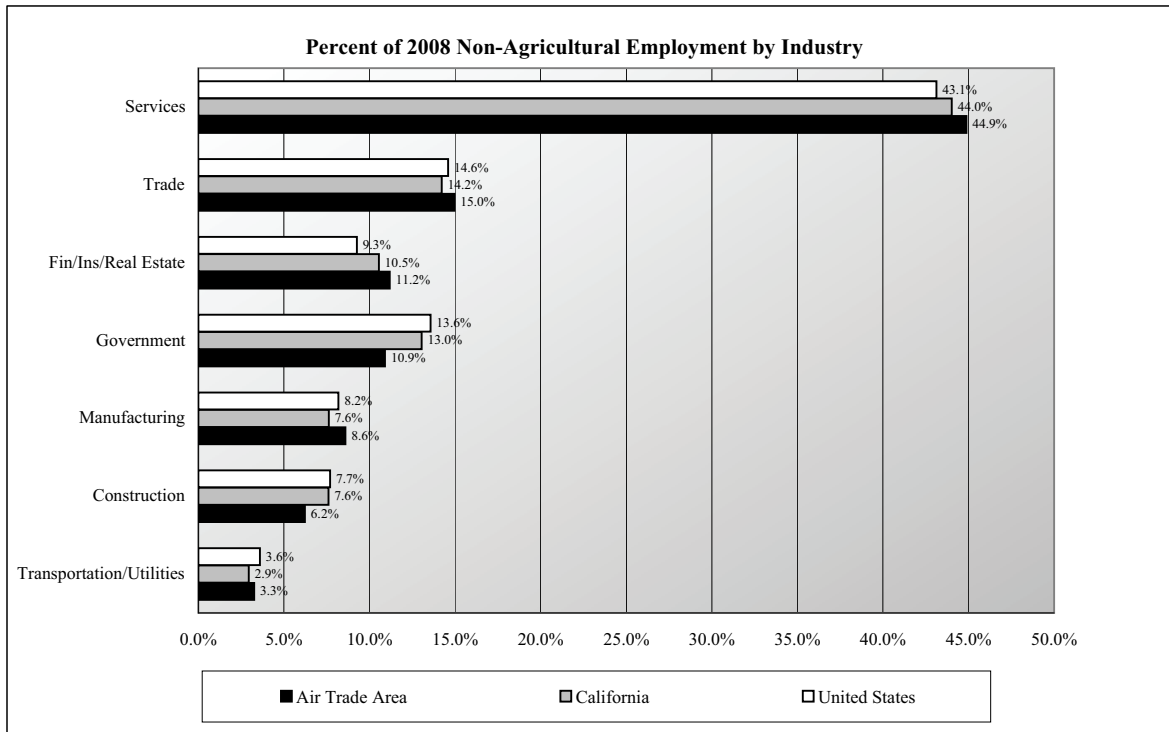
<sup>25</sup> 2008 Top Projects in California, [www.california.construction.com](http://www.california.construction.com), accessed June 25, 2009.

<sup>26</sup> "Hunt Breaks Ground on California State University, Long Beach Hall of Science," Press Room, Hunt Construction Group, [www.huntconstructiongroup.com](http://www.huntconstructiongroup.com), accessed June 25, 2009.

**Table I-13**

Employment Trends by Major Industry Division (2000-2008)

Industry <sup>1/</sup>	Air Trade Area			California			United States		
	2000	2008	CAGR	2000	2008	CAGR	2000	2008	CAGR
Services	4,037,659	4,472,424	1.3%	8,400,863	9,141,680	1.1%	67,029,090	77,524,202	1.8%
Trade	1,340,076	1,492,213	1.4%	2,729,592	2,951,244	1.0%	24,856,334	26,220,042	0.7%
Manufacturing	1,055,997	856,403	-2.6%	1,972,529	1,581,564	-2.7%	17,856,195	14,701,709	-2.4%
Government	1,031,635	1,086,252	0.6%	2,560,477	2,709,812	0.7%	22,944,000	24,381,336	0.8%
Fin/Ins/Real Estate	808,683	1,114,283	4.1%	1,654,722	2,190,495	3.6%	13,110,589	16,650,533	3.0%
Transportation/Utilities	323,915	325,303	0.1%	636,173	612,408	-0.5%	6,136,759	6,476,447	0.7%
Construction <sup>2/</sup>	504,120	621,118	2.6%	1,341,730	1,578,974	2.1%	11,712,702	13,821,384	2.1%
<b>Total</b>	<b>9,102,085</b>	<b>9,967,996</b>	<b>1.1%</b>	<b>19,296,086</b>	<b>20,766,177</b>	<b>0.9%</b>	<b>163,645,669</b>	<b>179,775,653</b>	<b>1.2%</b>



Notes:

1/ Non-agricultural employment only; average annual employment data presented

2/ Includes mining and forestry employment.

CAGR = Compounded Annual Growth Rate

Source: Woods & Poole Economics Inc., November 2008

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- **Mission Hospital Critical Care Facility.** This \$67 million four-level tower will provide Mission Viejo and surrounding Orange County communities with advanced high-tech diagnostic and critical care services.<sup>27</sup>
- **The Broad CIRM Center at the University of Southern California.** This \$65 million, 93,000 square-foot facility at USC's Health Sciences Campus is the the first stem cell research facility to break ground with funding from the California Institute for Regenerative Medicine (CIRM).<sup>28</sup>

### 1.5.3.2 Manufacturing

With 856,400 manufacturing workers, the Air Trade Area has the highest number of jobs in this industry compared to any other region in the U.S.<sup>29</sup> The diversity of the Air Trade Area's economy extends to the manufacturing sector where businesses range from aerospace and defense contractors to computer equipment, electronics, pharmaceuticals, medical devices, and many other types of specialized products. In 2008, manufacturing jobs made up 8.6 percent of nonagricultural employment in the Air Trade Area. This is higher than manufacturing employment in California (7.6 percent) and the U.S. overall (8.2 percent).

### 1.5.3.3 Trade

Approximately 1.5 million workers were employed in wholesale and retail trade in the Air Trade Area in 2008, accounting for approximately 15.0 percent of nonagricultural employment in the Air Trade Area. In California and the U.S., trade jobs accounted for approximately 14.2 percent and approximately 14.6 percent, respectively, of nonagricultural employment in 2008.

The economic fortunes of the Air Trade Area have become progressively more linked to the global economy and rely heavily on air passenger and air cargo service to move people and goods. In 2008, total trade activity (both imports and exports) between the Los Angeles Customs District and the rest of the world was valued at \$439.1 billion (See **Table I-14**). Businesses in the Air Trade Area have taken advantage of overseas markets and have expanded their operations internationally. Many of the Air Trade Area's top companies depend on offshore plants and suppliers for manufacturing and assembly as well as raw materials. This expanding international business activity generates demand for both international air travel and air freight services.

In 2008, more than \$78 billion in trade (including imports and exports) through the Los Angeles Customs District was conveyed by air (See Table I-14). This represents 18.2 percent of all trade through the Los Angeles Customs District, and more than 59 percent of California's total value of trade by air. The Air Trade Area's high rate of trade by air reflects the prevalence of just-in-time inventory management of high value components (especially in the technology, defense, and aerospace sectors), as well as an expanding global network of suppliers and manufacturers. Furthermore, as Air Trade Area companies continue to develop new international markets for their goods and services, their reliance on international passenger and air freight service at LAX will increase in the future.

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<sup>27</sup> Portfolio, www.rbbinc.com, accessed June 25, 2009.

<sup>28</sup> School of Medicine/USC Dean's Report, December 2008.

<sup>29</sup> Woods & Poole Economics, Inc., 2008 Complete Economic and Demographic Data.

**Table I-14**

2008 Total Trade by Conveyance (\$ Billions)

Customs District	Value of Total Trade <sup>1/</sup>	Value of Total Trade by Air	Percent of Total Trade by Air
Los Angeles	431.9	78.7	18.2%
California	601.1	132.7	22.1%
United States	3,400.3	805.6	23.7%

Note:

1/ Total trade = total imports and exports

Data for California is an aggregation of the Los Angeles, San Diego, and San Francisco  
Customs Districts

Source: U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division, February 2009

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#### 1.5.3.4 Transportation and Public Utilities

In terms of transportation jobs, the Airport itself is responsible for an estimated 18.1 percent of direct employment in the Air Trade Area's transportation and public utilities sector. The Airport's direct employment is estimated at 59,000 workers, and an additional 408,000 jobs in the Air Trade Area are attributable to it.<sup>30</sup>

Approximately 325,000 workers were employed in the transportation and public utilities industries in the Air Trade Area in 2008. Employment in these two industries in 2008 accounted for 3.3 percent of nonagricultural employment in the Air Trade Area. Transportation and public utilities jobs made up 2.9 percent of nonagricultural employment in California and 3.6 percent of nonagricultural U.S. employment in 2008.

#### 1.5.3.5 Finance, Insurance, and Real Estate

The finance, insurance, and real estate industries (FIRE) employed more than 1.1 million workers in the Air Trade Area in 2008. In 2008, FIRE employment accounted for 11.2 percent of total nonagricultural employment in the Air Trade Area versus 10.5 percent in California and 9.3 percent in the U.S.

#### 1.5.3.6 Government

Approximately 1.1 million workers were employed in government in the Air Trade Area in 2008, representing 10.9 percent of nonagricultural employment. The Air Trade Area's share of government employment was lower than that of California and the U.S. where government jobs made up 13.0 percent and 13.6 percent of nonagricultural employment in 2008, respectively.

#### 1.5.3.7 Services

Approximately 4.5 million workers were employed in the services industry in the Air Trade Area in 2008, accounting for 44.9 percent of nonagricultural employment — higher than both California and the U.S., where services accounted for 44.0 percent and 43.1 percent of nonagricultural employment, respectively.

The services industry is the largest job sector in the Air Trade Area and employs workers in a wide range of subsectors that vary greatly in size. In 2008, 24 percent of the Air Trade Area's service workers were employed in leisure and hospitality, 21 percent were employed in health care and 16 percent were employed in administration and support services. Other service sector categories include: professional, scientific and technical services (14 percent of service workers); information technology (eight percent); education (five percent); management of enterprises (three percent); and other services (eight percent).

Tourism in the Air Trade Area provides a significant source of demand for air travel and employs many workers in the leisure and hospitality subsector. An analysis of Air Trade Area attractions and visitor data is provided below.

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<sup>30</sup> Includes workers at LAX or in nearby aviation-related facilities in professional and business services; concessions and retail; construction and maintenance; and in airline related fields such as flight operations, ticketing, baggage handling, aircraft maintenance, passenger assistance, and security screening. Master Plan Facts > LAX & the Economy, [http://www.laxmasterplan.org/facts\\_economy.cfm](http://www.laxmasterplan.org/facts_economy.cfm), accessed June 29, 2009.



## **1.6 Air Trade Area Tourism Industry**

### **1.6.1 Area Attractions**

In addition to its mild climate and beaches, the Air Trade Area offers visitors innumerable entertainment attractions, cultural institutions, shopping districts, dining selections, recreational options and scenic parks and vistas. World famous entertainment venues include Disneyland, Universal Studios, Universal City Walk, Knott's Berry Farm, and Six Flags Magic Mountain. Other sightseeing destinations include the Hollywood Sign, the Hollywood Walk of Fame, the Queen Mary, Venice Beach boardwalk, the Los Angeles Zoo and the Forest Lawn Memorial Parks.

Fine arts collections such as the Los Angeles County Museum of Art, the Norton Simon Museum, the Huntington Library, the Museum of Contemporary Art, the Getty Villa and the Getty Center afford visitors and residents access to a broad selection of painting, sculpture, decorative arts, and cultural objects from a wide assortment of civilizations and eras. Likewise, performing arts venues in the Air Trade Area, such as the Walt Disney Concert Hall, offer acclaimed companies including the Los Angeles Philharmonic, Los Angeles Opera, and Los Angeles Master Chorale. Professional theater is thriving at venues such as the Pasadena Playhouse, Ahmanson Theatre, Geffen Playhouse, and the Mark Taper Forum. Multicultural performances also are available at the Bilingual Foundation of the Arts.

The Air Trade Area also offers travelers a scenic natural environment. With an annual average of 329 days of sunshine,<sup>31</sup> outdoor activities can be pursued throughout the year. Visitors seeking recreation may visit the Angeles National Forest, Catalina Island, Lake Arrowhead, San Bernardino National Forest, and Santa Monica Mountains National Recreation Area. In addition, more than 100 miles of shoreline run from Malibu to San Clemente.

### **1.6.2 Tourism Trends**

Because spending for both business and leisure travel is discretionary, the tourism industry is cyclically sensitive to changes in economic conditions. Historically, demand for leisure travel has been more closely tied to the economic cycle, and business travel has remained relatively constant. However, in the current recessionary environment, reductions in business travel expenses have been a high priority for many firms.

The Los Angeles Convention and Visitors Bureau estimates that 25.6 million people visited the Air Trade Area in 2008, generating a total of \$13.8 billion in overnight spending. These figures are slightly lower than those for 2007 when the Air Trade Area had 25.8 million visitors that generated \$14.2 billion in spending.<sup>32</sup> Tourism-related industries are a leading employer in the Air Trade Area with 691,600 workers employed in this sector in 2007 (latest data available).<sup>33</sup> A survey from the U.S. Department of Commerce's Office of Tourism Industries shows that 2,345,741 travelers from overseas (excluding Canada and Mexico) arrived at LAX in 2008. This represents a 2.3 percent

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<sup>31</sup> Los Angeles Convention and Visitors Bureau, Fun Facts, <http://discoverlosangeles.com/guides/fun-facts/did-you-know.html>, accessed June 29, 2009.

<sup>32</sup> Los Angeles Convention and Visitors Bureau, Los Angeles Tourism by Numbers: 2008 Quick Facts, <http://discoverlosangeles.com/business-services/research-and-reports/LAquickfacts08.pdf>, accessed June 23, 2009.

<sup>33</sup> *L.A. Stats*, Los Angeles Economic Development Corporation, April 2009.

increase over the figure for 2007 when 2,293,241 overseas travelers arrived at LAX. Following New York and Miami, the Air Trade Area was the third most popular U.S. destination for overseas travelers in both 2007 and 2008, ranking ahead of other major destinations such as San Francisco, Chicago, Honolulu, Atlanta, Washington, D.C. and Orlando. (See **Table I-15**).

## **1.7 Economic Outlook**

The national recession, which began in December 2007, has been attributed to the interplay of three factors: a surge in liquidity caused by a period of unusually low interest rates; widespread excess leverage in the financial system; and an unprecedented rise in asset prices, particularly in residential real estate.<sup>34</sup> The recession has been characterized by steep declines in housing construction, consumer spending and business investment. In view of the consequent rise in the national unemployment rate and the contraction in gross domestic product, surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for a modest rebound in national real GDP growth by the end of 2009. More than 90 percent of each survey's forecast panel expect the recession to end by the fourth quarter of 2009. However, both forecast panels believe that the unemployment rate will remain elevated into the first half of 2010, and that consumer spending will be restrained as savings-conscious households reduce debt. The NABE forecast expects the economic recovery in 2010 to be moderate with annual GDP growth of 2.0 percent. The Blue Chip Economic Indicators forecast has a slightly more optimistic outlook of 2.4 percent growth in GDP in 2010.<sup>35</sup>

Similar to forecasts from NABE and Blue Chip Economic Indicators, a recent report from the LAEDC projects that unemployment rates in both California and the Air Trade Area will remain elevated in 2010. LAEDC forecasts the majority of job losses in both California and the Air Trade Area will occur in the manufacturing, retail trade, construction, and finance/insurance/real estate industries.<sup>36</sup> As with the U.S. overall, growth in California and the Air Trade Area is expected to resume in 2010<sup>37</sup> as household spending stabilizes and businesses bring production capacity and inventory stocks into alignment with sales.

## **1.8 Economic Assumptions and Information Incorporated in Airline Traffic Projections**

As described in more detail in Section 2.7 of this report, the methodologies employed in projecting airline traffic activity at the Airport included (among other methodologies) statistical linear regression modeling that utilized local socioeconomic factors as the independent variable and enplanements as the dependent variable. Socioeconomic factors utilized in these analyses included population, income, per capita income, and employment. The regression modeling for each of the socioeconomic factors produced a coefficient that was applied to projections of the corresponding socioeconomic factor to estimate future enplanements. As described in Section 2.7, the projection of enplanements using regression modeling with local socioeconomic factors provided a comparison

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<sup>34</sup> "After the Panic, Innovation," *Fortune*, March 30, 2009.

<sup>35</sup> *NABE Outlook*, May 2009, National Association for Business Economics; *Blue Chip Economic Indicators*, Vol. 34, No. 9 September 10, 2009, Aspen Publishers.

<sup>36</sup> *2009-2010 Mid-Year Update: Economic Forecast and Industry Outlook*, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation, July 2009.

<sup>37</sup> UCLA Anderson Forecast: National Recovery Linked to Global Solutions, [http://uclaforecast.com/contents/archive/2009/media\\_32509\\_1.asp](http://uclaforecast.com/contents/archive/2009/media_32509_1.asp), accessed June 30, 2009.

**Table I-15**  
Top Airports for Overseas Non-Resident Arrivals (2008)

Rank	U.S. Port of Entry	Number of Arrivals	% of All Overseas Arrivals
1	New York (JFK)	4,255,262	16.8%
2	Miami (MIA)	3,097,120	12.2%
<b>3</b>	<b>Los Angeles (LAX)</b>	<b>2,345,741</b>	<b>9.3%</b>
4	Newark (EWR)	1,834,483	7.2%
5	San Francisco (SFO)	1,422,728	5.6%
6	Chicago (ORD)	1,347,963	5.3%
7	Honolulu (HNL)	1,314,662	5.2%
8	Atlanta (ATL)	1,064,096	4.2%
9	Guam (GUA)	976,620	3.9%
10	Washington, D.C. (IAD)	836,176	3.3%
11	Orlando (MCO)	708,337	2.8%
12	Houston (IAH)	549,496	2.2%
13	Boston (BOS)	532,013	2.1%
14	Detroit (DET)	529,948	2.1%
15	Philadelphia (PHL)	427,212	1.7%
	Other Ports of Entry	4,099,594	16.2%
Total		25,341,451	100.0%

Note: Data include all countries except Canada and Mexico.

Source: U.S. Department of Commerce, ITA, Office of Tourism Industries, March 2009

Prepared by: Partners for Economic Solutions, September 2009

benchmark for the ultimate projection of enplanements, which then provided the basis for the financial analyses in Chapter 4 of this report. The ultimate projection of enplanements resulted in a similar CAGR for FY 2009 to FY 2016 relative to the CAGR for each of the projections based on regression modeling with socioeconomic factors.

In addition, specific assumptions regarding the timing of economic recovery in the Air Trade Area and the State of California (described in Section 1.7 above and in Section 2.1) were incorporated into projections of airline activity, as described in more detail in Section 2.7. Given the level of uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation, projected passenger enplanements at the Airport are conservatively assumed to recover at a slower pace than previously experienced following past U.S. recessions and as recently as those experienced at the Airport in FY 2004 and FY 2005.

## **II. Air Traffic**

This chapter describes historical and projected air traffic activity at the Airport; key factors affecting these activity levels; and assumptions and methodologies analyzed and incorporated in projections of Airport activity. Following a summary of findings (Section 2.1), this chapter discusses the role of the Airport (Section 2.2), the Airport's share of regional demand relative to other Southern California airports (Section 2.3), the airlines serving the Airport (Section 2.4), historical Airport activity (Section 2.5), factors affecting aviation demand and the airline industry (Section 2.6), and projected Airport activity (Section 2.7).

It should be noted that some tables and exhibits in this chapter reflect fiscal year information and others reflect calendar year information, depending upon the availability of data.

### **2.1 Summary**

The Airport serves one of the nation's largest total O&D passenger markets, and was ranked second in the nation in the number of total O&D passengers in FY 2008. The Airport is also one of the nation's premier international gateways and the only international gateway serving Southern California. Nationwide, the Airport's Air Trade Area is ranked second only to the New York CSA in a number of key statistical measurements including population, income, and number of households in higher income categories. This densely populated and relatively wealthy area attracts a broad base of U.S. and foreign flag air carriers to serve the Airport. As a result, the Airport has been, and is expected to continue to be, one of the busiest airports in the world, ranking among the top six airports worldwide in passenger activity and aircraft operations (take-offs and landings).

No airline dominates in shares of enplanements or provides "hubbing" activity at the Airport. Approximately 30 percent of the Airport's domestic passenger traffic (and 25 percent of the Airport's total passenger traffic) is connecting, and no air carrier accounted for more than 21 percent of the Airport's domestic enplanements between FY 2005 and FY 2009.

The Airport is one of five commercial service airports serving the Air Trade Area. Demand for air travel within this region is predominantly served through the Airport, particularly for international travel and nonstop domestic U.S. travel to major medium- and long-haul markets. In CY 2008, the Airport served approximately 99.6 percent of total Los Angeles region international enplanements and approximately 71.8 percent of total Los Angeles region enplanements. The other four commercial service airports in the Air Trade Area (including Bob Hope Airport--BUR, John Wayne Airport--SNA, Long Beach Airport--LGB, and LA/Ontario International Airport--LA/ONT) primarily serve O&D travel to short- and medium-haul markets, including the West Coast corridor (California, Oregon, and Washington). Certain of these airports (SNA, LGB, and BUR) continue to face a number of constraints regarding their future growth. For example, SNA served 9.0 million annual passengers in CY 2008 (approximately 87 percent of its current passenger cap). See Section 2.6.7.2 (Constraints at Other Area Airports) for further information.

**Total enplanements at the Airport increased from 26.6 million enplanements in FY 1995 to 33.8 million in FY 2001, a compounded annual growth rate (CAGR) of 4.1 percent.** This substantial growth was fueled, in part, by the stimulation of passenger demand from intense competition and fare wars among airlines (e.g., Southwest and Shuttle by United) serving the West Coast corridor.

Following the events of September 11, 2001, the elimination, in October 2001, of Shuttle by United service (which accounted for approximately 33 percent of United Airlines' domestic departing seats between FY 1995 and FY 2001) in October 2001, and the economic slowdown during the same period, total enplanements at the Airport decreased from 33.8 million in FY 2001 to 28.1 million in FY 2002 (a 16.9 percent decrease from FY 2001) and to 27.7 million in FY 2003 (a further 1.5 percent decrease from FY 2002). **Between FY 2002 and FY 2008, total enplanements at the Airport increased at a CAGR of 1.7 percent, reaching 31.1 million enplanements in FY 2008.** By comparison, U.S. enplanement activity increased at a CAGR of 2.8 percent during this same period.

Several factors contributed to the Airport's slower recovery compared to other U.S. airports, including decreased demand levels along the West Coast corridor, the secondary impacts of an economic downturn in the Silicon Valley in northern California, and systemwide changes in the airlines' route structures and seat capacity. See Section 2.5 (Historical Airport Activity) for further information.

In FY 2009, as a result of the global economic downturn and capacity reductions by U.S. and foreign flag carriers, domestic enplanements at the Airport decreased 7.9 percent from FY 2008, and international enplanements at the Airport decreased by 12.0 percent from FY 2008.<sup>1</sup> **Total enplanements at the Airport decreased 9.0 percent in FY 2009, to 28.3 million.**

Projections of aviation demand at the Airport (discussed in Sections 2.7.1, 2.7.2, and 2.7.3) were developed after analyzing several different projection methodologies for both the Near-Term (FY 2010) and the Longer-Term (FY 2011 to FY 2016)—including analysis of scheduled departing seats, a market share approach, regression modeling using socioeconomic variables, and trend analysis. The projections of Airport activity ultimately used for purposes of this report and the financial tables accompanying Chapter 4 are based on (1) the incorporation of specific projection methodologies and (2) a number of specific assumptions that are further based on national aviation trends, regional economic conditions, and the professional judgment of R&A.

Based on an analysis of scheduled domestic and international departing seats, service announcements, and industry information regarding further reductions in seating capacity for CY 2009, **total enplanements at the Airport are projected to decrease by 1.6 percent in FY 2010, relative to FY 2009 enplanements.** Domestic passenger activity at the Airport is expected to decrease by 1.0 percent in FY 2010, and international activity by 3.1 percent in FY 2010, relative to FY 2009 levels.

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<sup>1</sup> This 7.9 percent decrease in domestic enplanements at the Airport in FY 2009 was similar to the 7.8 percent decrease in domestic enplanements nationwide forecast by the Federal Aviation Administration (FAA) in April 2009 for federal FY ending September 2009,

The activity projections provided herein are lower than the projections included in the feasibility report we prepared in July 2008 (with a FY 2007 base year) in support of the Department's issuance of the Series 2008 Bonds (the 2008 Report). In the 2008 Report, our estimate of Airport activity for FY 2008 was close to the actual FY 2008 results (30.9 million enplanements projected versus 31.1 million actual). However the severities of cutbacks in airline service, significant increases in fuel prices, and worldwide recessionary impacts that occurred soon after the issuance of the Series 2008 Bonds contributed to a 9.0 percent decrease in enplanements in FY 2009 that was not anticipated in the 2008 Report. In addition our current estimate of a further (although less significant) decline in Airport activity in FY 2010 was not anticipated in the 2008 Report. Accordingly, current projections of Airport activity (reflected in this report) are substantially lower than the projections presented in the 2008 Report.

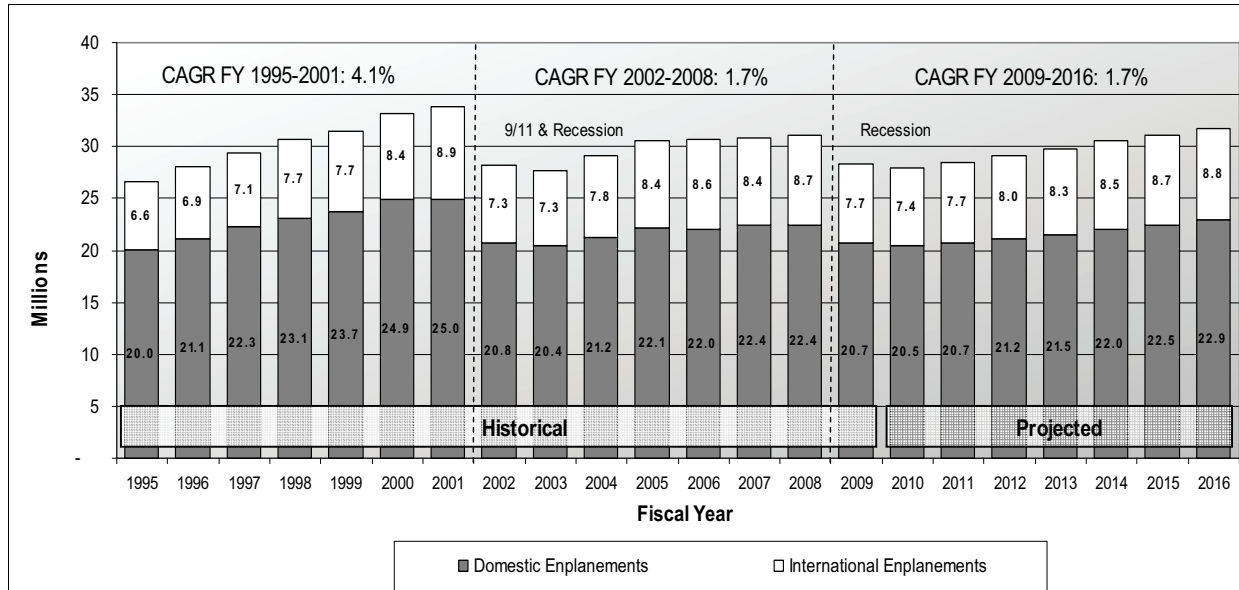
It is expected that in the long term the Airport will maintain its role as one of the premier airports worldwide, both in service to domestic O&D passengers and as an international gateway. Given the strength of its economic base and leading socioeconomic indicators, the Air Trade Area will support long-term growth in passenger demand, with regional demand continuing to be predominantly served at the Airport, including international travel and nonstop travel to major medium- and long-haul markets.

Although there is still uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation are expected to improve in CY 2010 (which includes the first half of FY 2011). Recovery in passenger activity at the Airport is expected beginning in FY 2011, with total enplanements projected to increase 1.9 percent relative to FY 2010. Based on the actual increases in enplanements that occurred nationwide and at the Airport in FY 2004 (4.9 percent increase) and FY 2005 (5.0 percent increase) following sharp decreases in FY 2002 and FY 2003, it is possible that enplanement growth in FY 2011 could exceed our projections of 1.9 percent. However, given the severity of the recession and its impacts on the State and the Air Trade Area, including lower economic growth, higher unemployment, and a sharp downturn in the housing market, our projection of passenger enplanements at the Airport is conservative and reflects recovery from the decreases in FY 2009 and FY 2010 at a slower pace than previously experienced after past U.S. recessions, notably, the recovery in FY 2004 and FY 2005.

As discussed in Section 2.7 (Projections of Airport Activity), longer-term growth in total enplanements is expected through the remainder of the projection period. **Annual growth in total enplanements at the Airport is projected to range from 2.0 percent to 2.6 percent for FY 2012 through FY 2016, resulting in a CAGR of 1.7 percent for FY 2009 to FY 2016. This represents a projected increase of 3.4 million enplanements during this period.** It is expected that certain legacy carriers will re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international enplanements are projected to grow at a CAGR of 2.1 percent between FY 2009 and FY 2016, while domestic enplanements will experience a slower rebound at a projected CAGR of 1.5 percent between FY 2009 and FY 2016.

**Exhibit II-1**

**Historical and Projected Enplanements (LAX) – FY 1995 to FY 2016**



Source: City of Los Angeles, Department of Airports, July 2009 (historical); Ricondo & Associates, Inc., September 2009 (projected).  
Prepared by: Ricondo & Associates, Inc., September 2009.

As shown on **Exhibit II-1**, the general growth pattern for Airport enplanements from FY 2009 (actual) through the end of the Projection Period (FY 2016) is similar to the historical experience of the historical period FY 2002 to FY 2008. The first year in each of these periods (FY 2002 and FY 2009) reflects a substantial decrease from the prior year. The comparison of the CAGR for each of these two periods further underscores the conservative nature of the activity projections through FY 2016.

## 2.2 Role of the Airport

The Airport is one of the busiest airports in the world. **Table II-1** presents the Airport’s worldwide ranking of activity in CY 2008. As shown, the Airport ranked 6<sup>th</sup> worldwide and 3<sup>rd</sup> nationwide in total passengers during this period with 59.5 million enplaned and deplaned passengers; 4<sup>th</sup> worldwide and 4<sup>th</sup> nationwide in total operations with 622,506 takeoffs and landings; and 13<sup>th</sup> worldwide and 5<sup>th</sup> nationwide in total cargo with 1.6 million enplaned and deplaned tons.<sup>2</sup>

The Airport serves one of the nation’s largest total O&D passenger bases. As shown in **Table II-2**, it was ranked second nationwide in total O&D passengers in FY 2008.

**Table II-3** presents domestic O&D passengers for the Airport and the nation between CY 1998 and CY 2008. As shown, domestic O&D activity at the Airport increased from 31.9 million passengers in CY 1998 to 33.5 million in CY 2000. This increase represents a CAGR of 2.4 percent during this period, compared to 4.0 percent nationwide. Domestic O&D passengers at the Airport decreased at a compounded rate of 8.9 percent between CY 2000 and CY 2002, while nationwide activity decreased

<sup>2</sup> *ACI Traffic Data 2008*, Airports Council International (dated July 28, 2009).



**Table II-1**

Top 15 Worldwide Ranking of Activity - CY 2008

Passengers				Operations				Cargo			
World Rank	U.S. Rank	Airport	Total Passengers	World Rank	U.S. Rank	Airport	Total Operations	World Rank	U.S. Rank	Airport	Total Cargo (tons)
1	1	Atlanta (ATL)	90,039,280	1	1	Atlanta (ATL)	978,824	1	1	Memphis (MEM)	3,695,438
2	2	Chicago (ORD)	69,353,876	2	2	Chicago (ORD)	881,566	2		Hong Kong (HKG)	3,660,901
3		London (LHR)	67,056,379	3	3	Dallas (DFW)	656,310	3		Shanghai (PVG)	2,602,916
4		Tokyo (HND)	66,754,829	4	4	<b>Los Angeles (LAX)</b>	<b>622,506</b>	4		Seoul (ICN)	2,423,717
5		Paris (CDG)	60,874,681	5	5	Denver (DEN)	619,503	5	2	Anchorage (ANC)	2,339,831
6	3	<b>Los Angeles (LAX)</b>	<b>59,497,539</b>	6	6	Las Vegas (LAS)	578,949	6		Paris (CDG)	2,280,050
7	4	Dallas (DFW)	57,093,187	7	7	Houston (IAH)	576,062	7		Frankfurt (FRA)	2,111,031
8		Beijing (PEK)	55,937,289	8		Paris (CDG)	559,816	8		Tokyo (NRT)	2,100,448
9		Frankfurt (FRA)	53,467,450	9	8	Charlotte (CLT)	536,253	9	3	Louisville (SDF)	1,974,276
10	5	Denver (DEN)	51,245,334	10	9	Phoenix (PHX)	502,499	10		Singapore (SIN)	1,883,894
11		Madrid (MAD)	50,824,435	11	10	Philadelphia (PHL)	492,038	11		Dubai (DXB)	1,824,992
12		Hong Kong (HKG)	47,857,746	12		Frankfurt (FRA)	485,783	12	4	Miami (MIA)	1,806,770
13	6	New York (JFK)	47,807,816	13		London (LHR)	478,518	13	5	<b>Los Angeles (LAX)</b>	<b>1,629,525</b>
14		Amsterdam (AMS)	47,430,019	14		Madrid (MAD)	469,740	14		Amsterdam (AMS)	1,602,585
15	7	Las Vegas (LAS)	43,208,724	15	11	Detroit (DTW)	462,520	15		Taipei (TPE)	1,493,120

Source: *ACI Traffic Data 2008*, Airports Council International (July 2009).

Prepared by Ricondo & Associates, Inc., July 2009.

**Table II-2**

Top 20 Total O&D Airports - FY 2008

Rank	Airport	Total O&D Passengers <sup>1/</sup>
1	McCarran International	32,566,910
<b>2</b>	<b>Los Angeles International</b>	<b>31,309,500</b>
3	Orlando International	29,490,270
4	Chicago O'Hare International	28,521,330
5	Hartsfield-Jackson Atlanta International	26,454,610
6	Denver International	24,006,910
7	Phoenix Sky Harbor International	23,353,490
8	Dallas/Ft Worth International	21,686,250
9	Seattle-Tacoma International	20,994,170
10	La Guardia	20,604,290
11	General Edward Lawrence Logan International	20,327,770
12	Newark Liberty International	19,410,300
13	San Francisco International	19,199,310
14	John F Kennedy International	18,314,980
15	Fort Lauderdale/Hollywood International	18,112,750
16	Philadelphia International	17,280,300
17	San Diego International	16,694,790
18	Baltimore International	16,141,210
19	Tampa International	15,978,050
20	Detroit Metropolitan Wayne County	15,824,460

Note:

1/ Excludes foreign flag O&D passengers, of which there were approximately 15 million at the Airport in FY 2008.

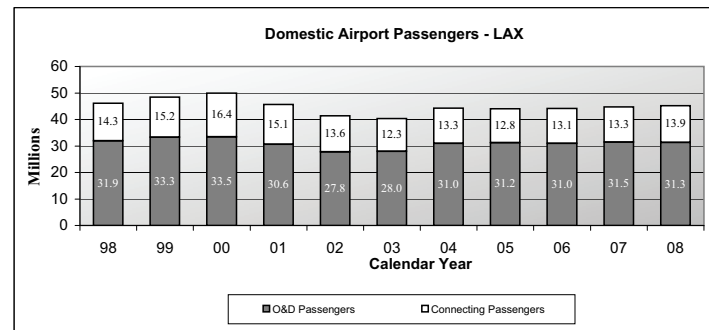
Source: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

**Table II-3**

Historical Domestic O&D Passengers - Calendar Year

Calendar Year	LAX Domestic O&D Passengers	LAX Annual O&D % Change	U.S. Domestic O&D Passengers	U.S. Annual % Change	LAX Share of U.S. O&D Passengers	LAX Domestic Enplaned and Deplaned Passengers	LAX O&D Percentage	LAX Domestic Connecting Passengers	LAX Connecting Percentage
1998	31,871,480	-	798,797,500	-	4.0%	46,127,876	69.1%	14,256,396	30.9%
1999	33,273,400	4.4%	831,774,400	4.1%	4.0%	48,464,655	68.7%	15,191,255	31.3%
2000	33,451,650	0.5%	864,668,800	4.0%	3.9%	49,887,433	67.1%	16,435,783	32.9%
2001	30,601,960	(8.5%)	806,362,990	(6.7%)	3.8%	45,656,025	67.0%	15,054,065	33.0%
2002	27,785,620	(9.2%)	782,752,630	(2.9%)	3.5%	41,379,168	67.1%	13,593,548	32.9%
2003	28,012,880	0.8%	797,484,400	1.9%	3.5%	40,358,935	69.4%	12,346,055	30.6%
2004	30,955,430	10.5%	869,737,660	9.1%	3.6%	44,220,019	70.0%	13,264,589	30.0%
2005	31,200,070	0.8%	917,049,520	5.4%	3.4%	44,003,135	70.9%	12,803,065	29.1%
2006	31,031,850	(0.5%)	923,152,440	0.7%	3.4%	44,129,974	70.3%	13,098,124	29.7%
2007	31,453,800	1.4%	951,736,780	3.1%	3.3%	44,732,810	70.3%	13,279,010	29.7%
2008	31,309,500	(0.5%)	947,952,570	(0.4%)	3.3%	45,190,615	69.3%	13,881,115	30.7%
Compounded Annual Growth Rate									
1998 - 2001	(1.3%)		0.3%			(0.3%)		1.8%	
2001 - 2002	(9.2%)		(2.9%)			(9.4%)		(9.7%)	
2002 - 2008	2.0%		3.2%			1.5%		0.3%	
1998 - 2008	(0.2%)		1.7%			(0.2%)		(0.3%)	



Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.  
Prepared by: Ricondo & Associates, Inc., June 2009.

4.9. Thereafter, domestic O&D passengers at the Airport increased at a CAGR of 2.0 through CY 2008 (reaching 31.3 million in CY 2008), compared to 3.2 percent growth nationwide. As also shown, the Airport's share of U.S. domestic O&D passengers decreased between CY 1998 and CY 2008, reflecting the lower CAGR experienced at the Airport compared to the nation during this period.

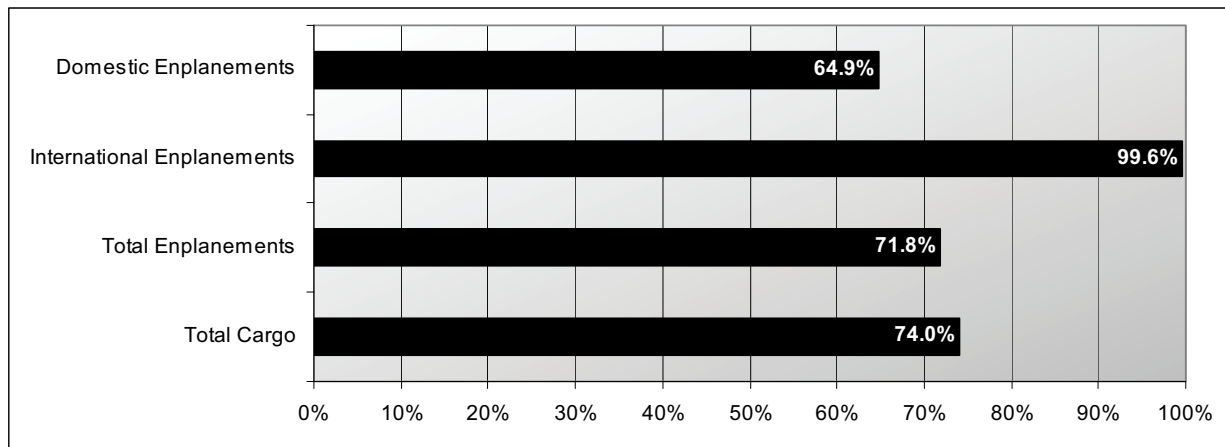
Table II-3 also presents the Airport's percentage of domestic O&D passengers to total domestic passengers. As shown, this percentage decreased moderately between CY 1998 and CY 2000 and has since stabilized at approximately 70 percent. The remaining 30 percent of domestic passengers represents connecting passenger traffic.<sup>3</sup> Although no airline dominates or provides hubbing activity, the level of connecting passenger traffic is influenced by (1) the Airport's role as a major gateway to numerous international markets, (2) the geographical location of the Airport in relation to numerous markets along the West Coast corridor, (3) the significant number of nonstop flights to and from domestic markets, and (4) the alliances among airlines serving the Airport.

### 2.3 Regional Demand

The demographic and economic characteristics of the Air Trade Area create a strong local demand for air transportation. This demand is predominantly served through the Airport, particularly for international travel and nonstop travel to major medium- and long-haul markets (e.g., New York, Chicago, Honolulu, and Washington, D.C.), as well as travel within the West Coast corridor. **Exhibit II-2** shows the dominance of the Airport relative to the four commercial service airports within the Air Trade Area.<sup>4</sup> The other four commercial service airports primarily serve O&D travel to short- and medium-haul markets, including the West Coast corridor.<sup>5</sup>

#### Exhibit II-2

LAX Share of Air Trade Area Activity - CY 2008



Sources: City of Los Angeles, Department of Airports (LAX and LA/ONT); Individual airports (BUR, LGB, SNA), June 2009.  
Prepared by: Ricondo & Associates, Inc., June 2009.

<sup>3</sup> When international enplanements are included, approximately 75 percent of total enplanements at the Airport are O&D passengers.

<sup>4</sup> Based on individual airport data.

<sup>5</sup> In late August 2001, jetBlue initiated two daily nonstop flights between JFK and LGB, its second-designated hub airport, resulting in significant increases in passenger activity at LGB between CY 2001 and CY 2003.

In addition to the Airport, the other four airports in the Air Trade Area include BUR, SNA, LGB, and LA/ONT. A brief discussion of these four airports is provided below:

- As shown previously on the map labeled Exhibit I-1, BUR is located 30 miles north of the Airport. As of September 2009, nonstop service was provided to 12 domestic markets with a total of 78 daily domestic flights (compared to the Airport's nonstop service to 83 domestic markets, with an average of 567 daily flights; and nonstop service to 53 international markets, with an average of 118 daily flights in September 2009). Seven of BUR's 12 markets were short-haul markets (0 to 600 miles) served with a total of 64 daily flights. Service was provided by seven airlines, including the low-cost carriers jetBlue (four daily flights) and Southwest (50 daily flights).
- SNA is located 40 miles southeast of the Airport. As of September 2009, nonstop service was provided to 17 domestic markets with a total of 129 daily flights. Service was provided by 14 airlines, including the low-cost carriers Frontier (four daily flights) and Southwest (43 daily flights). There is a legal limit of 10.3 million annual passengers (MAP) currently in place at SNA. See Section 2.6.4.2 for more details regarding passenger caps at SNA.
- LGB is located 25 miles southeast of the Airport. As of September 2009, nonstop service was provided to 15 domestic markets with a total of 41 daily flights. Service was provided by five airlines, including the low-cost carrier jetBlue (28 daily flights). A stipulated settlement agreement entered into by the City of Long Beach and the airlines permits air carriers to operate 41 flights per day and commuter carriers to operate 25 flights per day at LGB, with such activity levels permitted to be exceeded as long as flights operate at or below annual noise budgets for each class of operator. See Section 2.6.4.2 for more details regarding passenger flight operations at LGB.
- LA/ONT, which is also owned by the City and operated by the Department, is located 50 miles east of the Airport. As of September 2009, nonstop service was provided to 18 domestic markets with a total of 79 daily flights, as well as one flight to Guadalajara, Mexico. Service was provided by 13 airlines, including the low-cost carrier Southwest (41 daily flights), which provided over half of the total daily departures.

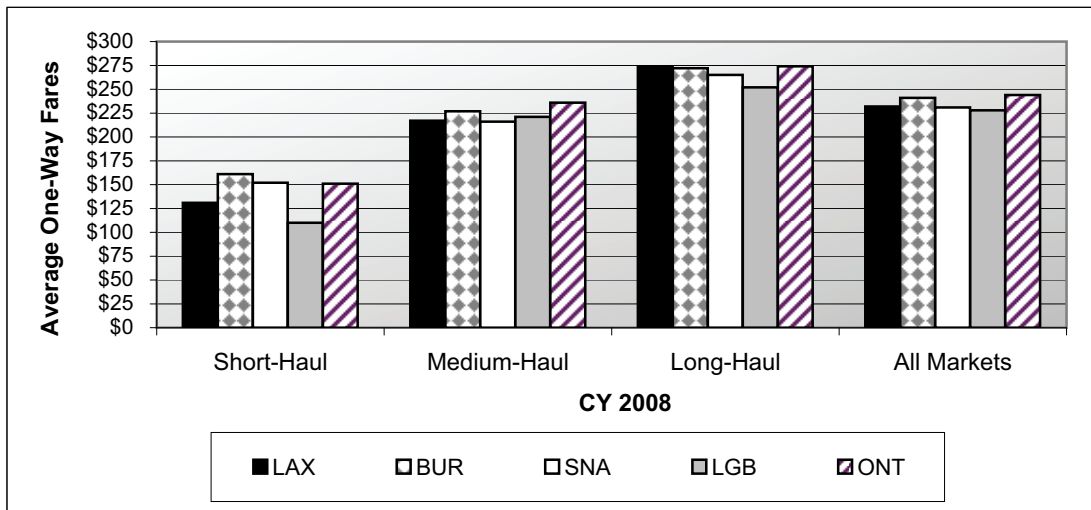
**Table II-4** presents average one-way fares for all five commercial service airports in the Air Trade Area for CY 2008. When comparing all markets and various stage lengths, average one-way fares at the Airport are competitive with fares at the other four commercial service airports.

**Table II-5** presents historical shares of total enplanements for the five commercial service airports serving the Air Trade Area between CY 1998 and CY 2008. As shown, the Airport's share was relatively stable between CY 1998 and CY 2001, but decreased to 73.3 percent in CY 2002 and then declined further to approximately 70 percent between CY 2003 and CY 2008 due to (1) United's elimination of its Shuttle service; (2) jetBlue's initiation of nonstop service between LGB, its second-designated hub airport, and JFK in late August 2001; and (3) an increase to SNA's passenger cap from 8.4 MAP to 10.3 MAP in December 2002. As a result, LGB's share of domestic enplanements increased from 0.7 percent in CY 2001 to 3.5 percent in CY 2008; and SNA's share increased from 9.1 percent to 10.8 percent during this same period. **Exhibit II-3** below illustrates the CY 2008 shares of total enplanements for the five commercial service airports serving the Air Trade Area.

**Table II-4**

**Average One-Way Fares for Airports in the Air Trade Area - CY 2008**

Airport	Short-Haul Markets <sup>1/</sup>	Medium-Haul Markets <sup>1/</sup>	Long-Haul Markets <sup>1/</sup>	All Markets
<b>Los Angeles (LAX)</b>	<b>\$131</b>	<b>\$217</b>	<b>\$273</b>	<b>\$232</b>
Bob Hope (BUR)	\$161	\$227	\$272	\$241
John Wayne (SNA)	\$152	\$216	\$265	\$231
Long Beach (LGB)	\$110	\$221	\$252	\$228
LA/Ontario (LA/ONT)	\$151	\$236	\$274	\$244



Note:

- 1/ (SH) Short Haul = 1 to 600 miles
- (MH) Medium Haul = 601 to 1,800 miles
- (LH) Long Haul = over 1,800 miles

Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

**Table II-5**

Regional Airport Shares of Total Enplanements - Calendar Year

Calendar Year	Airport (LAX)		LA/Ontario (ONT)		John Wayne (SNA)		Bob Hope (BUR)		Long Beach (LGB) <sup>1/</sup>		Total Enplanements
	Enplanements	Percentage of Total	Enplanements	Percentage of Total	Enplanements	Percentage of Total	Enplanements	Percentage of Total	Enplanements	Percentage of Total	
1998	30,826,859	76.2%	3,212,487	7.9%	3,715,780	9.2%	2,362,692	5.8%	323,357	0.8%	40,441,175
1999	32,298,944	76.7%	3,268,661	7.8%	3,738,519	8.9%	2,358,724	5.6%	434,601	1.0%	42,099,449
2000	33,836,077	77.3%	3,360,634	7.7%	3,894,993	8.9%	2,367,835	5.4%	312,713	0.7%	43,772,252
2001	31,007,930	76.4%	3,354,350	8.3%	3,672,827	9.1%	2,248,654	5.5%	287,245	0.7%	40,571,006
2002	28,181,481	73.3%	3,259,866	8.5%	3,957,565	10.3%	2,312,611	6.0%	731,279	1.9%	38,442,802
2003	27,544,606	70.8%	3,285,577	8.4%	4,274,960	11.0%	2,369,729	6.1%	1,445,547	3.7%	38,920,419
2004	30,210,609	71.0%	3,473,284	8.2%	4,902,263	11.5%	2,464,441	5.8%	1,470,620	3.5%	42,521,217
2005	30,587,592	70.6%	3,611,978	8.3%	4,821,459	11.1%	2,759,984	6.4%	1,523,812	3.5%	43,304,825
2006	28,575,611	69.8%	3,342,627	8.2%	4,814,108	11.8%	2,843,281	6.9%	1,385,260	3.4%	40,960,887
2007	30,980,025	70.4%	3,607,184	8.2%	4,989,018	11.3%	2,960,294	6.7%	1,458,128	3.3%	43,994,649
2008	29,930,985	71.8%	3,112,112	7.5%	4,492,626	10.8%	2,664,875	6.4%	1,457,209	3.5%	41,657,807
Compounded Annual Growth Rate											
1998 - 2001	0.2%		1.5%		(0.4%)		(1.6%)		(3.9%)		4.0%
2001 - 2002	(9.1%)		(2.8%)		7.8%		2.8%		154.6%		(5.2%)
2002 - 2008	1.0%		(0.8%)		2.1%		2.4%		12.2%		1.3%
1998 - 2008	(0.3%)		(0.3%)		1.9%		1.2%		16.2%		0.3%

Note:

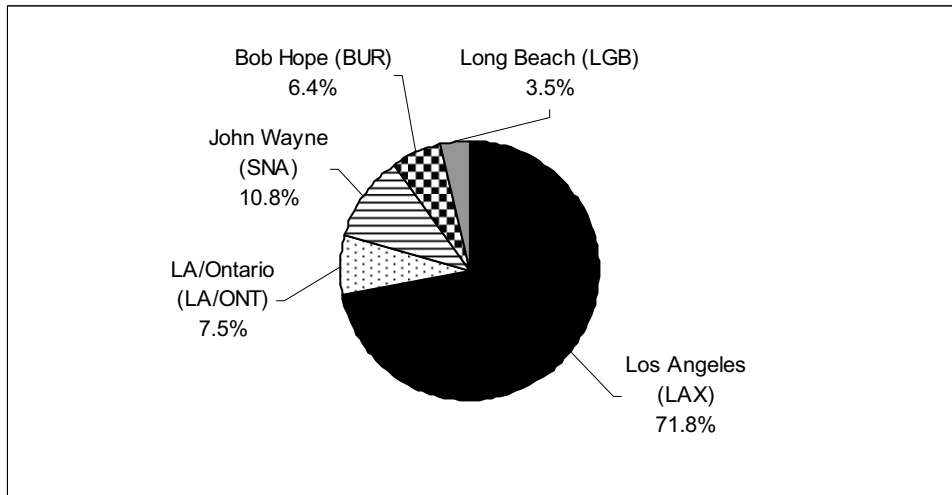
1/ In late August 2001, JetBlue initiated two daily nonstop flights between John F. Kennedy International Airport and Long Beach Airport, its second-designated hub airport, resulting in significant increases in passenger activity between 2001 and 2003.

Sources: Airports Council International (1998 - 2008); Individual airport websites 2008.

Prepared by: Ricondo & Associates, Inc., June 2009.

**Exhibit II-3**

**Air Trade Area Airport Shares of Total Enplanements – CY 2008**



Sources: City of Los Angeles, Department of Airports (LAX and ONT); Individual airports (BUR, LGB, SNA), June 2009.  
Prepared by: Ricondo & Associates, Inc., June 2009.

**2.4 Airlines Serving the Airport**

As of August 2009, scheduled passenger service at the Airport was provided by 22 U.S. flag air carriers, scheduled and nonscheduled service by 43 foreign flag carriers, and nonscheduled service by seven charter airlines. In addition, 17 all-cargo carriers provided scheduled cargo service. Sixteen of the nation's 18 major passenger airlines (airlines defined by the U.S. Department of Transportation as having annual operating revenues of over \$1.0 billion) provide scheduled service at the Airport. These airlines include AirTran, Alaska, American, American Eagle, Continental, Delta, ExpressJet, Frontier, Hawaiian, jetBlue, Mesa, Northwest, SkyWest, Southwest, United, and US Airways.<sup>6</sup> A complete list of airlines serving the Airport as of August 2009 is provided in **Table II-6**.

**Table II-7** lists scheduled U.S. flag air carriers at the Airport since FY 1999. As shown, the Airport has had the benefit of a large and relatively stable air carrier base during the years shown, which has helped promote competitive pricing and scheduling diversity in its major domestic markets. In addition, 15 of the 22 U.S. flag airlines currently serving the Airport have operated there for each of the years shown, including 12 of the 18 major U.S. passenger airlines. Activity by those U.S. flag carriers providing a significant level of service is discussed below:<sup>7</sup>

- American, with a 15.1 percent share of FY 2009 total Airport enplanements, provides nonstop service to 18 domestic markets with a total of 519 weekly flights; as well as a total of 39 weekly flights to the international markets of London, Los Cabos, San Salvador, Tokyo, and Toronto. American Eagle, with a 1.4 percent share and serving as a code-sharing partner with American, provides nonstop service to six domestic markets with a total of 299 weekly flights.

<sup>6</sup> Major U.S. passenger airlines currently not serving the Airport include Atlantic Southeast and Comair.

<sup>7</sup> All of the domestic nonstop service discussed below is as of the week ending September 18, 2009.



**Table II-6**

Airlines Serving the Airport <sup>1/</sup>

Scheduled U.S. Carriers (22)	Foreign Flag Carriers (43)	Nonscheduled Carriers (7)	All-Cargo Carriers (17)
AirTran	Aeroflot	Clay Lacy Aviation	Aerotransporte De Carga Union
Alaska	AeroMexico	Miami Air	Aerotransportes Mas De Carga
Allegiant Air	Air Berlin	North American	Air Transport International
American	Air Canada	Pace	Ameriflight
American Eagle	Air Canada Jazz	Skybird	Astar
Continental	Air China	USA Jet	Cargolux
Delta	Air France	World Airways	China Cargo
ExpressJet	Air India		DHL/Airborne
Frontier	Air Jamaica		FedEx
Hawaiian	Air New Zealand		Florida West
Horizon	Air Pacific		Kalitta Air
JetBlue	Air Tahiti Nui		Nippon Cargo
Mesa	Alitalia		Polar Air
Midwest	All Nippon		Shanghai Airlines Cargo
Northwest	Asiana		Singapore Airlines Cargo
SkyWest	Avianca		United Parcel Service
Southwest	British Airways		Yangtze River Express
Spirit	Cathay Pacific		
Sun Country	China		
United	China Eastern		
US Airways	China Southern		
Virgin America	Copa		
	El Al		
	Emirates		
	Eva Airways		
	Japan		
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	Lufthansa		
	Malaysian		
	Mexicana		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	TACA		
	Thai Airways		
	Virgin Atlantic Airways		
	Virgin Blue		
	Westjet		

Note:

<sup>1/</sup> As of August 2009.

Source: City of Los Angeles, Department of Airports, August 2009.

Prepared by: Ricondo & Associates, Inc., September 2009.

**Table II-7**

Scheduled U.S. Flag Air Carrier Base - LAX

Air Carrier	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 <sup>1/</sup>
Alaska	•	•	•	•	•	•	•	•	•	•	•	•
American	•	•	•	•	•	•	•	•	•	•	•	•
American Eagle	•	•	•	•	•	•	•	•	•	•	•	•
Continental	•	•	•	•	•	•	•	•	•	•	•	•
Delta <sup>2/</sup>	•	•	•	•	•	•	•	•	•	•	•	•
Frontier	•	•	•	•	•	•	•	•	•	•	•	•
Hawaiian	•	•	•	•	•	•	•	•	•	•	•	•
Horizon	•	•	•	•	•	•	•	•	•	•	•	•
Midwest	•	•	•	•	•	•	•	•	•	•	•	•
Northwest <sup>2/</sup>	•	•	•	•	•	•	•	•	•	•	•	•
SkyWest	•	•	•	•	•	•	•	•	•	•	•	•
Southwest	•	•	•	•	•	•	•	•	•	•	•	•
Spirit	•	•	•	•	•	•	•	•	•	•	•	•
United	•	•	•	•	•	•	•	•	•	•	•	•
US Airways	•	•	•	•	•	•	•	•	•	•	•	•
Sun Country		•	•	•	•	•	•	•	•	•	•	•
Mesa				•	•	•	•	•	•	•	•	•
AirTran							•	•	•	•	•	•
ExpressJet							•	•	•	•	•	•
Virgin America										•	•	•
jetBlue											•	•
Allegiant												•
ATA <sup>3/</sup>	•	•	•	•	•	•	•	•	•	•		
MAXJet											•	
Republic										•	•	
Atlantic Southeast							•	•	•			
Air Wisconsin	•	•	•	•	•	•	•	•				
Independence Air							•	•				
Freedom Air					•	•						
Vanguard			•	•	•							
US Airways Express	•	•										
Number of Airlines	18	19	19	20	21	20	23	23	22	23	21	22

Notes:

1/ As of August 2009.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

3/ Filed for bankruptcy protection in April 2008 and ceased operations systemwide.

Sources: Official Airline Guide, July 2009

Prepared by: Ricondo & Associates, Inc., August 2009.

- United, with a 13.7 percent share provides nonstop service to 18 domestic markets with a total of 489 weekly flights; as well as a total of 30 weekly flights to the international markets of London, Los Cabos, Sydney, and Tokyo (See **Table II-8**). SkyWest, with a 4.6 percent share and operating as United Express, provides nonstop service to 29 domestic markets with a total of 742 weekly flights and provides 21 weekly flights to Vancouver, B.C.
- Southwest, with a 12.6 percent share, provides nonstop service to 18 domestic markets with a total of 757 weekly flights.
- Delta, with a 7.6 percent share, provides nonstop service to 11 domestic markets with a total of 218 weekly flights and a total of 11 weekly flights to the international markets of Cancun, Guatemala City, and Sydney.
- US Airways, with a 3.7 percent share, provides nonstop service to four domestic markets with a total of 135 weekly flights.
- Continental, with a 3.9 percent share, provides nonstop service to four domestic markets with a total of 129 weekly flights.

**Table II-9** lists the foreign flag air carriers at the Airport since FY 1999. A large and growing foreign flag air carrier base developed during the years shown. In addition, 35 of the 46 foreign flag carriers serving the Airport have operated there for each of the years shown. Activity by those carriers providing a significant level of service is discussed below:<sup>8</sup>

- Mexicana, with a 7.8 percent share of international Airport enplanements in FY 2009, provides nonstop service to Cancun, Guadalajara, Leon/Guanajuato, Los Cabos, Mexico City, Morelia, Puerto Vallarta, and Zacatecas with a total of 90 weekly flights.
- Air Canada, with a 5.5 percent share, provides nonstop service to Calgary, Montreal, Toronto, and Vancouver with a total of 88 weekly flights.
- AeroMexico, with a 2.7 percent share, provides nonstop service to Guadalajara, Leon, and Mexico City with a total of 36 weekly flights.
- Qantas, with a 5.5 percent share, provides nonstop service to Auckland, Brisbane, Melbourne, and Sydney with a total of 33 weekly flights.

## **2.5 Historical Airport Activity**

The following sections review the Airport's historical activity in terms of passengers, air service, aircraft operations, aircraft landed weight, and cargo.

### **2.5.1 Historical Passenger Activity**

**Table II-10** presents historical data on total enplanements (domestic and international activity combined) at the Airport and the nation between FY 1999 and FY 2009; and **Exhibit II-4** reflects historical domestic and international enplanements for FY 1995 to FY 2009. Factors impacting historical domestic and international activity are discussed in this section.

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<sup>8</sup> All of the international nonstop service discussed below is as of the week ending September 18, 2009.

**Table II-8**  
Scheduled Nonstop Activity for U.S. Flag & Foreign Flag Carriers - LAX<sup>1/</sup>

U.S. Flag Air Carriers					Foreign Flag Air Carriers		
Airline	Domestic Markets Served	Weekly Domestic Flights	International Markets Served	Weekly International Flights	Airline	Markets Served	Weekly Flights
Southwest	18	757			Mexicana	Cancun, Guadalajara, Leon/Guanajuato, Los Cabos, Mexico City, Morelia, Puerto Vallarta, Zacatecas	90
SkyWest	29	742	Vancouver	21	Air Canada	Calgary, Montreal, Toronto, Vancouver	88
American	18	519	London, Los Cabos, San Salvador, Tokyo, Toronto	39	AeroMexico	Guadalajara, Leon, Mexico City	36
United	18	489	London, Los Cabos, Sydney, Tokyo	30	Qantas	Auckland, Brisbane, Melbourne, Sydney	33
American Eagle	6	299			Korean	Sao Paulo, Seoul, Tokyo	30
Delta <sup>2/</sup>	11	218	Cancun, Guatemala City, Sydney	11	Air France	Paris, Papeete	23
US Airways	4	135			Air New Zealand	Apia, Auckland, London, Rarotonga	21
Virgin America	5	135			British Airways	London	21
Northwest <sup>2/</sup>	7	134	Tokyo	7	Lufthansa German	Frankfurt, Munich	21
Continental	4	129			Volaris	Guadalajara, Mexico City	21
Alaska	4	119	Cancun, Guadalajara, Ixtapa, Loreto, Los Cabos, Manzanillo, Mazatlan, Mexico City, Puerto Vallarta, Vancouver	64	Eva Airways	Taipei	18
Horizon	9	94	La Paz, Loreto	7	LACSA	Guatemala City, San Jose, San Salvador	18
AirTran	3	44			Air Tahiti Nui	Papeete, Paris	15
Frontier	1	41			Asiana	Seoul	14
Allegiant	12	25			Cathay Pacific	Hong Kong	14
jetBlue	2	23			Virgin Atlantic	London	14
Mesa	2	20			WestJet	Calgary, Edmonton	14
Spirit	2	14			China	Taipei	13
Republic	2	14			Singapore	Tokyo, Singapore	12
Hawaiian	1	12			Vaustralia	Brisbane, Sydney	10
Sun Country	1	7			AeroMexico Connect	Hermosillo	7
					Air China	Beijing	7
					All Nippon	Tokyo	7
					China Eastern	Shanghai	7
					Copa	Panama City	7
					Emirates	Dubai	7
					Japan	Tokyo	7
					KLM Royal Dutch	Amsterdam	7
					Lan	Lima	7
					TACA	San Salvador	7
					Air Canada Jazz	Edmonton	6
					Swissair	Zurich	6
					Aeroflot	Moscow	5
					Thai Airways	Bangkok	5
					Air Pacific	Nadi	4
					Avianca	Bogota	4
					El Al Israel	Tel Aviv	4
					Lan Peru	Lima	4
					China Southern	Guangzhou	3
					LTU International	Dusseldorf	3
					Malaysia	Taipei	3
					Vietnam	Taipei	1
<b>Total</b>		<b>3,970</b>		<b>179</b>			<b>644</b>

Notes:

1/ Nonstop service as of September 12-18, 2009.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

Sources: Official Airline Guide (Week of September 12-18, 2009).

Prepared by: Ricondo & Associates, Inc., September 2009.

**Table II-9**

Scheduled Foreign Flag Air Carrier Base - LAX

Air Carrier	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 <sup>1/</sup>
Aeroflot	•	•	•	•	•	•	•	•	•	•	•	•
AeroMexico	•	•	•	•	•	•	•	•	•	•	•	•
Air Canada	•	•	•	•	•	•	•	•	•	•	•	•
Air China	•	•	•	•	•	•	•	•	•	•	•	•
Air France	•	•	•	•	•	•	•	•	•	•	•	•
Air Jamaica	•	•	•	•	•	•	•	•	•	•	•	•
Air New Zealand	•	•	•	•	•	•	•	•	•	•	•	•
Air Pacific	•	•	•	•	•	•	•	•	•	•	•	•
Air Tahiti Nui	•	•	•	•	•	•	•	•	•	•	•	•
All Nippon	•	•	•	•	•	•	•	•	•	•	•	•
Asiana	•	•	•	•	•	•	•	•	•	•	•	•
Avianca	•	•	•	•	•	•	•	•	•	•	•	•
British Airways	•	•	•	•	•	•	•	•	•	•	•	•
Cathay Pacific	•	•	•	•	•	•	•	•	•	•	•	•
China	•	•	•	•	•	•	•	•	•	•	•	•
China Eastern	•	•	•	•	•	•	•	•	•	•	•	•
China Southern	•	•	•	•	•	•	•	•	•	•	•	•
Mexicana	•	•	•	•	•	•	•	•	•	•	•	•
EI Al Israel	•	•	•	•	•	•	•	•	•	•	•	•
Eva Airways	•	•	•	•	•	•	•	•	•	•	•	•
Japan	•	•	•	•	•	•	•	•	•	•	•	•
KLM Royal Dutch	•	•	•	•	•	•	•	•	•	•	•	•
Korean	•	•	•	•	•	•	•	•	•	•	•	•
LACSA	•	•	•	•	•	•	•	•	•	•	•	•
Lan	•	•	•	•	•	•	•	•	•	•	•	•
Air Berlin <sup>2/</sup>	•	•	•	•	•	•	•	•	•	•	•	•
Lufthansa German	•	•	•	•	•	•	•	•	•	•	•	•
Malaysia	•	•	•	•	•	•	•	•	•	•	•	•
Philippine	•	•	•	•	•	•	•	•	•	•	•	•
Qantas	•	•	•	•	•	•	•	•	•	•	•	•
Singapore	•	•	•	•	•	•	•	•	•	•	•	•
Taca	•	•	•	•	•	•	•	•	•	•	•	•
Thai Airways	•	•	•	•	•	•	•	•	•	•	•	•
Virgin Atlantic	•	•	•	•	•	•	•	•	•	•	•	•
Copa		•	•	•	•	•	•	•	•	•	•	•
Swissair				•	•	•	•	•	•	•	•	•
Air India						•	•	•	•	•	•	•
WestJet							•	•	•	•	•	•
Lan Peru							•	•	•	•	•	•
Air Canada Jazz								•	•	•	•	•
Alitalia	•	•	•	•						•	•	•
Emirates											•	•
Virgin Blue											•	•
Aer Lingus <sup>3/</sup>	•	•	•	•	•	•	•	•	•	•	•	☒
AeroLitoral <sup>3/</sup>				•	•	•	•	•	•	•	•	☒
Martinair Holland <sup>3/</sup>	•	•	•	•	•						•	☒
Aero California	•	•	•	•	•	•	•	•				
Varig Brazilian	•	•	•	•	•	•	•	•				
Harmony						•	•					
Canada 3000	•	•	•	•								
Number of Airlines	40	41	41	43	41	42	44	44	42	43	46	43

Notes:

1/ As of August 2009.

2/ Air Belin merged with LTU International in May 2009.

3/ Operated in FY 2010. As of August 2009 operations have been discontinued.

Sources: Official Airline Guide, August 2009.

Prepared by: Ricondo & Associates, Inc., September 2009.

**Table II-10**

Historical Enplanements - LAX

Fiscal Year	Domestic Activity					International Activity		Total Activity	
	Airport Enplanements <sup>1/</sup>	Airport Annual % Change	U.S. Enplanements <sup>2/</sup>	U.S. Annual % Change	Airport Share of U.S. Enplanements	Airport Enplanements <sup>1/</sup>	Annual % Change	Airport Enplanements <sup>1/</sup>	Annual % Change
1999	23,736,102	-	610,900,000	-	3.9%	7,749,359	-	31,485,461	-
2000	24,880,727	4.8%	641,200,000	5.0%	3.9%	8,350,995	7.8%	33,231,722	5.5%
2001	24,960,755	0.3%	625,800,000	(2.4%)	4.0%	8,879,214	6.3%	33,839,969	1.8%
2002	20,783,817	(16.7%)	575,100,000	(8.1%)	3.6%	7,347,844	(17.2%)	28,131,661	(16.9%)
2003	20,441,104	(1.6%)	587,800,000	2.2%	3.5%	7,269,224	(1.1%)	27,710,328	(1.5%)
2004	21,241,860	3.9%	628,500,000	6.9%	3.4%	7,837,987	7.8%	29,079,847	4.9%
2005	22,143,442	4.2%	669,500,000	6.5%	3.3%	8,404,809	7.2%	30,548,251	5.0%
2006	22,030,697	(0.5%)	668,400,000	(0.2%)	3.3%	8,624,449	2.6%	30,655,146	0.3%
2007	22,374,333	1.6%	690,100,000	3.2%	3.2%	8,429,137	(2.3%)	30,803,470	0.5%
2008	22,427,379	0.2%	679,600,000 <sup>3/</sup>	(1.5%)	3.3%	8,714,960	3.4%	31,142,339	1.1%
2009	20,662,550	(7.9%)	626,500,000 <sup>3/</sup>	(7.8%)	3.3%	7,666,428	(12.0%)	28,328,978	(9.0%)
Compounded Annual Growth Rate									
1999 - 2001	2.5%		1.2%			7.0%		3.7%	
2001 - 2002	(16.7%)		(8.1%)			(17.2%)		(16.9%)	
2002 - 2008	1.3%		2.8%			2.9%		1.7%	
2008 - 2009	(7.9%)		(7.8%)			(12.0%)		(9.0%)	
1999 - 2009	(1.4%)		0.3%			(0.1%)		(1.1%)	

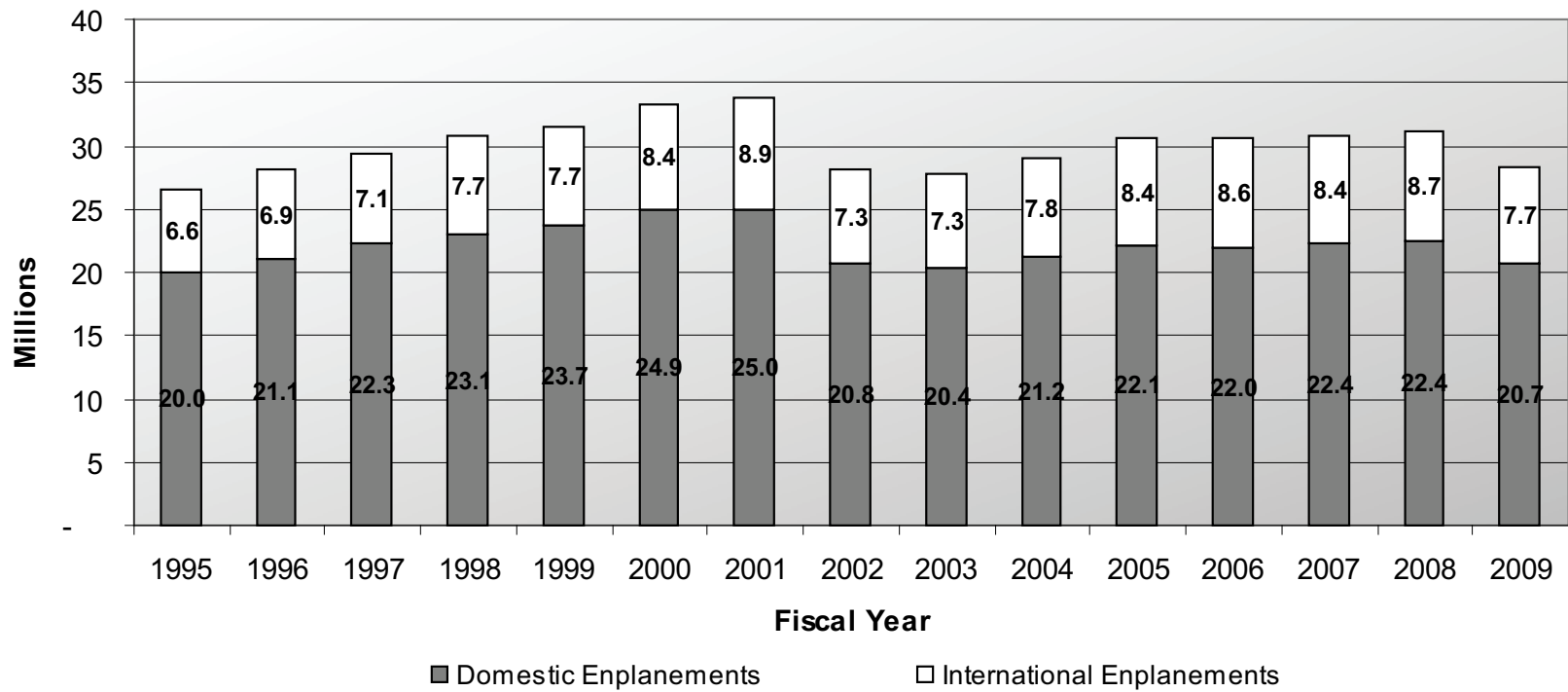
Notes:

- 1/ Twelve months ending June 30.
- 2/ Twelve months ending September 30.
- 3/ Estimated by the FAA.

Sources: City of Los Angeles, Department of Airports (Airport activity); FAA (U.S. activity), June 2009.  
Prepared by Ricondo & Associates, Inc., June 2009.

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Source: City of Los Angeles, Department of Airports, August 2009.  
 Prepared by: Ricondo & Associates, Inc., August 2009.

**Exhibit II-4**

### Historical Domestic & International Enplanements - LAX

As shown in **Table II-11**, Southwest nearly tripled its daily nonstop flights at the Airport between FY 1991 and FY 2001, increasing its activity from 41 to 115 daily flights during this period. Southwest's passenger activity increased accordingly, from approximately 1.0 million enplanements in FY 1991 to approximately 3.9 million in FY 2001, a CAGR of 15.0 percent. Its share of domestic enplanements during this same period increased from 4.1 percent to 15.5 percent. Other airlines began matching fares with Southwest in certain markets during the mid to late-1990s, including Shuttle by United (see discussion below), stimulating domestic passenger traffic at the Airport. As also shown in Table II-11, nonstop service by Southwest generally remained at FY 2001 levels through FY 2009.

Domestic enplanements at the Airport increased at a CAGR of 0.2 percent between FY 2003 and FY 2009, a rate of growth that was well below the 1.1 percent growth experienced nationwide. Factors contributing to the Airport's relatively flat growth during this period include the relative maturity of the service market (which contributed to lower growth rates overall) and the significant decrease in scheduled domestic departing seats. In addition, cutbacks in service systemwide by ATA contributed to a 0.5 percent decrease in domestic enplanements in FY 2006.

**Table II-12** presents scheduled domestic departing seats by selected airlines (which accounted for a combined 73 percent of annual scheduled domestic departing seats in FY 2009), as well as the total for the Airport between FY 1999 and FY 2009. As shown, scheduled domestic departing seats decreased at a compounded annual rate of 8.5 percent between FY 2000 and FY 2003. This decrease in seat capacity reflected decisions by the airlines to increase load factors systemwide and enhance revenue performance during difficult economic times for the industry. This decrease in capacity was especially pronounced for United and Delta (mainline and affiliates), airlines with high shares of domestic enplanements at the Airport. Their scheduled domestic departing seats decreased at a compounded annual rate of 14.0 percent and 8.1 percent, respectively, between FY 2000 and FY 2003. In recent years, total scheduled domestic departing seats remained at FY 2003 levels through FY 2008, contributing to the relatively flat growth in domestic enplanements at the Airport during this period. With the cutbacks in airline service nationwide, total scheduled domestic departing seats decreased 9.3 percent in FY 2009 from FY 2008 levels, coinciding with the 7.9 percent decrease in domestic enplanements at the Airport during this same period.

United's decrease in domestic departing seats at the Airport was primarily due to the elimination of Shuttle by United service following the events of September 11, 2001. This service operated as a low-fare subsidiary along the highly competitive West Coast corridor between FY 1995 and early FY 2002 (October 2001) using Boeing-737-300 and Boeing 737-500 aircraft. It competed directly with Southwest on routes to several West Coast corridor markets (including Oakland, Portland, San Jose, and Sacramento) and to additional markets outside the West Coast corridor such as Las Vegas, Phoenix, Reno, Salt Lake City, and Tucson. Other markets served by Shuttle by United in the West Coast corridor included San Diego, Seattle, and San Francisco, its primary market. This frequent, low-fare service artificially stimulated the demand for air travel along the West Coast corridor, resulting in strong growth in passenger activity at the Airport during the mid- to late-1990s and early 2000s. As shown in **Exhibit II-5**, Shuttle by United accounted for approximately 33 percent of United's total scheduled domestic departing seats at the Airport between FY 1995 and FY 2001. Following its elimination, Shuttle by United's markets were served by United with significantly fewer frequencies, primarily by regional jets. United mainline focused primarily on serving its major domestic hubs (e.g., Chicago, Denver, and New York/Newark).



**Table II-11**

Nonstop Service by Southwest - LAX

	Daily Nonstop Flights (Fiscal-Year-End)																		
	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Albuquerque	5	6	6	6	6	6	6	6	6	6	6	6	6	6	5	4	4	4	4
El Paso	7	7	7	7	7	6	6	6	6	6	6	5	4	4	3	3	3	3	3
Phoenix	20	24	26	25	22	22	23	21	21	21	19	16	13	13	13	13	13	13	10
Oakland	9	10	16	18	24	24	24	24	23	24	23	20	21	21	21	21	21	20	15
Las Vegas		8	13	13	19	19	19	18	17	17	16	14	14	14	14	14	14	14	13
San Jose				12	12	13	14	13	13	14	13	13	13	13	13	13	13	14	11
Reno					3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Sacramento					6	6	6	7	7	8	8	8	9	9	9	10	10	10	8
Salt Lake City					4	4	4	4	4	4	4	4	4	4	4	4	4	5	4
Tucson					4	4	4	4	5	5	5	5	5	5	5	5	6	6	5
San Antonio						1	1	1	1	1	1	1	1	1	1	1	1	1	2
Kansas City							2	3	4	5	5	5	5	5	4	4	4	4	3
Nashville							2	2	3	3	3	3	3	3	3	3	3	3	3
Austin									1	1	1	1	1	1	1	1	1	1	2
New Orleans										1	1	1	1	1	1	0	0	0	0
Indianapolis											1	1	1	1	1	0	0	0	0
Chicago Midway												3	3	3	5	7	7	7	6
Houston Hobby												1	1	1	4	4	4	4	4
Baltimore													2	2	2	2	2	0	0
St. Louis														1	1	1	1	1	0
Philadelphia															2	2	2	0	0
San Francisco																		8	11
Denver																			6
<b>Total</b>	<b>41</b>	<b>55</b>	<b>68</b>	<b>81</b>	<b>107</b>	<b>108</b>	<b>114</b>	<b>112</b>	<b>114</b>	<b>119</b>	<b>115</b>	<b>110</b>	<b>110</b>	<b>111</b>	<b>115</b>	<b>115</b>	<b>116</b>	<b>121</b>	<b>113</b>

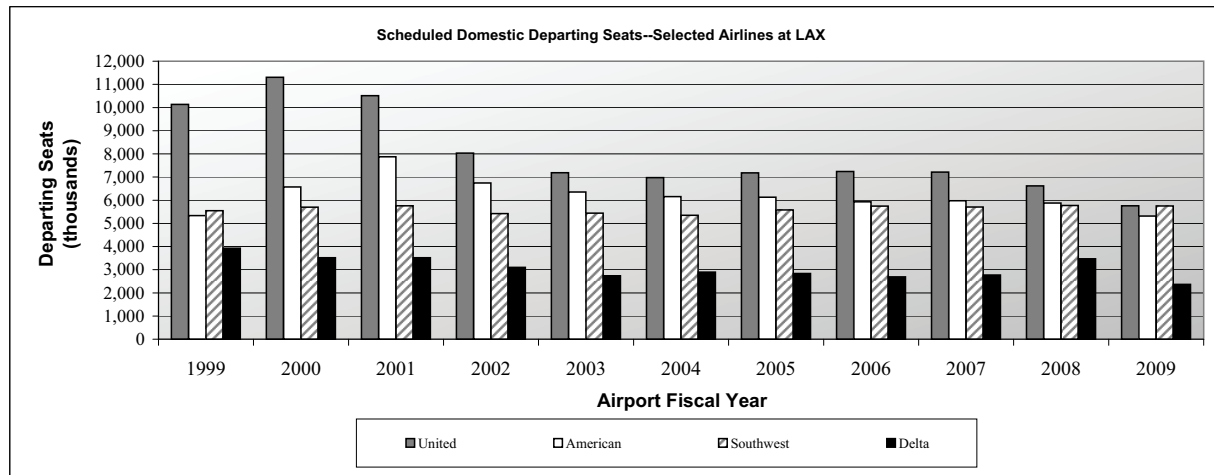
Source: Official Airline Guide, June 2009.  
Prepared by: Ricondo & Associates, Inc., June 2009.

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**Table II-12**

Scheduled Domestic Departing Seats (LAX) by Selected Airlines and Airport Total (Thousands)

Scheduled Domestic Departing Seats										
Fiscal Year	United	Annual % Change	American	Annual % Change	Southwest	Annual % Change	Delta	Annual % Change	Airport Total	Annual % Change
1999	10,134	-	5,334	-	5,549	-	3,926	-	35,053	-
2000	11,306	11.6%	6,572	23.2%	5,702	2.8%	3,517	(10.4%)	37,267	6.3%
2001	10,513	(7.0%)	7,876	19.8%	5,757	1.0%	3,516	(0.0%)	37,910	1.7%
2002	8,030	(23.6%)	6,746	(14.3%)	5,424	(5.8%)	3,102	(11.8%)	31,460	(17.0%)
2003	7,185	(10.5%)	6,355	(5.8%)	5,441	0.3%	2,734	(11.9%)	28,505	(9.4%)
2004	6,973	(3.0%)	6,157	(3.1%)	5,350	(1.7%)	2,894	5.9%	28,434	(0.3%)
2005	7,182	3.0%	6,129	(0.5%)	5,582	4.3%	2,839	(1.9%)	28,874	1.5%
2006	7,237	0.8%	5,931	(3.2%)	5,745	2.9%	2,690	(5.3%)	28,369	(1.7%)
2007	7,216	(0.3%)	5,978	0.8%	5,709	(0.6%)	2,771	3.0%	28,882	1.8%
2008	6,620	(8.3%)	5,879	(1.7%)	5,774	1.1%	3,468	25.2%	29,043	0.6%
2009	5,759	(13.0%)	5,318	(9.5%)	5,750	(0.4%)	2,367	(31.7%)	26,353	(9.3%)
Compounded Annual Growth Rate										
1999 - 2001	1.9%		21.5%		1.9%		(5.4%)		4.0%	
2001 - 2002	(23.6%)		(14.3%)		(5.8%)		(11.8%)		(17.0%)	
2002 - 2008	(3.2%)		(2.3%)		1.0%		1.9%		(1.3%)	
2008 - 2009	(13.0%)		(9.5%)		(0.4%)		(31.7%)		(9.3%)	
1999 - 2009	(5.5%)		(0.0%)		0.4%		(4.9%)		(2.8%)	

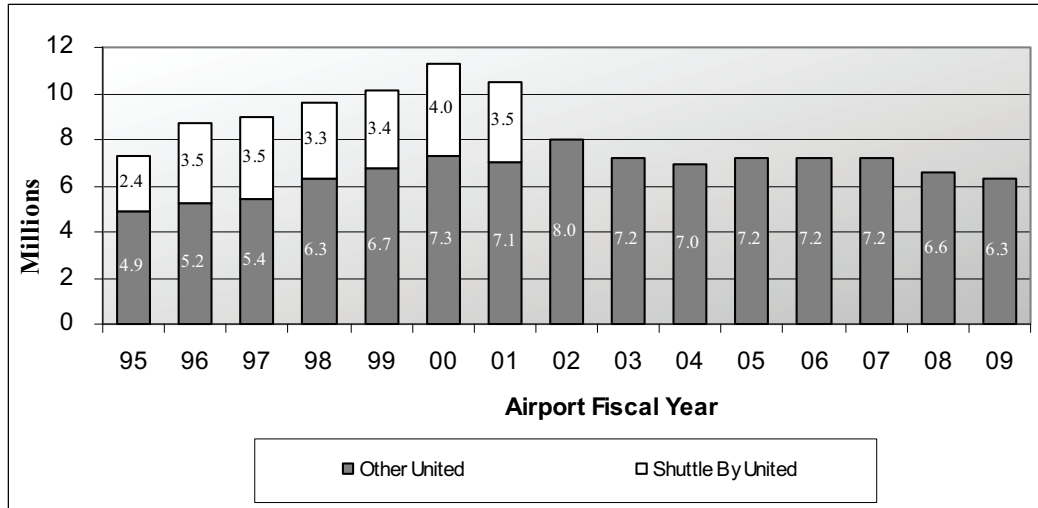


Source: Official Airline Guide, August 2009.  
Prepared by: Ricondo & Associates, Inc., August 2009.

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**Exhibit II-5**

**Shuttle by United Share of United Domestic Departing Seats**

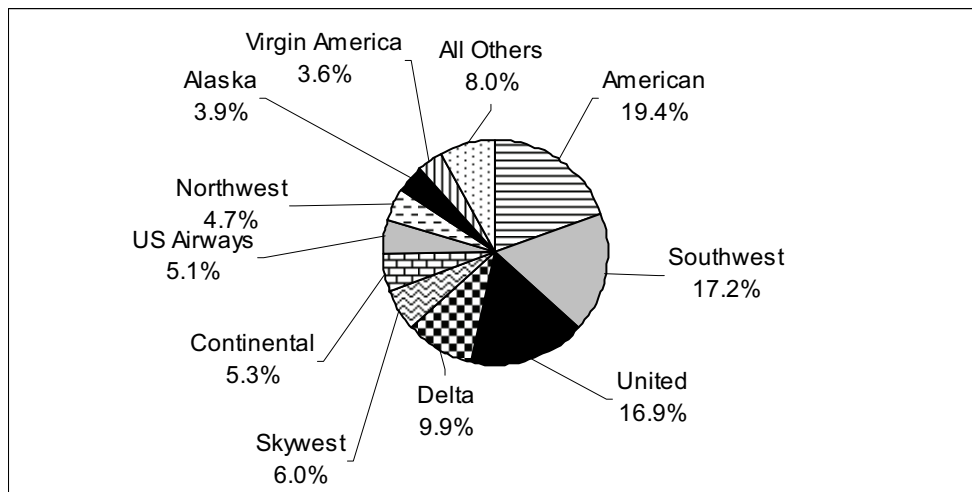


Source: Official Airline Guide, June 2009.  
Prepared by: Ricondo & Associates, Inc., June 2009.

**Table II-13** presents domestic enplanements by airline between FY 2005 and FY 2009. As shown, four airlines (American, United, Southwest, and Delta) accounted for between 63.4 percent and 67.2 percent of domestic enplanements at the Airport during this period, with six other airlines accounting for an additional 24.9 to 28.6 percent. No major shifts in market share among the carriers occurred during the years depicted. **Exhibit II-6** presents this information for FY 2009.

**Exhibit II-6**

**Domestic Enplanements by Airline (LAX) – FY 2009**



Source: City of Los Angeles, Department of Airports, June 2009.  
Prepared by: Ricondo & Associates, Inc.

**Table II-13**

Historical Domestic Enplanements by Airline - LAX <sup>1/</sup>

	Airline	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
		Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1	American	4,219,928	19.1%	4,345,425	19.7%	4,369,207	19.5%	4,307,613	19.2%	4,009,530	19.4%
2	Southwest	3,763,817	17.0%	3,930,014	17.8%	3,817,855	17.1%	3,851,867	17.2%	3,556,203	17.2%
3	United	4,422,338	20.0%	4,333,904	19.7%	4,347,812	19.4%	3,856,659	17.2%	3,489,467	16.9%
4	Delta <sup>2/</sup>	2,267,127	10.2%	2,191,476	9.9%	2,193,630	9.8%	2,192,846	9.8%	2,046,092	9.9%
5	Skywest	1,277,811	5.8%	1,317,516	6.0%	1,405,331	6.3%	1,336,688	6.0%	1,234,324	6.0%
6	Continental	970,121	4.4%	1,085,628	4.9%	1,170,936	5.2%	1,143,870	5.1%	1,104,103	5.3%
7	US Airways <sup>3/</sup>	1,424,894	6.4%	1,258,953	5.7%	1,233,073	5.5%	1,106,982	4.9%	1,060,095	5.1%
8	Northwest <sup>2/</sup>	988,702	4.5%	996,474	4.5%	995,295	4.4%	998,391	4.5%	967,132	4.7%
9	Alaska	870,079	3.9%	825,034	3.7%	843,616	3.8%	782,663	3.5%	809,289	3.9%
10	Virgin America	-	0.0%	-	0.0%	-	0.0%	343,589	1.5%	733,879	3.6%
11	American Eagle	512,923	2.3%	502,148	2.3%	509,076	2.3%	485,023	2.2%	406,422	2.0%
12	Horizon	128,627	0.6%	202,763	0.9%	252,551	1.1%	372,094	1.7%	300,703	1.5%
13	AirTran	152,400	0.7%	179,265	0.8%	202,376	0.9%	240,455	1.1%	240,493	1.2%
14	Frontier	240,639	1.1%	215,757	1.0%	304,274	1.4%	255,525	1.1%	212,323	1.0%
15	Hawaiian	269,460	1.2%	237,162	1.1%	225,572	1.0%	226,323	1.0%	195,558	0.9%
16	Spirit	75,697	0.3%	45,757	0.2%	70,544	0.3%	100,603	0.4%	73,567	0.4%
17	Qantas	31,067	0.1%	39,668	0.2%	52,243	0.2%	61,873	0.3%	63,004	0.3%
18	ExpressJet	1,688	0.0%	2,101	0.0%	13,185	0.1%	442,273	2.0%	50,662	0.2%
19	Midwest	52,737	0.2%	97,586	0.4%	115,517	0.5%	134,362	0.6%	39,785	0.2%
20	MN Airlines	39,733	0.2%	43,287	0.2%	40,425	0.2%	53,843	0.2%	33,700	0.2%
	Other	433,654	2.0%	180,779	0.8%	211,815	0.9%	133,837	0.6%	36,219	0.2%
	Airport Total <sup>4/</sup>	22,143,442	100.0%	22,030,697	100.0%	22,374,333	100.0%	22,427,379	100.0%	20,662,550	100.0%

Notes:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

3/ On September 27, 2005, US Airways completed its merger with America West. The FAA granted US Airways a single operating certificate on September 26, 2007.

4/ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports, June 2009.

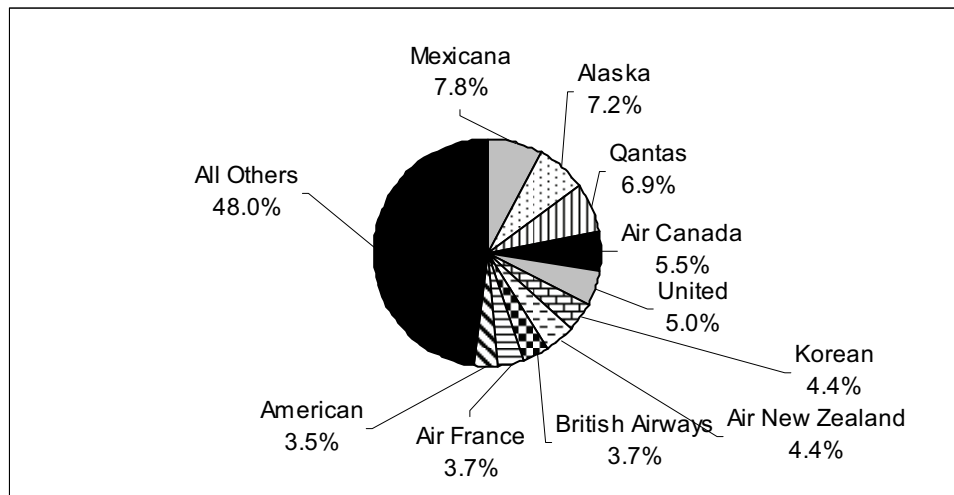
Prepared by: Ricondo & Associates, Inc., June 2009.

Table II-10 presents historical data on international enplanements at the Airport and the nation between FY 1999 and FY 2009. As shown, international passenger activity at the Airport increased from 7.7 million enplanements in FY 1999 to 8.9 million in FY 2001, a CAGR of 7.0 percent during this period. Due to the effects of September 11, 2001 and a downturn in the international economy, particularly in Asia, international enplanements at the Airport decreased from 8.9 million in FY 2001 to 7.3 million in FY 2003 (a compounded annual decrease of 9.5 percent during this period). Thereafter, international passenger activity began to recover, with enplanements increasing at a CAGR of 3.7 percent between FY 2003 and FY 2008, reaching 8.7 million. In FY 2009, due to the global economic environment and capacity reductions by U.S. and foreign flag carriers on international routes, international passenger enplanements decreased by 12.0 percent from FY 2008.

**Table II-14** presents international enplanements by airline between FY 2005 and FY 2009. International enplanements are spread over a number of airlines, with no airline dominating. Mexicana enplaned the most international passengers at the Airport in FY 2009 with a 7.8 percent share, providing nonstop service to eight cities in Mexico. Alaska, providing nonstop service to nine cities in Mexico and one city in Canada, had the second highest share of international enplanements at the Airport in FY 2009 with 7.2 percent of the traffic. As also shown, the top 20 airlines in FY 2009 accounted for between 72.3 and 77.8 percent of international activity during the years depicted. **Exhibit II-7** presents this information for FY 2009.

**Exhibit II-7**

International Enplanements by Airline (LAX) – FY 2009



Source: City of Los Angeles, Department of Airports, June 2009.  
Prepared by: Ricondo & Associates, Inc., June 2009.

**Table II-15** presents total enplanements by airline at the Airport between FY 2005 and FY 2009. Four airlines (United, American, Southwest, and Delta) accounted for slightly more than half of total enplanements at the Airport from FY 2005 through FY 2007. In FY 2008, the share of these four airlines decreased to 48.7 percent of total enplanements and 48.9 percent in FY 2009. For the most part, each airline's market share of total enplanements at the Airport remained steady between FY 2005 and FY 2009.

**Table II-14**

Historical International Enplanements by Airline - LAX <sup>1/</sup>

	Airline	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
		Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1	Mexicana	618,550	7.4%	712,492	8.3%	572,616	6.8%	636,272	7.3%	596,599	7.8%
2	Alaska	566,505	6.7%	634,635	7.4%	636,063	7.5%	627,303	7.2%	550,757	7.2%
3	Qantas	538,885	6.4%	555,133	6.4%	567,899	6.7%	552,338	6.3%	527,956	6.9%
4	Air Canada	449,757	5.4%	487,446	5.7%	508,083	6.0%	477,779	5.5%	424,024	5.5%
5	United	436,265	5.2%	491,252	5.7%	478,622	5.7%	503,410	5.8%	382,496	5.0%
6	Korean	344,808	4.1%	356,190	4.1%	338,740	4.0%	335,803	3.9%	334,256	4.4%
7	Air New Zealand	441,266	5.3%	433,551	5.0%	381,194	4.5%	386,452	4.4%	334,028	4.4%
8	British Airways	254,371	3.0%	289,601	3.4%	274,435	3.3%	296,390	3.4%	284,737	3.7%
9	Air France	253,446	3.0%	250,465	2.9%	273,314	3.2%	280,763	3.2%	281,619	3.7%
10	American	272,185	3.2%	297,428	3.4%	310,698	3.7%	303,604	3.5%	267,948	3.5%
11	Cathay Pacific	215,110	2.6%	301,119	3.5%	312,261	3.7%	326,263	3.7%	244,372	3.2%
12	Lufthansa German	259,300	3.1%	241,768	2.8%	247,882	2.9%	266,492	3.1%	242,930	3.2%
13	Eva Airways	204,483	2.4%	227,505	2.6%	256,952	3.0%	255,263	2.9%	232,477	3.0%
14	China	220,505	2.6%	230,174	2.7%	235,672	2.8%	222,747	2.6%	209,862	2.7%
15	AeroMexico	227,778	2.7%	232,589	2.7%	229,085	2.7%	241,626	2.8%	208,536	2.7%
16	Air Tahiti Nui	198,491	2.4%	196,057	2.3%	193,798	2.3%	210,280	2.4%	187,397	2.4%
17	Asiana Airlines	-	0.0%	-	0.0%	-	0.0%	-	0.0%	179,999	2.3%
18	Virgin Atlantic	193,580	2.3%	187,358	2.2%	195,061	2.3%	184,303	2.1%	176,229	2.3%
19	Philippine	153,442	1.8%	153,085	1.8%	159,533	1.9%	169,170	1.9%	156,944	2.0%
20	Singapore	230,389	2.7%	240,380	2.8%	248,402	2.9%	226,210	2.6%	139,938	1.8%
	Other	2,325,693	27.7%	2,106,221	24.4%	2,008,827	23.8%	2,212,492	25.4%	1,703,324	22.2%
	Airport Total <sup>2/</sup>	8,404,809	100.0%	8,624,449	100.0%	8,429,137	100.0%	8,714,960	100.0%	7,666,428	100.0%

Notes:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.

2/ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

**Table II-15**

Historical Total Enplanements by Airline - LAX <sup>1/</sup>

Airline	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 American	4,492,113	14.7%	4,642,853	15.1%	4,679,905	15.2%	4,611,217	14.8%	4,277,478	15.1%
2 United	4,858,603	15.9%	4,825,156	15.7%	4,826,434	15.7%	4,360,069	14.0%	3,871,963	13.7%
3 Southwest	3,763,817	12.3%	3,930,014	12.8%	3,817,855	12.4%	3,851,867	12.4%	3,556,203	12.6%
4 Delta <sup>2/</sup>	2,329,863	7.6%	2,230,835	7.3%	2,312,650	7.5%	2,358,251	7.6%	2,145,884	7.6%
5 Alaska	1,436,584	4.7%	1,459,669	4.8%	1,479,679	4.8%	1,409,966	4.5%	1,360,046	4.8%
6 Skywest	1,277,811	4.2%	1,317,516	4.3%	1,425,685	4.6%	1,383,225	4.4%	1,289,602	4.6%
7 Continental	970,303	3.2%	1,085,628	3.5%	1,170,936	3.8%	1,143,870	3.7%	1,104,162	3.9%
8 Northwest <sup>2/</sup>	1,103,405	3.6%	1,118,732	3.6%	1,129,526	3.7%	1,133,442	3.6%	1,091,261	3.9%
9 US Airways <sup>3/</sup>	1,506,080	4.9%	1,287,043	4.2%	1,238,267	4.0%	1,110,117	3.6%	1,060,803	3.7%
10 Virgin America	-	0.0%	-	0.0%	-	0.0%	343,589	1.1%	733,879	2.6%
11 Mexicana	618,550	2.0%	712,492	2.3%	572,616	1.9%	636,272	2.0%	596,599	2.1%
12 Qantas	569,952	1.9%	594,801	1.9%	620,142	2.0%	614,211	2.0%	590,960	2.1%
13 Air Canada	449,757	1.5%	487,446	1.6%	508,083	1.6%	477,779	1.5%	424,024	1.5%
14 American Eagle	512,923	1.7%	502,148	1.6%	509,076	1.7%	485,023	1.6%	406,422	1.4%
15 Korean	344,808	1.1%	356,190	1.2%	338,740	1.1%	335,803	1.1%	334,256	1.2%
16 Air New Zealand	441,285	1.4%	433,578	1.4%	381,369	1.2%	386,452	1.2%	334,028	1.2%
17 Horizon	128,627	0.4%	202,763	0.7%	252,551	0.8%	373,233	1.2%	316,753	1.1%
18 British Airways	254,371	0.8%	289,601	0.9%	274,435	0.9%	296,390	1.0%	284,737	1.0%
19 Air France	253,446	0.8%	250,465	0.8%	273,314	0.9%	280,763	0.9%	281,619	1.0%
20 Cathay Pacific	215,110	0.7%	301,119	1.0%	312,261	1.0%	326,263	1.0%	244,372	0.9%
Other	5,020,843	16.4%	4,627,097	15.1%	4,679,946	15.2%	5,224,537	16.8%	4,023,927	14.2%
Airport Total <sup>4/</sup>	30,548,251	100.0%	30,655,146	100.0%	30,803,470	100.0%	31,142,339	100.0%	28,328,978	100.0%

Notes:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

3/ On September 27, 2005, US Airways completed its merger with America West. The FAA granted US Airways a single operating certificate on September 26, 2007.

4/ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports, June 2009.  
Prepared by: Ricondo & Associates, Inc., June 2009.

## 2.5.2 Air Service Markets

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands and available services and facilities. This is particularly true for the Airport, as it serves primarily O&D passengers. **Table II-16** presents historical data on the Airport's top 50 domestic O&D markets for FY 2001 and FY 2008, the latest fiscal year for which such data are currently available. As shown, many markets along the West Coast corridor occupy the highest ranks during both years depicted. Notwithstanding this strong regional demand, the Airport's markets in FY 2001 and FY 2008 had an average stage length (i.e., passenger trip distance) of 1,429 and 1,624 miles, respectively, compared to 812 and 875 miles nationwide. Historically, the Airport's average stage length has significantly exceeded the nation's, reflecting strong local demand for service to long-haul markets such as New York, Honolulu, Washington, D.C., Atlanta, and Boston.

Nonstop scheduled domestic air service available from the Airport is presented in **Table II-17**. As shown, 83 domestic cities are served with a total of 3,970 weekly nonstop flights. In FY 2008, 46 of the Airport's top 50 domestic O&D markets were served with nonstop flights on a weekly basis. New York/Newark, the Airport's largest domestic O&D market, was provided 243 weekly nonstop flights. Other domestic markets with significant weekly nonstop service include San Francisco (281), San Diego (234), and Las Vegas (210). **Exhibit II-8** graphically illustrates the Airport's nonstop domestic markets, as of the week ending September 18, 2009.

**Table II-18** presents historical data on the Airport's top 50 international O&D markets for FY 2008, the latest fiscal year for which such data are currently available. As shown, numerous international markets are represented including cities in Mexico, Central and South America, the Caribbean, Europe, Asia, and the Pacific. Based on these data, approximately 91 percent of international traffic at the Airport was O&D traffic in FY 2008, indicating that approximately 9 percent of all international passengers arriving at the Airport are connecting to other flights. Nonstop scheduled international air service available from the Airport is presented in **Table II-19**. As shown, 53 international cities are served with a total of 823 weekly nonstop flights. Each of the Airport's top 15 international O&D markets in FY 2008 are served with nonstop service, as well as 42 of the Airport's top 50 international O&D markets. London, the largest international O&D market for the Airport in FY 2008, is served by 56 weekly nonstop flights. Other international markets with significant nonstop service from the Airport include Vancouver (77 weekly nonstop flights), Guadalajara (60), Mexico City (60), Tokyo (49), and Taipei (35). **Exhibit II-9** graphically illustrates the Airport's nonstop international markets, as of the week ending September 18, 2009.

## 2.5.3 Historical Aircraft Operations

**Table II-20** presents historical operations at the Airport by major user groups between FY 1999 and FY 2009. After increasing through FY 2001, aircraft operations declined through FY 2003 primarily due to the continued effects of September 11, 2001, an economic slowdown, and the subsequent reduction of activity by passenger and all-cargo carriers at the Airport. Between FY 2004 and FY 2008, total operations increased at a CAGR of 1.7 percent, reaching 679,781 operations in FY 2008. By comparison, the FAA estimates that total aircraft operations nationwide decreased at a 1.9 percent compounded rate during these years. Due to the cutbacks in passenger airline capacities and the economic environment, total operations at the Airport decreased 17.3 percent in FY 2009.



**Table II-16**

Primary Domestic O&D Passenger Markets - LAX

FY 2001				FY 2008 <sup>1/</sup>				
Rank	Market	Trip Length <sup>2/</sup>	Total O&D Passengers	Rank	Market	Nonstop Service <sup>3/</sup>	Trip Length <sup>2/</sup>	Total O&D Passengers
1	New York/Newark	LH	2,955,470	1	New York/Newark	•	LH	2,860,230
2	Las Vegas	SH	1,885,740	2	San Francisco	•	SH	1,591,020
3	Oakland	SH	1,614,230	3	Chicago	•	MH	1,431,730
4	Chicago	MH	1,513,950	4	Las Vegas	•	SH	1,193,530
5	Phoenix	SH	1,191,010	5	Honolulu	•	LH	1,153,740
6	San Francisco	SH	1,177,940	6	Oakland	•	SH	1,009,790
7	San Jose	SH	1,153,630	7	Seattle	•	MH	1,008,980
8	Honolulu	LH	1,126,990	8	Washington	•	LH	998,060
9	Seattle	MH	1,062,260	9	Denver	•	MH	887,600
10	Sacramento	SH	823,290	10	Atlanta	•	LH	807,110
11	Washington	LH	822,680	11	Phoenix	•	SH	785,630
12	Denver	MH	796,030	12	Dallas	•	MH	769,540
13	Salt Lake City	SH	719,500	13	San Jose	•	SH	752,490
14	Boston	LH	712,690	14	Houston	•	MH	729,060
15	Dallas	MH	645,510	15	Boston	•	LH	693,610
16	Atlanta	LH	642,360	16	Sacramento	•	SH	620,190
17	Portland	MH	596,440	17	Minneapolis	•	MH	593,320
18	Baltimore	LH	586,020	18	Philadelphia	•	LH	582,280
19	Houston	MH	571,100	19	Detroit	•	LH	579,860
20	Philadelphia	LH	529,160	20	Salt Lake City	•	SH	533,310
21	Detroit	LH	527,040	21	Orlando	•	LH	525,620
22	Orlando	LH	507,980	22	Portland, OR	•	MH	521,150
23	Minneapolis	MH	498,240	23	Kahului	•	LH	499,030
24	Kahului	LH	442,860	24	Miami	•	LH	403,170
25	Tucson	SH	425,030	25	Fort Lauderdale	•	LH	387,790
26	Reno	SH	383,410	26	St Louis	•	MH	334,280
27	Miami	LH	367,540	27	Tucson	•	SH	331,660
28	Kansas City	MH	311,990	28	Baltimore	•	LH	331,280
29	New Orleans	MH	311,560	29	Kansas City	•	MH	328,650
30	Albuquerque	MH	304,480	30	Austin	•	MH	281,940
31	St Louis	MH	290,770	31	Reno	•	SH	261,010
32	Fort Lauderdale	LH	259,070	32	Albuquerque	•	MH	250,170
33	Tampa	LH	259,040	33	Indianapolis	•	LH	246,240
34	Indianapolis	LH	248,990	34	Cleveland	•	LH	238,290
35	Cleveland	LH	244,120	35	Nashville	•	MH	236,560
36	Nashville	MH	212,470	36	Charlotte	•	LH	228,790
37	Austin	MH	207,110	37	Tampa	•	LH	223,560
38	Hartford	LH	191,120	38	New Orleans	•	MH	222,610
39	Columbus	LH	189,230	39	Lihue	•	LH	204,840
40	Milwaukee	MH	183,730	40	San Antonio	•	MH	187,170
41	Raleigh	LH	181,810	41	Milwaukee	•	MH	185,330
42	Kona	LH	177,740	42	Pittsburgh	•	LH	179,600
43	San Antonio	MH	172,970	43	Kona	•	LH	172,350
44	Pittsburgh	LH	168,990	44	Hartford	•	LH	156,060
45	Providence	LH	168,550	45	Memphis	•	MH	147,790
46	El Paso	MH	154,850	46	Raleigh	•	LH	145,660
47	Charlotte	LH	154,230	47	Spokane	•	MH	126,810
48	San Diego	SH	149,160	48	Columbus	•	LH	118,560
49	Cincinnati	LH	141,680	49	Boise	•	MH	117,790
50	Lihue	LH	135,310	50	El Paso	•	MH	111,580
	Others		4,310,740		Others			4,023,080
	Total		33,407,810		Total			31,309,500

Average

Airport <sup>4/</sup>	1,429 miles
United States	812 miles

Average

Airport <sup>4/</sup>	1,624 miles
United States	875 miles

Notes:

1/ Most current data available from the U.S. Department of Transportation.

2/ (SH) Short Haul = 1 to 600 miles  
(MH) Medium Haul = 601 to 1,800 miles  
(LH) Long Haul = over 1,800 miles

3/ As of May 14, 2009.

4/ Average calculated for all of the Airport's O&D markets.

Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.  
Prepared by Ricondo & Associates, Inc., June 2009.

**Table II-17**

Nonstop Domestic Markets - LAX

	Market	Weekly Nonstop Flights	Number of Airlines	Airline
1	San Francisco	281	5	Alaska (7), American (42), Southwest (78), United (116), Virgin America (38)
2	New York City <sup>1/</sup>	243	6	American (7-EWR, 62-JFK), Continental (40-EWR), Delta (46-JFK), jetBlue (13-JFK), United (41-JFK), Virgin America (34-JFK)
3	San Diego	234	2	American Eagle (125), SkyWest (109)
4	Las Vegas	210	6	American (21), Mesa (6), Northwest (21), Southwest (87), United (40), US Airways (35)
5	Chicago <sup>2/</sup>	179	3	American (63-ORD), United (76-ORD), Southwest (40-MDW)
6t	Denver	154	4	American (14), Frontier (41), Southwest (39), United (60)
6t	Phoenix	154	4	Mesa (14), SkyWest (29), Southwest (72), US Airways (39)
8	San Jose	133	3	American Eagle (41), SkyWest (21), Southwest (71)
9	Seattle	128	4	Alaska (72), SkyWest (28), United (1), Virgin America (22)
10	Dallas	118	1	American (104), SkyWest (14)
11	Oakland	104	1	Southwest
12	Santa Barbara	99	2	American Eagle (52), SkyWest (47)
13	Atlanta	97	2	Air Tran (27), Delta (70)
14	Salt Lake City	95	4	Delta (33), SkyWest (23-Delta), SkyWest (14-United), Southwest (25)
15	Washington, DC <sup>4/</sup>	94	4	Alaska (7-DCA), American (21-IAD), United (48-IAD), Virgin America (18-IAD)
16	Houston <sup>3/</sup>	91	2	Continental (64-IAH), Southwest (27-HOU)
17	Fresno	88	2	American Eagle (49), SkyWest (39)
18	Honolulu	85	6	American (26), Continental (7), Delta (12), Hawaiian (12), Northwest (7), United (21)
19	Sacramento	84	2	SkyWest (27), Southwest (57)
20	Boston	69	4	American (27), jetBlue (10), United (14), Virgin America (18)
21	Tucson	63	2	Sky West (31), Southwest (32)
22	Portland, OR	60	2	Alaska (33), SkyWest (27)
23	Monterey	55	2	American Eagle (28), SkyWest (27)
24	Minneapolis	47	2	Northwest (40), Sun Country (7)
25	Detroit	46	2	Northwest (39), Spirit (7)
26	Albuquerque	44	2	SkyWest (17), Southwest (27)
27t	Carlsbad	42	1	SkyWest
27t	Miami	42	1	American
27t	Philadelphia	42	2	United (7), US Airways (35)
27t	Reno	42	3	Horizon (20), SkyWest (3), Southwest (19)
31	Palm Springs	41	1	SkyWest
32	Kahului	35	3	American (13), Delta (7), United (15)
33	San Antonio	33	2	SkyWest (13), Southwest (20)
34	Austin	32	2	American (20), Southwest (12)
35t	Orlando	28	3	American (7), Delta (14), United (7)
35t	St. Louis	28	1	American
37t	Boise	27	2	Horizon (14), SkyWest (13)
37t	Kansas City	27	2	Republic (7), Southwest (20)
37t	San Luis Obispo	27	1	SkyWest
40t	Charlotte	26	1	US Airways
40t	Santa Maria	26	1	SkyWest
42t	Nashville	21	2	American (7), Southwest (14)
42t	Yuma	21	1	SkyWest
44t	Bakersfield	20	1	SkyWest
44t	El Paso	20	1	Southwest
44t	Lihue	20	3	American (7), Delta (5), United (8)
44t	Oxnard	20	1	SkyWest
48t	Baltimore	19	2	AirTran (5), United (14)
48t	Inyokern	19	1	SkyWest
48t	Milwaukee	19	2	AirTran (12), Northwest (7)
51t	Cincinnati	18	1	Delta
51t	Cleveland	18	1	Continental
51t	Colorado Springs	18	1	SkyWest
51t	Memphis	18	1	Northwest
55	Kona	17	3	American (6), Delta (4), United (7)
56	Medford	16	2	Allegiant (2), Horizon (14)
57	Santa Rosa	13	1	Horizon
58	New Orleans	12	2	Delta (5), United (7)
59	Fort Lauderdale	11	2	Delta (4), Sprint (7)
60t	El Centro/Imperial	7	1	SkyWest
60t	Eureka/Arcata	7	1	Horizon
60t	Pittsburgh	7	1	US Airways
60t	Prescott	7	1	Horizon
60t	Redmond	7	1	Horizon
65t	Grand Canyon	6	1	Horizon
65t	Oklahoma City	6	1	SkyWest
65t	Redding	6	1	Horizon
65t	Tulsa	6	1	SkyWest
69	Tampa	5	1	Northwest
70t	Indianapolis	4	1	Northwest
70t	Roswell	4	1	American Eagle
72	Bellingham	3	1	Allegiant
73t	Billings	2	1	Allegiant
73t	Des Moines	2	1	Allegiant
73t	Fargo	2	1	Allegiant
73t	Fayetteville	2	1	Allegiant
73t	Grand Junction	2	1	Allegiant
73t	McAllen	2	1	Allegiant
73t	Missoula	2	1	Allegiant
73t	San Juan	2	1	American
73t	Springfield, MO	2	1	Allegiant
73t	Sioux Falls	2	1	Allegiant
73t	Wichita	2	1	Allegiant
	Total Weekly Departures	3,970		

Notes:

- 1/ Individual flights to Kennedy, LaGuardia, and Newark.
- 2/ Individual flights to Chicago O'Hare and Chicago Midway.
- 3/ Includes flights to Houston G. Bush International and Houston Hobby.
- 4/ Includes flights to Washington Reagan International and Washington Dulles International.

Sources: Official Airline Guide (Week of September 12-18, 2009).

Prepared by: Ricondo & Associates, Inc., September 2009.



Source: Official Airline Guide, Inc., September 12 – September 18, 2009.  
 Prepared by: Ricondo & Associates, Inc., September 2009.

**Exhibit II-8**

**Nonstop Domestic Markets**

**Table II-18**

Primary International O&D Passenger Markets - LAX

FY 2008 <sup>1/</sup>

Rank	City	Country	Nonstop Service <sup>2/</sup>	Total O&D Passengers <sup>3/</sup>
1	London	United Kingdom	•	1,319,199
2	Taipei	Taiwan	•	808,611
3	Seoul	South Korea	•	800,030
4	Mexico City	Mexico	•	787,101
5	Tokyo	Japan	•	688,024
6	Guadalajara	Mexico	•	646,750
7	Vancouver	Canada	•	601,988
8	Hong Kong	Hong Kong-China	•	581,336
9	Paris	France	•	564,076
10	Toronto	Canada	•	493,077
11	Auckland	New Zealand	•	424,903
12	Frankfurt	Germany	•	369,328
13	San Salvador	El Salvador	•	338,887
14	San Jose Del Cabo	Mexico	•	320,357
15	Papeete	French Polynesia	•	304,873
16	Manila	Philippines	•	295,013
17	Calgary	Canada	•	272,886
18	Cancun	Mexico	•	271,851
19	Guatemala City	Guatemala	•	264,867
20	Sydney	Australia	•	255,152
21	Amsterdam	Netherlands	•	236,661
22	Puerto Vallarta	Mexico	•	213,187
23	Singapore	Singapore	•	200,666
24	Beijing	China	•	191,914
25	San Jose	Costa Rica	•	174,766
26	Munich	Germany	•	174,413
27	Shanghai	China	•	165,859
28	Montreal	Canada	•	159,394
29	Zurich	Switzerland	•	151,549
30	Lima	Peru	•	146,609
31	Tel Aviv	Israel	•	137,148
32	Bangkok	Thailand	•	136,471
33	Nadi	Fiji Islands	•	136,054
34	Dublin	Ireland	•	109,795
35	Leon-Guanajuato	Mexico	•	105,251
36	Guangzhou	China	•	96,071
37	Santiago	Chile	•	95,129
38	Kuala Lumpur	Malaysia	•	91,726
39	Melbourne	Australia	•	88,932
40	Rome	Italy	•	88,554
41	Panama City	Panama Republic	•	85,568
42	Brisbane	Australia	•	84,630
43	Moscow	Russia (European)	•	83,758
44	Mazatlan	Mexico	•	76,138
45	Montego Bay	Jamaica	•	67,729
46	Edmonton	Canada	•	67,105
47	Koeln/Bonn Airport	Germany	•	63,799
48	Bogota	Colombia	•	55,525
49	Sao Paulo	Brazil	•	53,738
50	Monterrey	Mexico	•	49,438
	Others			1,841,211
	Total			15,837,097

Notes:

- 1/ Most current data available from the U.S. Department of Transportation.
- 2/ As of week ending May 16, 2009.
- 3/ Results for FY 2008 combine U.S. Carrier Origin & Destination data plus Gateway to Gateway Data for passengers using foreign flag carriers as their LAX gateway to/from International gateways.

Sources: US DOT *Origin & Destination Survey of Airline Passenger Traffic, International*

US DOT T-100(f) Onflight Market Data for Foreign Carriers, June 2009

Prepared by: Ricondo & Associates, Inc., June 2009.

**Table II-19**

Nonstop International Markets - LAX

Market	Weekly Nonstop Flights	Number of Airlines	Airline
1 Vancouver, British Columbia	77	3	Air Canada (28), Alaska Airlines (28), SkyWest (21)
2t Guadalajara, Mexico	60	4	AeroMexico (13), Alaska (4), Mexicana (29), Volaris (14)
2t Mexico City, Mexico	60	5	AeroMexico (19), Alaska (4), Mexicana (29), United (1), Volaris (7)
4 London, England	56	5	Air New Zealand (7), American (7), British Airways (21), United (7), Virgin Atlantic (14)
5 Tokyo, Japan	49	7	All Nippon (7), American (7), Japan (7), Korea (7), Northwest (7), Singapore (7), United (7)
6 Taipei, Taiwan	35	4	China (13), Eva Airways (18), Malaysia (3), Vietnam (1)
7t Seoul, Korea	34	2	Asiana (14), Korean Air (20)
7t Sydney, Australia	34	3	Delta (6), Qantas (14), United (7), Vaustralia (7)
7t Toronto, Ontario	34	2	Air Canada (27), American (7)
10 Los Cabos, Mexico	30	4	Alaska (7), American (11), Mexicana (5), United (7)
11 Calgary, Alberta	28	2	Air Canada (21), WestJet (7)
12 Paris, France	25	2	Air France (20), Air Tahiti Nui (5)
13 San Salvador, El Salvador	21	3	American (7), LACSA (7), TACA (7)
14 Auckland, New Zealand	17	2	Air New Zealand (12), Qantas (5)
15 Puerto Vallarta, Mexico	15	2	Alaska (7), Mexicana (7), United (1)
16t Frankfurt, Germany	14	1	Lufthansa German
16t Hong Kong, China	14	1	Cathay Pacific
18t Edmonton, Alberta	13	2	Air Canada Jazz (6), WestJet (7)
18t Papeete, French Polynesia	13	2	Air France (3), Air Tahiti Nui (10)
20 Montreal, Quebec	12	1	Air Canada
21t Cancun, Mexico	11	3	Alaska (5), Delta (1), Mexicana (5)
21t Guatemala City, Guatemala	11	2	Delta (4), LACSA (7)
21t Lima, Peru	11	2	Lan (7), Lan Peru (4)
24 Brisbane, Australia	10	2	Qantas (7), Vaustralia (3)
25 Leon/Guanajuato, Mexico	9	2	AeroMexico (4), Mexicana (5)
26t Amsterdam, Netherlands	7	1	KLM-Royal Dutch
26t Beijing, China	7	1	Air China
26t Dubai, United Arab Emirates	7	1	Emirates
26t Hermosillo, Mexico	7	1	AeroMexico Connect
26t Melbourne, Australia	7	1	Qantas
26t Munich, Germany	7	1	Lufthansa German
26t Panama City, Panama	7	1	Copa
26t Shanghai, China	7	1	China Eastern
34t Morelia, Mexico	6	1	Mexicana
34t Zurich, Switzerland	6	1	Swiss International
36t Bangkok, China	5	1	Thai Airways
36t La Paz, Mexico	5	1	Horizon
36t Moscow, Russia	5	1	Aeroflot
36t Singapore, Changi	5	1	Singapore
40t Bogota, Colombia	4	1	Avianca
40t Loreto, Mexico	4	2	Alaska (2), Horizon (2)
40t Mazatlan, Mexico	4	1	Alaska
40t Nadi, Fiji	4	1	Air Pacific
40t San Jose, Costa Rica	4	1	LASCA
40t Tel Aviv, Israel	4	1	El Al Israel
40t Zacatecas, Mexico	4	1	Mexicana
47t Dusseldorf, German	3	1	LTU International
47t Guangzhou, China	3	1	China Southern
47t Sao Paulo, Brazil	3	1	Korean Air
50 Ixtapa	2	1	Alaska
51t Apia, Samoa	1	1	Air New Zealand
51t Manzanillo, Mexico	1	1	Alaska
51t Rarotongo, So. Pacific	1	1	Air New Zealand
<b>Total Weekly Flights</b>	<b>823</b>		

Sources: Official Airline Guide (Week of September 12-18, 2009).

Prepared by Ricondo & Associates, Inc., September 2009.



Source: Official Airline Guide, Inc., September 12 – September 18, 2009.  
Prepared by: Ricondo & Associates, Inc., September 2009.

**Exhibit II-9**

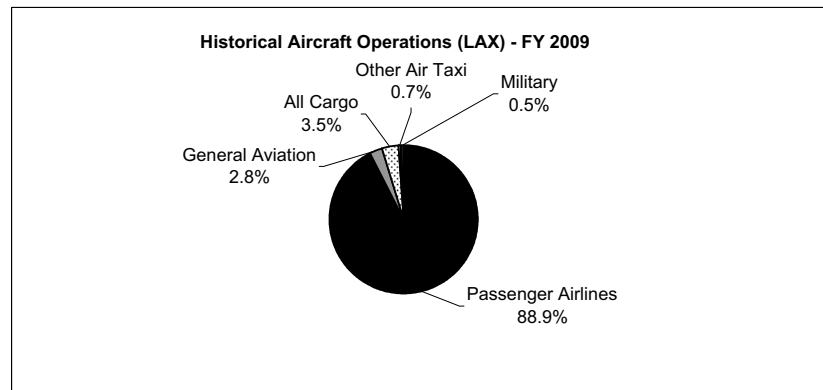
## Nonstop International Markets

**Table II-20**

Historical Aircraft Operations - LAX

Fiscal Year	U.S. Carriers	Foreign Flag Carriers	Airline Total	General Aviation	All Cargo	Other Air Taxi	Military	Total
1999	624,110	70,376	694,486	18,430	33,918	13,330	2,664	762,828
2000	633,404	74,516	707,920	18,292	36,756	16,388	2,552	781,908
2001	647,792	78,744	726,536	17,787	36,110	13,728	1,968	796,129
2002	528,750	66,650	595,400	15,188	31,694	12,818	2,315	657,415
2003	506,940	71,834	578,774	16,379	25,834	18,208	2,239	641,434
2004	496,712	74,376	571,088	14,709	25,344	22,740	2,806	636,687
2005	506,418	80,808	587,226	14,040	27,100	22,605	2,852	653,823
2006	498,930	81,476	580,406	16,116	26,272	25,582	2,488	650,864
2007	510,210	74,918	585,128	15,624	25,232	35,037	2,488	663,509
2008	526,662	80,706	607,368	18,239	22,530	28,886	2,758	679,781
2009	447,370	73,044	520,414	15,758	19,414	3,842	2,561	561,989
Compounded Annual Growth Rate								
1999 - 2001	1.9%	5.8%	2.3%	(1.8%)	3.2%	1.5%	(14.1%)	2.2%
2001 - 2002	(18.4%)	(15.4%)	(18.0%)	(14.6%)	(12.2%)	(6.6%)	17.6%	(17.4%)
2002 - 2008	(0.1%)	3.2%	0.3%	3.1%	(5.5%)	14.5%	3.0%	0.6%
2008 - 2009	(15.1%)	(9.5%)	(14.3%)	(13.6%)	(13.8%)	(86.7%)	(7.1%)	(17.3%)
1999 - 2009	(3.3%)	0.4%	(2.8%)	(1.6%)	(5.4%)	(11.7%)	(0.4%)	(3.0%)

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Sources: City of Los Angeles, Department of Airports, June 2009.  
Prepared by: Ricondo & Associates, Inc., August 2009.

Passenger airline activity at the Airport increased at a CAGR of 2.3 percent between FY 1999 and FY 2001, from 694,486 operations to 726,536 operations during this period. After increasing through FY 2001, passenger airline activity at the Airport steadily decreased through FY 2004. AirTran's initiation of service at the Airport, as well as expanded service by American and Mexicana, fueled an increase in activity in FY 2005. Passenger airline operations increased at a CAGR of 1.6 percent between FY 2004 and FY 2008, reaching 607,368 operations in FY 2008. By comparison, the FAA estimates that combined air carrier and air taxi/commuter operations nationwide decreased at a CAGR of 0.4 percent between FY 2004 and FY 2008. As discussed above, cutbacks in passenger airline capacities and the economic environment resulted in a decrease in passenger airline activity from 607,368 operations in FY 2008 to 520,414 operations in FY 2009, a 14.3 percent decrease during this period.

General aviation activity at the Airport was relatively stable between FY 1999 and FY 2009. This activity accounted for only 2.4 percent of total operations at the Airport during this time. The majority of general aviation activity in the Air Trade Area is accommodated at Van Nuys Airport (VNY), ranked as the busiest general aviation airport in the world by averaging approximately 400,000 operations annually.

Activity by all-cargo carriers at the Airport increased from 33,918 operations in FY 1999 to 36,110 in FY 2001, a CAGR of 3.2 percent during this period. Activity by all-cargo carriers at the Airport then decreased from 36,110 operations in FY 2001 to 25,344 in FY 2004, a compounded annual decrease of 11.1 percent during this period. Thereafter, activity by this user group was relatively stable between FY 2004 and FY 2007, with a low of 25,232 in FY 2007 to a high of 27,100 in FY 2005. All-cargo activity at the Airport decreased from 25,232 operations in FY 2007 to 22,530 in FY 2008 and then to 19,414 in FY 2009. High fuel prices and a weak economy lead to the reduction in all-cargo operations from FY 2008 to FY 2009. During this period all-cargo operations decreased 13.6 percent. Between FY 2004 and FY 2009 all-cargo operations have decreased at a CAGR of 2.9 percent.

In recent years (FY 2004 to FY 2008), activity by other air taxi operators (i.e., for-hire charters, fixed base operators, etc.) averaged approximately 27,000 operations per year between FY 2004 and FY 2008. Due to the inherent volatility in this type activity, the economic environment, and high fuel prices, other air taxi activity at the Airport decreased to a low of 3,842 operations in FY 2009.

Military activity at the Airport was relatively stable between FY 1999 and FY 2009, averaging approximately 2,500 operations per year during this period.

#### **2.5.4 Historical Landed Weight**

**Table II-21** presents landed weight for passenger airlines and all-cargo carriers at the Airport between FY 1999 and FY 2009. As shown, landed weight for passenger airlines increased from 52,113,537 thousand pounds in FY 1999 to 56,668,681 thousand pounds in FY 2001, a CAGR of 4.3 percent during this period. After decreasing to 47,275,807 thousand pounds in FY 2004, landed weight for passenger airlines at the Airport remained relatively stable through FY 2008, averaging 47,355,059 thousand pounds between FY 2004 and FY 2008. Decreases in capacity resulted in landed weight for passenger airlines at the Airport decreasing from 47,722,011 thousand pounds in FY 2008 to 42,963,705 thousand pounds in FY 2009, a 10.0 percent decrease during this period. As also shown, landed weight for all-cargo carriers at the Airport increased from 5,744,879 thousand pounds in FY 1999 to 6,181,982 thousand pounds in FY 2001, a CAGR of 3.7 percent during this



**Table II-21**

Historical Landed Weight (thousand pounds) - LAX

Fiscal Year	Domestic Majors/Nationals	Regionals/ Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger Airlines	All Cargo	Airport Total
Historical							
1999	33,529,789	2,443,970	3,305,432	12,834,346	52,113,537	5,744,879	57,858,416
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225
2003	28,821,535	2,664,517	2,352,102	13,633,282	47,471,436	4,325,572	51,797,008
2004	28,456,279	2,567,616	2,256,763	13,995,149	47,275,807	4,290,136	51,565,943
2005	27,569,570	2,682,342	2,570,214	14,708,859	47,530,985	4,696,906	52,227,891
2006	26,497,228	2,719,157	2,634,517	15,074,170	46,925,072	4,878,126	51,803,198
2007	26,677,762	2,954,684	2,843,496	14,845,477	47,321,419	4,964,390	52,285,809
2008	26,130,346	3,639,478	2,732,947	15,219,240	47,722,011	4,376,934	52,098,945
2009	24,387,381	2,704,501	2,121,612	13,750,211	42,963,705	3,735,442	46,699,147
Compounded Annual Growth Rate							
1999 - 2001	4.3%	0.6%	7.8%	4.1%	4.3%	3.7%	4.2%
2001 - 2002	(18.6%)	(2.7%)	(5.0%)	(14.3%)	(15.9%)	(5.5%)	(14.9%)
2002 - 2008	(2.1%)	7.2%	(4.7%)	4.1%	0.0%	(4.7%)	(0.4%)
2008 - 2009	(6.7%)	(25.7%)	(22.4%)	(9.7%)	(10.0%)	(14.7%)	(10.4%)
1999 - 2009	(3.1%)	1.0%	(4.3%)	0.7%	(1.9%)	(4.2%)	(2.1%)

Sources: City of Los Angeles, Department of Airports, June 2009.

Prepared by: Ricondo & Associates, Inc., August 2009.

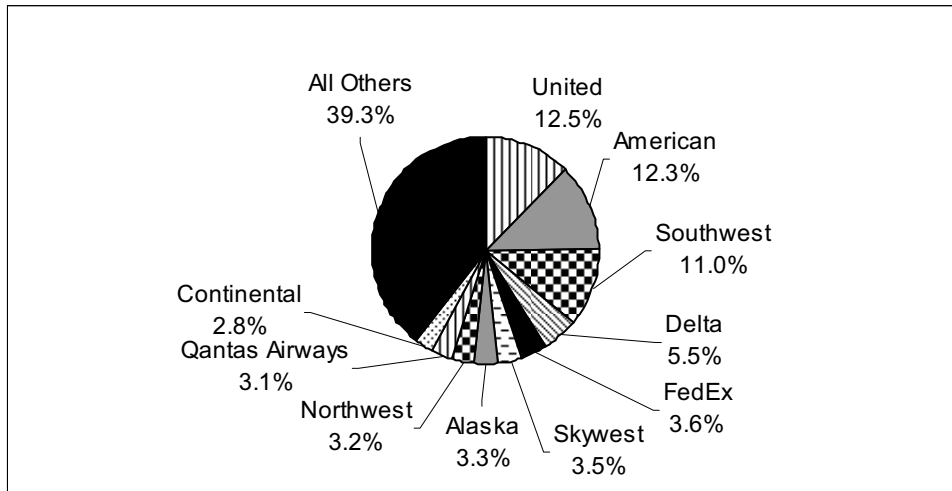
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period. After decreasing to 4,290,136 thousand pounds in FY 2004, all-cargo landed weight steadily increased to 4,965,020 thousand pounds by FY 2007. All-cargo landed weight at the Airport decreased to 4,376,934 thousand pounds in FY 2008 and then to 3,735,442 thousand pounds in FY 2009. From FY 2002 to FY 2009, all-cargo landed weight decreased at a CAGR of 6.2 percent.

**Table II-22** presents the share of landed weight by passenger airlines and all-cargo carriers at the Airport between FY 2005 and FY 2009. As shown, four airlines (United, American, Southwest, and Delta) accounted for 40.1 percent to 42.0 percent of total landed weight at the Airport during this period. Four other airlines accounted for an additional 13.1 percent to 13.6 percent of landed weight between FY 2005 and FY 2009. FedEx accounted for the highest share of landed weight among all-cargo carriers at the Airport during each of the years shown, averaging approximately 1,837,500 thousand pounds of landed weight between FY 2005 and FY 2009. **Exhibit II-10** below presents airline shares of landed weight at the Airport for FY 2009.

**Exhibit II-10**

Landed Weight by Airline (LAX) – FY 2009



Source: City of Los Angeles, Department of Airports, June 2009  
Prepared by: Ricondo & Associates, Inc., June 2009.

**2.5.5 Historical Cargo Activity**

As discussed earlier, the Airport ranked 13<sup>th</sup> worldwide and 5<sup>th</sup> nationwide in total cargo handled with approximately 1.6 million enplaned and deplaned tons in CY 2008.<sup>9</sup> **Table II-23** presents historical enplaned and deplaned cargo handled at the Airport between FY 1999 and FY 2009. As shown, total cargo increased from 2,085,776 tons in FY 1999 to 2,145,062 tons in FY 2001, a CAGR of 1.4 percent during this period. As a result of the events of September 11, 2001 and an economic slowdown, total cargo decreased 12.2 percent in FY 2002. Thereafter, it steadily increased from 1,882,391 tons in FY 2002 to 2,136,373 tons in FY 2005, a CAGR of 4.3 percent during this period.

<sup>9</sup> *ACI Traffic 2008*, Airports Council International (dated July 28, 2009).

**Table II-22**

Historical Landed Weight by Airline (000 pounds) - LAX <sup>1/</sup>

Airline	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share
1 United	7,255,290	13.9%	7,261,268	14.0%	7,144,632	13.7%	6,558,553	12.6%	5,765,733	12.5%
2 American	6,530,522	12.5%	6,224,562	12.0%	6,342,564	12.1%	6,203,061	11.9%	5,667,801	12.3%
3 Southwest	4,880,226	9.3%	5,004,196	9.7%	4,982,430	9.5%	5,092,746	9.8%	5,068,050	11.0%
4 Delta <sup>2/</sup>	3,277,142	6.3%	2,990,123	5.8%	3,116,374	6.0%	3,033,961	5.8%	2,549,234	5.5%
5 FedEx	1,956,507	3.7%	1,936,856	3.7%	1,876,769	3.6%	1,775,030	3.4%	1,642,089	3.6%
6 Skywest	1,579,730	3.0%	1,641,276	3.2%	1,752,097	3.4%	1,787,682	3.4%	1,634,395	3.5%
7 Alaska	1,747,446	3.3%	1,714,678	3.3%	1,830,572	3.5%	1,684,252	3.2%	1,530,621	3.3%
8 Northwest <sup>2/</sup>	1,644,806	3.1%	1,700,969	3.3%	1,652,306	3.2%	1,572,800	3.0%	1,458,649	3.2%
9 Qantas Airways	1,338,635	2.6%	1,409,692	2.7%	1,435,397	2.7%	1,442,048	2.8%	1,434,230	3.1%
10 Continental	1,292,606	2.5%	1,329,656	2.6%	1,421,707	2.7%	1,387,393	2.7%	1,286,565	2.8%
11 US Airways	1,797,267	3.4%	1,552,496	3.0%	1,480,577	2.8%	1,315,542	2.5%	1,231,410	2.7%
12 Korean	1,166,751	2.2%	1,147,742	2.2%	1,117,802	2.1%	1,138,390	2.2%	1,138,866	2.5%
13 Virgin America	-	-	-	-	-	-	520,530	1.0%	923,066	2.0%
14 Mexicana	871,919	1.7%	955,836	1.8%	842,123	1.6%	844,061	1.6%	807,107	1.7%
15 Cathay Pacific Airways	693,234	1.3%	909,054	1.8%	926,376	1.8%	930,340	1.8%	747,759	1.6%
16 Eva Airways	749,455	1.4%	793,100	1.5%	776,928	1.5%	769,663	1.5%	666,451	1.4%
17 China	685,498	1.3%	719,650	1.4%	728,974	1.4%	738,316	1.4%	650,588	1.4%
18 British Airways	515,340	1.0%	594,090	1.1%	594,090	1.1%	679,770	1.3%	634,410	1.4%
19 Air New Zealand	860,046	1.6%	851,797	1.6%	732,190	1.4%	740,537	1.4%	628,380	1.4%
20 Asiana	451,044	0.9%	371,940	0.7%	383,990	0.7%	570,672	1.1%	620,966	1.3%
Other	12,934,427	24.8%	12,694,217	24.5%	13,147,911	25.1%	13,313,598	25.6%	10,112,777	21.9%
Airport Total <sup>3/</sup>	52,227,891	100.0%	51,803,198	100.0%	52,285,809	100.0%	52,098,945	100.0%	46,199,147	100.0%

Notes:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

3/ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

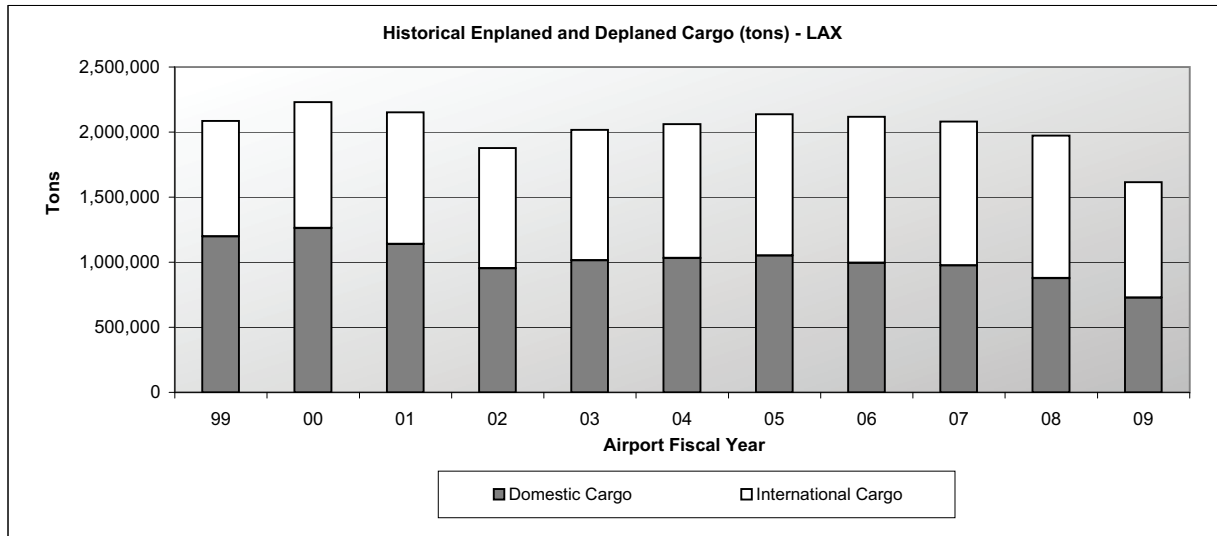
**Table II-23**

Historical Enplaned and Deplaned Cargo (tons) - LAX

Fiscal Year	Domestic Cargo	Annual % Change	International Cargo	Annual % Change	Total Cargo	Annual % Change
1999	1,197,765	-	888,012	-	2,085,776	-
2000	1,263,279	5.5%	965,904	8.8%	2,229,183	6.9%
2001	1,112,803	(11.9%)	1,032,259	6.9%	2,145,062	(3.8%)
2002	953,264	(14.3%)	929,127	(10.0%)	1,882,391	(12.2%)
2003	1,015,712	6.6%	1,001,045	7.7%	2,016,757	7.1%
2004	1,032,947	1.7%	1,028,893	2.8%	2,061,840	2.2%
2005	1,051,046	1.8%	1,085,327	5.5%	2,136,373	3.6%
2006	994,637	(5.4%)	1,122,527	3.4%	2,117,164	(0.9%)
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%)	886,609	(19.1%)	1,615,315	(18.1%)

Compounded  
Annual Growth Rate

1999 - 2001	(3.6%)	7.8%	1.4%
2001 - 2002	(14.3%)	(10.0%)	(12.2%)
2002 - 2008	(3.9%)	1.0%	(1.4%)
2008 - 2009	(17.0%)	(19.1%)	(18.1%)
1999 - 2009	(4.8%)	(0.0%)	(2.5%)



Sources: City of Los Angeles, Department of Airports, June 2009.

Prepared by: Ricondo & Associates, Inc., August 2009.

As also presented in Table II-23, cargo volumes at LAX decreased slightly in FY 2006 (a 0.9 percent decrease year-over-year) and in FY 2007 (a 1.7 percent decrease year-over-year). Cargo volumes at the Airport continued to decline in FY 2008 and in FY 2009, with an additional 5.2 percent decrease from FY 2007 and an 18.1 percent decrease from FY 2008. Similar to the passenger airlines, the air cargo industry has been impacted in recent years by the global economy, increasing fuel costs, continued declines in the value of the U.S. dollar, uncertainties in the Middle East, and new security regulations. The worldwide gross domestic product remains the primary driver for air cargo industry growth. As a leading economic indicator, air cargo traffic growth has slowed, or even decreased in certain markets (including LAX) in recent years, both from the increased prices of jet fuel since 2006 (particularly since late 2007), and the more recent U.S. economic recession.

## **2.6 Factors Affecting Aviation Demand and the Airline Industry**

This section discusses qualitative factors that could influence future aviation activity at the Airport. While data and/or information related to these factors have not specifically been incorporated into the projections of Airport activity discussed in Section 2.7 (e.g., jet fuel prices), these factors were indirectly considered and analyzed in developing the projections.

### **2.6.1 National Economy**

Air travel demand is directly correlated to consumer income and business profits. As consumer income and business profits increase, so does demand for air travel. In 2008, the combination of declines in construction activity, losses in housing-related securities, rising oil prices and a falling stock market eventually tipped the economy into recession. The nation's non-seasonally adjusted unemployment rate rose from 5.4 percent in January 2008 to 7.1 percent in December 2008. In the first half of 2009, the nation's unemployment rate continued to increase and by August 2009, the nation's unemployment rate was at 9.7 percent. U.S. GDP remained positive or slightly negative for the first three quarters of 2008, before entering a sharp decline of 5.4 percent in the fourth quarter of 2008. Consumer and business spending began to decline sharply in the third quarter of 2008 and mounting stress in financial markets reached a breaking point in September 2008, triggering a decline in stock market wealth that further reduced consumer and business spending. This sharp decline continued into the first quarter of 2009 as the nation's GDP decreased for the third straight quarter at a rate of 6.4 percent. On July 31, 2009 the U.S. Department of Commerce's Bureau of Economic Analysis reported the GDP for the second quarter of 2009 decreased by a smaller rate of 1.0 percent when compared to the first quarter of 2009.

In February 2009, the federal government passed a \$787 billion package of tax cuts and new federal spending aimed at stimulating private sector economic activity. Despite a 6.4 percent decline in GDP in the first quarter of 2009, the latest forecasts from the Congressional Budget Office (CBO) project a return to slow economic growth nationwide by the fourth quarter of 2009.<sup>10</sup>

### **2.6.2 State of the Airline Industry**

In 2008 and through the first half of 2009, the combination of record high fuel prices, weakening economic conditions, and a weak dollar have resulted in the worst financial environment for U.S. network and low-cost carriers since the September 11<sup>th</sup> terrorist attacks. Many of the domestic network competitors announced significant capacity reductions, increases in fuel surcharges, fares

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<sup>10</sup> Source: Congressional Budget Office, *Economic Projections*, available online at: <http://www.cbo.gov/budget/econproj.shtml>, last accessed, May 20, 2009.

and fees, and other measures to address the challenges. In the aftermath of September 11<sup>th</sup>, the industry saw a material adverse shift in the demand for air travel. The result was five years of reported industry operating losses, totaling more than \$28 billion dollars (excluding extraordinary charges and gains). Whereas the capacity reductions in the beginning of the century were the direct results of terror threats targeting the traveling public, the industry reductions started in late 2008 through the first half of 2009 were primarily driven by significant increases in fuel costs over a span of two and a half years, a weak dollar exacerbating the impact of increased fuel costs for U.S. carriers, and the contraction of the U.S. economy.

Following the restructuring years after September 11<sup>th</sup>, the industry finally gained ground in 2007 with virtually every U.S. carrier posting profits. In 2007, the major airlines had managed to restrain capacity in a growing economy. High fuel prices challenged margins, crowded out cost-saving initiatives, and a slowing U.S. economy weakened demand, even with restrained capacity growth.

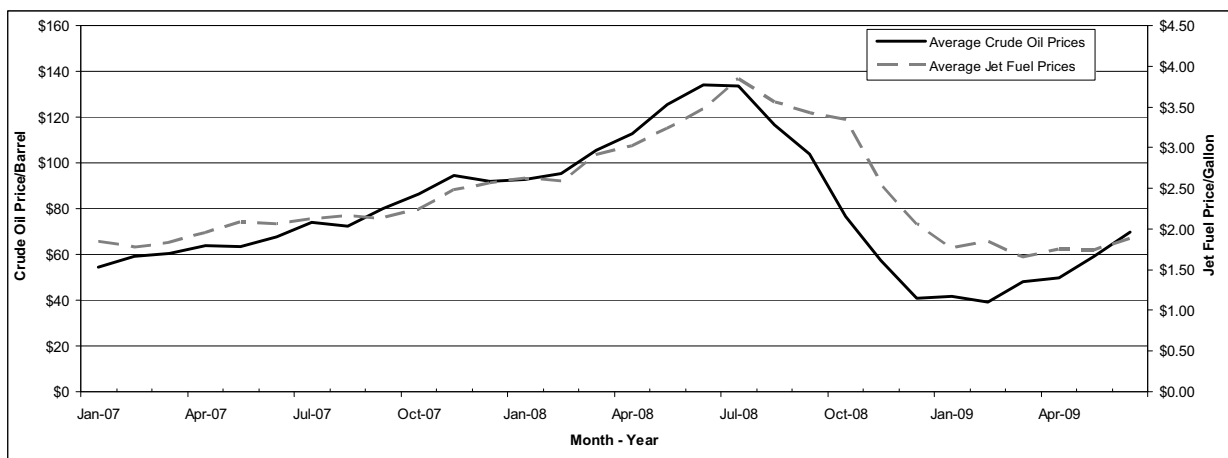
### 2.6.3 Cost of Aviation Fuel

The price of fuel is the most significant force affecting the airline industry today. The average price of jet fuel was \$0.82 per gallon in 2000 compared to \$3.07 in 2008, an increase of 275 percent. According to the Air Transport Association (ATA), every one-cent increase in the price per gallon increases annual airline operating expenses by approximately \$190 million to \$200 million.

Also according to the ATA, U.S. airline fuel expense increased from \$16.4 billion in 2000 to \$57.8 billion in 2008, a CAGR of 16.7 percent during this period. The most significant annual increase in U.S. fuel expense during this period occurred in 2008, when fuel expenses increased from \$41.9 billion in 2007 to \$57.8 billion in 2008, a 37.9 percent increase. On July 11, 2008, oil prices rose to a new record of \$147 per barrel following concerns over Iranian missile testing. During the remaining months of 2008 oil prices declined from their July peak and closed out the year at an average of approximately \$40 per barrel (December 2008). Exhibit II-11 shows the monthly averages of jet fuel and crude oil prices from January 2007 through June 2009. On July 31, 2009, the NYMEX crude future oil price per barrel closed near the \$71 per barrel range.

#### Exhibit II-11

Historical Monthly Averages of Jet Fuel and Crude Oil Prices



Source: Air Transport Association (ATA), August 2009.  
Prepared by: Ricondo & Associates, Inc., August 2009.

In 1999, jet fuel accounted for nearly 10 percent of an airline's operating expenses and historically, fuel expense was the second highest operating expense for an airline behind labor. More recently, jet fuel has surpassed labor as an airlines' highest operating expense, according to the ATA. In 2008, fuel comprised approximately 30.6 percent of an airline's total operating costs while labor represented approximately 20.3 percent of the total. As oil prices fell in the first quarter of 2009, fuel expenses retreated and labor once again became the airlines' highest operating expense representing 25.8 percent of total operating expenses while fuel was at 21.3 percent. Despite the recent drops in jet fuel prices, the airlines still intend to follow through on plans to curtail capacity in the weak economy. According to *usatoday.com*, scheduled domestic capacity is still down 12.0 percent in September 2009 compared to the same month in 2007.<sup>11</sup>

#### **2.6.4 Airline Seat Capacity Reductions**

Domestic airline seat capacity in the first half of CY 2009 compared to the same period in 2008 decreased 9.1 percent nationwide, based on the top domestic carriers.<sup>12</sup> Total domestic seats for these carriers decreased by 40.9 million seats from approximately 452.0 million in the first half of 2008 to 411.1 million in 2009. The legacy and other major carriers' domestic seat capacity has decreased by 9.4 percent. Low cost carriers have reduced domestic seat capacity during the first half of 2009 compared to the same period in 2008 by 5.3 percent.

#### **2.6.5 Airport Security**

With enactment of the Aviation and Transportation Security Act (ATSA) in November 2001, the Transportation Security Administration (TSA) was created and established different and improved security processes and procedures. The ATSA mandates certain individual, cargo and baggage screening requirements, security awareness programs for airport personnel and deployment of explosive detection devices. The act also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. The federal government controls aviation industry security requirement, which can significantly impact the economics of the industry. Security requirements due to unexpected events could increase costs directly and indirectly to the industry and could have an adverse effect on passenger demand.

#### **2.6.6 Threat of Terrorism**

As has been the case since September 11<sup>th</sup>, the recurrence of terrorism incidents against either domestic or world aviation during the projection period remains a risk to achieving the activity projections contained herein. Any terrorist incident aimed at aviation would have an immediate and significant adverse impact on the demand for aviation services.

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<sup>11</sup> Source: <http://www.usatoday.com/travel/flights/airline-capacity-map.htm>. The data reflect what airlines had reported to Official Airline Guide (OAG) regarding their September schedules as of July 7, 2009.

<sup>12</sup> The following carriers and their affiliates were used in this analysis: AirTran, Alaska, Aloha, American, ATA, Continental, Delta, ExpressJet, Frontier, Hawaiian, jetBlue, Midwest, Northwest, Southwest, Spirit, United, US Airways, and Virgin America. These 18 carriers represent 98.4 percent of total domestic seats in the first half of 2009.

## **2.6.7 Other Factors Affecting the Airport**

### **2.6.7.1 Stipulated Settlement**

In December 2004, the Board of Airport Commissioners and the City Council of the City of Los Angeles adopted a comprehensive development program for the Airport, by way of adopting a LAX Master Plan (also known as Alternative D), the City's general plan for the Airport known as the LAX Plan, and the LAX Specific Plan. The LAX Specific Plan is the implementing ordinance that establishes zoning and land use regulations and procedures for the processing of future specific projects and activities anticipated under the LAX Master Plan. The LAX Specific Plan calls for a Specific Plan Amendment Study (SPAS) to comprehensively address security, traffic, aviation activity and corresponding environmental analysis for, among other things, certain capital projects.

On February 17, 2006, a Stipulated Settlement (Settlement) was reached in connection with litigation commenced by the Cities of El Segundo, Inglewood, and Culver City, the County of Los Angeles, and the Alliance for a Regional Solution to Airport Congestion against the Department, the City of Los Angeles, the City Council, the Mayor, and the Board of Airport Commissioners, challenging their approval of the LAX Master Plan. The Settlement sets forth in greater detail the requirements of SPAS, as called for by the LAX Specific Plan. The Settlement also provides that the Department may operate no more than 163 gates at the Airport. Additionally, the Department will discontinue passenger operations at 10 narrow body-equivalent gates at the rate of two gates per year starting in 2010. By December 31, 2015, the total number of gates at the Airport shall be reduced to no more than 153 gates. These reductions will be achieved through the build out of improved contact passenger gate facilities and the elimination of remote gate facilities as approved in the FAA's Record of Decision issued in connection with the LAX Master Plan. The requirement to reduce gates will remain in effect until December 31, 2020. If the Airport does not reach the 75 MAP activity level (the Airport had approximately 56.7 MAP in FY 2009) or the LAX Master Plan is substantially revised pursuant to the SPAS process such that the total number of gates at LAX is reduced to 153 gates or less, then no reduction in gates is necessary.

The projections of Airport activity reflected in this report through FY 2016 are consistent with and/or fall within the requirements and limitations of the Settlement.

### **2.6.7.2 Constraints at Other Area Airports**

In addition to the factors affecting the airline industry and the Settlement discussed above, certain constraints at other airports in the Air Trade Area may have an effect on enplanements at the Airport. Some of these constraints are discussed below.

Beginning in 1968, Orange County, the owner and operator of SNA, became the defendant in numerous civil damage actions where individuals residing to the south of SNA claimed damage and injury to their persons and property, alleged to be caused by the noise and other environmental effects of aircraft operations at SNA. To end the litigation, both parties reached the Airport Settlement Agreement of 1985 (SNA Agreement). The SNA Agreement limited virtually every aspect of operations at SNA, including a passenger limit of 8.4 MAP, caps on daily flights and aircraft types, limits on terminal size and public parking spaces, number of loading bridges, and hours of operation. In 2002, the limit on passengers was increased to 10.3 MAP effective January 1, 2003 and to 10.8 MAP in 2011 until December 31, 2015.



In an effort to resolve protracted litigation, the City of Long Beach and the airlines entered into a stipulated settlement agreement in 1995. Under the settlement, the Long Beach City Council adopted the current Airport Noise Compatibility Ordinance (Ordinance). One component of the Ordinance permits air carriers to operate 41 flights per day and commuter carriers to operate 25 flights per day at LGB. These operational levels equate to a capacity of approximately 4.2 MAP (LGB reached approximately 2.9 MAP in CY 2008). These operational activity levels may be increased so long as flights operate at or below annual noise budgets for each class of operator.

In February 2005, the City of Burbank and the Burbank-Glendale-Pasadena Airport Authority (Authority), the owner and operator of BUR, entered into an Airport Development Agreement (BUR Agreement). The BUR Agreement outlines development guidelines for BUR over the next 10 years, including (1) the City of Burbank will not change its zoning for BUR so that the Authority may meet its facility needs consistent with that zoning for a period of seven years; (2) the Authority will not build a new passenger terminal for 10 years and will not enlarge the current terminal during the term of the BUR Agreement; and (3) the City of Burbank and the Authority will jointly develop a strategy for addressing the desire for nighttime airport noise relief consistent with federal laws and procedures.

## **2.7 Projections of Airport Activity**

Projections of aviation demand at the Airport (discussed in Sections 2.7.1, 2.7.2, and 2.7.3 below) were developed after analyzing several different projection methodologies. **Table II-24** describes the various projection methodologies analyzed for both the Near-Term (FY 2010) and the Longer-Term (FY 2011 to FY 2016). Table II-24 also compares the projected enplanement growth rates under each methodology and indicates which specific methodologies were ultimately used in the final projection of enplanements for purposes of this report and the financial tables accompanying Chapter 4.

The specific projections of Airport activity ultimately used for purposes of this report (as reflected below in Sections 2.7.1, 2.7.2, and 2.7.3) and the financial tables accompanying Chapter 4 are based on (1) the incorporation of specific methodologies described herein and on Table II-24 and (2) a number of specific assumptions that are further based on national aviation trends, regional economic conditions, and the professional judgment of R&A. Specific assumptions regarding projected Airport enplanements, operations, and landed weight are described below in Sections 2.7.1, 2.7.2, and 2.7.3. In addition, general assumptions that were incorporated in the projections of Airport activity through FY 2016 include:

- The underlying economic conditions of the Air Trade Area are anticipated to drive future demand for O&D air travel at the Airport. Economic conditions in the Air Trade Area and for the nation are expected to improve in calendar year 2010 resulting in positive growth for Airport activity in FY 2011. Economic conditions are expected to fluctuate during the projection period, including the fluctuations in fuel prices (among other things), and will cause year-to-year traffic variations. However, a long-term increase in Airport and nationwide traffic is expected to occur during the projection period.
- The Airport will continue to provide nonstop service to a high percentage of its primary O&D markets. The composition of its air carrier base will also continue to foster competitive pricing and scheduling diversity. O&D passengers will continue to account for a high percentage of enplanements at the Airport, for both domestic and international activity.

**Table II-24**

Enplanement Projection Methodologies Analyzed and Incorporated

**NEAR-TERM PROJECTION (FY 2010):**

Methodology	Description	Projected FY 2010 Enplanement Growth Rate	Status
1. Scheduled Departing Seats (OAG) Approach	Based on OAG schedules of departing seats and relationship with enplaned passengers (e.g., aircraft load factors).	(1.6%) Total (1.0%) Domestic (3.1%) International	This method was used as the final projection for FY 2010 enplanements

**LONGER-TERM PROJECTION (FY 2011-FY 2016):**

Methodology	Description	CAGR for FY 2009 - FY 2016 Enplanements	Status
1. Market Share Approach	Judgments of LAX share of total U.S. enplanements applied to FAA projections of U.S. enplanements (American Airlines, Southwest Airlines, United Airlines, and combined other airlines were analyzed individually)	+1.7% Total +1.5% Domestic +2.1% International	This method was used as the final projection for FY 2011 to FY 2016 enplanements
2. Regression Modeling Approach Using Socioeconomic Variables (including population, income, per capital income, and employment)	Coefficients produced by regressions are applied to projections of each of these socioeconomic variables to estimate long-term growth.	Range from +1.1% to +1.4% Total	Used as comparison benchmark
3. Trend Analysis	Relies on historical time series data to predict the future	+1.3% Total	Used as comparison benchmark

Source: Ricondo & Associates, Inc., September 2009.

Prepared by: Ricondo & Associates, Inc., September 2009.

- Activity at the Airport will continue to be served over a broad base of airlines, with no one or two airlines dominating in market shares of activity during the projection period.
- The demand for air service in the Air Trade Area will continue to be predominantly served through the Airport, particularly for international air traffic and nonstop travel to major medium- and long-haul markets (e.g., New York, Chicago, Honolulu, and Washington, D.C.), as well as the high demand for travel in the West Coast corridor.
- The Airport will continue to accommodate the majority of the air passenger demand generated in the Air Trade Area. Capacity and/or legal constraints will continue to limit expansion at LGB and SNA. Regional redistribution of passenger demand from the Airport will most likely occur at the under-utilized LA/ONT (which is located in an area with growing population and number of businesses) and, to a certain extent, at BUR.
- It is assumed that air traffic at the Airport will not rebound immediately to prior levels after the economy recovers because of the absence of significant price cuts that have occurred following past downturns. Following previous economic downturns (e.g. the recessions in 1991 and 2001), the carriers helped to recover and stimulate passenger demand by reducing their fares sharply. The industry's response to the current economic downturn, however, has been to better match supply (seats) and demand (passengers) by only modestly cutting fares and dramatically reducing capacity.
- International traffic growth at the Airport will experience a larger decline in FY 2010 relative to domestic traffic, but following FY 2010 will outpace domestic traffic growth consistent with historical trends.
- Airline consolidation/mergers (including Delta/Northwest) or bankruptcies that may occur during the projection period are not likely to negatively impact passenger activity levels at the Airport due to its high percentage of O&D passengers.
- New airline alliances, should they develop, will be restricted to code sharing and joint frequent flyer programs, and should not reduce airline competition at the Airport.
- Volatile fuel prices and the U.S. recession in the short term will likely have an adverse impact on airline profitability, as well as hamper the recovery plans and cost-cutting efforts of certain airlines. These factors may cause changes in air service at the Airport; however, the passenger demand for its major O&D markets will continue to be served during the projection period.
- The Airport is located in a seismically active region of the State of California. During the past 150 years, the Los Angeles region has experienced several major and minor earthquakes. Although an earthquake(s) may occur during the projection period, it will not be of a magnitude to disrupt service at the Airport.<sup>13</sup>
- For these analyses, and similar to the assumptions underlying the FAA's nationwide projections, it is assumed that no major security or terrorist incidents will occur during the projection period that negatively impact aviation demand.

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<sup>13</sup> On January 17, 1994, the Los Angeles region experienced an earthquake that measured 6.7 on the Richter Scale. There was no disruption of service at the Airport from this event.

For these projections, it is generally assumed that the lowest levels of aviation activity at the Airport during the projection period will occur in FY 2010. In FY 2011, it is assumed that Airport aviation activity will increase over FY 2010 levels, although at a relatively lower level of growth. The growth rates are projected to increase somewhat in FY 2012 with growth rates stabilizing through the end of the projection period.

It is important to note that the projections of aviation activity discussed below in Sections 2.7.1, 2.7.2, and 2.7.3 are intended for financial feasibility purposes, and reflect a conservative, yet reasonably realistic view of future activity levels at the Airport. As presented in the following sections, the activity projections provided herein for the Airport are more conservative when compared to the nationwide projections prepared by the FAA in April 2009. The FAA's annual forecasts for the nation are prepared for federal budgeting and planning purposes and, therefore, can result in higher activity projections than those prepared by Feasibility Consultants for studies such as this report.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified, and any projection is subject to uncertainties. As a result, neither the projections of Airport activity reflected in this report nor the projection process should be viewed as precise. Actual future Airport activity levels may differ substantially from projections presented herein because of unforeseen events.

## **2.7.1 Projected Enplanements**

**Table II-25** presents historical and projected enplanements at the Airport. Specific assumptions and points regarding projected enplanements for the Near-Term (FY 2010) and the Longer-Term (FY 2011 to FY 2016) are discussed below.

### **2.7.1.1 Projected Near-Term Enplanements—FY 2010**

For projecting Near-Term enplanements at the Airport, a “scheduled departing seats” methodology was utilized. In this approach, airline schedule information provided from Official Airline Guide, Inc. data was analyzed, as well as service announcements, and industry information regarding further reductions in seating capacity for calendar year 2009, to project future Airport activity for FY 2010.

Based on discussions with Official Airline Guide, Inc., scheduled airline seat data can be considered reliable from three to six months in the future. The quality of scheduled data represented for future months farther out than six months tends to be understated, as airlines are still in the planning/design process for intermediate and future schedules. During this timeframe, airlines are still determining where to fly, frequencies, flight times, aircraft assignments, and routes. As a result, R&A limited the scheduled departing seat analysis to the first half of FY 2010 in comparison to a similar period in FY 2009. Individual analyses for domestic service were conducted for American, Southwest, United, other major/national airlines, and regionals/commuters; and individual analyses for international service were conducted for U.S. airlines and foreign flag carriers. This bottom-up approach resulted in the projections of Near-Term enplanements, as discussed below.

Based on scheduled departing seats for the first half of FY 2010 compared to a similar period in FY 2009, domestic passenger activity at the Airport is expected to decrease by 1.0 percent in FY 2010 from FY 2009 levels, from 20.7 million enplanements in FY 2009 to 20.5 million in FY 2010. However, recovery in domestic passenger activity at the Airport is expected during the latter part of

**Table II-25**

**Enplanement Projections - LAX**

Fiscal Year	Domestic Majors/Nationals	Regionals/ Commuters	Total Domestic	International U.S. Flag Carriers	International Foreign Flag Carriers	Total International	Airport Total	Annual % Change
<b>Historical</b>								
1999	22,162,103	1,573,999	23,736,102	1,634,775	6,114,584	7,749,359	31,485,461	-
2000	23,370,480	1,510,247	24,880,727	1,705,862	6,645,133	8,350,995	33,231,722	5.5%
2001	23,421,360	1,539,395	24,960,755	1,801,060	7,078,154	8,879,214	33,839,969	1.8%
2002	19,202,331	1,581,486	20,783,817	1,369,295	5,978,549	7,347,844	28,131,661	(16.9%)
2003	18,567,188	1,873,916	20,441,104	1,332,111	5,937,113	7,269,224	27,710,328	(1.5%)
2004	19,254,785	1,987,075	21,241,860	1,423,386	6,414,601	7,837,987	29,079,847	4.9%
2005	20,169,841	1,973,601	22,143,442	1,604,210	6,800,599	8,404,809	30,548,251	5.0%
2006	19,986,545	2,044,152	22,030,697	1,657,549	6,966,900	8,624,449	30,655,146	0.3%
2007	20,131,051	2,243,282	22,374,333	1,765,060	6,664,077	8,429,137	30,803,470	0.5%
2008	19,791,301	2,636,078	22,427,379	1,902,462	6,812,498	8,714,960	31,142,339	1.1%
2009	18,669,996	1,992,554	20,662,550	1,503,705	6,162,723	7,666,428	28,328,978	(9.0%)
<b>Projected</b>								
2010	18,582,600	1,871,000	20,453,600	1,440,500	5,990,200	7,430,700	27,884,300	(1.6%)
2011	18,797,700	1,924,400	20,722,100	1,503,500	6,184,000	7,687,500	28,409,600	1.9%
2012	19,172,100	1,983,700	21,155,800	1,575,800	6,411,900	7,987,700	29,143,500	2.6%
2013	19,487,700	2,048,300	21,536,000	1,650,000	6,617,800	8,267,800	29,803,800	2.3%
2014	19,947,000	2,097,300	22,044,300	1,726,000	6,750,500	8,476,500	30,520,800	2.4%
2015	20,339,600	2,135,900	22,475,500	1,803,900	6,857,700	8,661,600	31,137,100	2.0%
2016	20,762,100	2,169,900	22,932,000	1,883,600	6,959,500	8,843,100	31,775,100	2.0%
<b>Compounded Annual Growth Rate</b>								
1999 - 2001	2.8%	(1.1%)	2.5%	5.0%	7.6%	7.0%	3.7%	
2001 - 2002	0.2%	1.9%	0.3%	5.6%	6.5%	6.3%	1.8%	
2002 - 2008	0.5%	8.9%	1.3%	5.6%	2.2%	2.9%	1.7%	
2008 - 2009	(5.7%)	(24.4%)	(7.9%)	(21.0%)	(9.5%)	(12.0%)	(9.0%)	
2009 - 2010	(0.5%)	(6.1%)	(1.0%)	(4.2%)	(2.8%)	(3.1%)	(1.6%)	
2010 - 2016	1.9%	2.5%	1.9%	4.6%	2.5%	2.9%	2.2%	
2009 - 2016	1.5%	1.2%	1.5%	3.3%	1.8%	2.1%	1.7%	

Sources: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., September 2009.  
Prepared by: Ricondo & Associates, Inc., September 2009.

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FY 2010 as economic conditions in the Air Trade Area and nationwide are expected to improve. As discussed below in Section 2.7.1.2, this recovery starting in the latter part of FY 2010 is expected to lead to positive growth in domestic passengers for FY 2011, with positive growth in the remaining years of the projection period as well.

During FY 2008, certain legacy carriers at the Airport focused more on growth and expansion in the (then) more profitable international markets; however, the severity of the economic recession worldwide resulted in a decrease in demand such that carriers were forced to reduce capacity in these markets, resulting in decreased international passenger activity in FY 2009 from FY 2008 levels (a 12.0 percent decrease during this period). International passenger activity at the Airport is expected to further decrease by 3.1 percent in FY 2010 from FY 2009 levels, from 7.7 million enplanements in FY 2009 to 7.4 million in FY 2010. Similar to domestic activity, however, recovery in international passenger activity is expected at the Airport during the latter part of FY 2010, which leads to positive growth projected for FY 2011 and the remainder of the projection period (as discussed in Section 2.7.1.2).

### 2.7.1.2 Longer-Term Projected Enplanements—FY 2011 to FY 2016

For projecting Longer-Term enplanements at the Airport, several methodologies were utilized and assessed for reasonableness:

- **Market Share Approach.** In this methodology, judgments are made as to how and to what extent the Airport's rate of growth will differ from that projected for the nation by the FAA. As discussed previously the FAA's forecasts are prepared for federal budgeting and planning purposes and as a result, are not as conservative as forecasts typically prepared for bond financial feasibility studies or for financial planning purposes. On a macro scale, the U.S. projection provides a growth base reflecting how industry traffic in general is anticipated to grow in the future. The growth rate used for the Airport can be reflected as an increase or decrease in its future share of the market. For projected domestic activity, this approach was used individually for American, United, and Southwest (airlines with the highest share of domestic enplanements at the Airport in FY 2008), as well as collectively for the remaining domestic airlines. A similar approach was used for projecting international activity individually for U.S. airlines and foreign flag carriers.
- **Socioeconomic Regression Approach.** Statistical linear regression modeling is used in this methodology, with local socioeconomic factors as the independent variable and enplanements as the dependent variable. Socioeconomic factors utilized in these analyses included population, income, per capita income, and employment.
- **Trend Analysis.** In this methodology, an equation is developed based on historical time series data that is used to calculate projections of activity. The only variable used in developing projections with trend analysis is time (year).

As shown on Table II-24, the market share approach was the ultimate methodology of choice for developing the Longer-Term projections of enplanements, with the other two approaches used as a comparison benchmark and as a test for reasonableness.

Based on points and assumptions discussed below, and following the expected decrease in passenger activity at the Airport in FY 2010, total enplanements at the Airport are projected to increase from 27.9 million in FY 2010 to 31.8 million in FY 2016, resulting in a CAGR of 2.2 percent during this period.

Longer-Term projections of individual components of total activity at the Airport are discussed below:

- Based on the actual increases in enplanements that occurred nationwide and at the Airport in FY 2004 (4.9 percent increase) and FY 2005 (5.0 percent increase) following the sharp decreases in FY 2002 and FY 2003, it is possible that Airport enplanement growth in FY 2011 could be higher than the 1.9 percent being projected in this report. However, given the severity of the impacts that have occurred in the State of California and the Air Trade Area including lower economic growth, increased unemployment, and a sharp downturn in the housing market, projected passenger enplanements at the Airport are assumed to recover at a lower rate than previously experienced following past U.S. recessions and as recently experienced at the Airport in FY 2004 and FY 2005.
- With the expected shifting of certain air service by the legacy carriers, regional/commuter domestic enplanements are projected to increase at a higher rate than the domestic major/national enplanements (CAGRs of 2.5 percent and 1.9 percent, respectively, between FY 2010 and FY 2016).
- It is expected that certain legacy carriers will re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international enplanements by U.S. flag carriers are projected to increase at a higher rate than international enplanements by foreign flag carriers (CAGRs of 4.6 percent and 2.5 percent, respectively, between FY 2010 and FY 2016).
- Total international passenger activity at the Airport is expected to increase from 7.4 million in FY 2010 to 8.8 million in FY 2016. This results in a CAGR of 2.9 percent for the period FY 2010 to FY 2016.

## 2.7.2 Projected Operations

**Table II-26** presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, other air taxi operators, and military. Based on expectations of continued cutbacks in passenger airline capacities (although at a lower rate than in FY 2009), total operations at the Airport are expected to decrease further to 545,700 operations in FY 2010, a 2.9 percent decrease from FY 2009 levels. Following an expected recovery from the slowed nationwide economy in the latter part of FY 2010, total aircraft activity at the Airport is projected to increase from 545,700 operations in FY 2010 to 588,340 operations in FY 2016, a CAGR of 1.3 percent during this period.

Following a 3.2 percent decrease in passenger airline aircraft operations at the Airport in FY 2010 from FY 2009 levels, it is expected that passenger airline operations will increase from 503,620 operations in FY 2010 to 541,900 in 2016, a CAGR of 1.2 percent during this period. In general, the passenger airline projections were developed based on historical relationships among enplanements, load factors, and average seating capacities of aircraft utilized at the Airport. Specifically:

- Average seats for domestic majors/nationals are projected to increase approximately 0.25 to 0.30 seats per year during the projection period, from 156.0 seats in FY 2009 to 158.0 seats in FY 2016, similar to average seat levels following September 11, 2001.

**Table II-26**

Operations Projections - LAX

Year	Domestic Majors/Nationals	Regionals/ Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger Airlines	General Aviation	All Cargo	Other Air Taxi	Military	Airport Total	Annual % Change
<b>Historical</b>											
1999	407,454	182,632	34,024	70,376	694,486	18,430	33,918	13,330	2,664	762,828	-
2000	409,720	186,710	36,974	74,516	707,920	18,292	36,756	16,388	2,552	781,908	2.5%
2001	423,184	183,842	40,766	78,744	726,536	17,787	36,110	13,728	1,968	796,129	1.8%
2002	331,630	158,412	38,708	66,650	595,400	15,188	31,694	12,818	2,315	657,415	(17.4%)
2003	322,238	162,950	21,752	71,834	578,774	16,379	25,834	18,208	2,239	641,434	(2.4%)
2004	326,042	150,086	20,772	74,376	571,276	14,709	25,344	22,552	2,806	636,687	(0.7%)
2005	330,038	153,880	26,286	80,808	591,012	14,040	27,100	18,819	2,852	653,823	2.7%
2006	321,562	154,092	25,580	81,476	582,710	16,116	26,272	23,278	2,488	650,864	(0.5%)
2007	326,424	159,182	28,372	79,364	593,342	15,624	25,230	26,825	2,488	663,509	1.9%
2008	317,728	181,244	27,690	80,706	607,368	18,239	22,530	28,886	2,758	679,781	2.5%
2009	297,848	128,026	21,496	73,044	520,414	15,758	19,414	3,842	2,561	561,989	(17.3%)
<b>Projected</b>											
2010	294,800	119,000	20,220	69,600	503,620	15,600	19,890	3,890	2,700	545,700	(2.9%)
2011	295,000	121,200	20,740	71,400	508,340	15,700	20,500	3,940	2,700	551,180	1.0%
2012	297,800	123,600	21,360	73,560	516,320	15,800	21,170	3,990	2,700	559,980	1.6%
2013	299,800	126,400	21,980	75,440	523,620	16,000	21,810	4,040	2,700	568,170	1.5%
2014	303,800	128,200	22,600	76,460	531,060	16,100	22,360	4,090	2,700	576,310	1.4%
2015	306,600	129,400	23,220	77,200	536,420	16,300	22,780	4,140	2,700	582,340	1.0%
2016	310,000	130,200	23,840	77,860	541,900	16,400	23,140	4,200	2,700	588,340	1.0%
<b>Compounded Annual Growth Rate</b>											
1999 - 2001	1.9%	0.3%	9.5%	5.8%	2.3%	(1.8%)	3.2%	1.5%	(14.1%)	2.2%	
2001 - 2002	3.3%	(1.5%)	10.3%	5.7%	2.6%	(2.8%)	(1.8%)	(16.2%)	(22.9%)	1.8%	
2002 - 2008	(0.7%)	2.3%	(5.4%)	3.2%	0.3%	3.1%	(5.5%)	14.5%	3.0%	0.6%	
2008 - 2009	(6.3%)	(29.4%)	(22.4%)	(9.5%)	(14.3%)	(13.6%)	(13.8%)	(86.7%)	(7.1%)	(17.3%)	
2009 - 2010	(1.0%)	(7.1%)	(5.9%)	(4.7%)	(3.2%)	(1.0%)	2.5%	1.2%	5.4%	(2.9%)	
2010 - 2016	0.8%	1.5%	2.8%	1.9%	1.2%	0.8%	2.6%	1.3%	0.0%	1.3%	
2009 - 2016	0.6%	0.2%	1.5%	0.9%	0.6%	0.6%	2.5%	1.3%	0.8%	0.7%	

Sources: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., August 2009.  
Prepared by: Ricondo & Associates, Inc., August 2009.

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- Average seats for regionals/commuters are projected to increase approximately 0.50 seats per year, from 45.8 seats in FY 2009 to 49.3 seats in FY 2016. It is expected that a continued shifting from the smaller 50-seat regional jets to the larger 70- to 90-seat regional jets will occur at the Airport to accommodate certain shifting of legacy carrier traffic to these carriers.
- Average seats for international carriers are projected to increase approximately 1.30 to 1.50 seats per year, from 216.8 seats in FY 2009 to 227.0 seats in FY 2016. This relatively high growth in seats is primarily due to the expected initiation of service by new generation aircraft (i.e., A-380 and B-787) at the Airport during the projection period.
- Combined load factors for domestic majors/nationals, regionals/commuters, and international carriers are projected at 78 to 80 percent during the projection period, consistent with load factor assumptions used by the FAA in its nationwide projections.

General aviation activity at the Airport is projected to grow moderately during the remainder of the projection period, reflecting the assumption that growth in this activity will occur primarily at outlying airports within the Air Trade Area due to cost and delay considerations. As a result, general aviation activity at the Airport is projected to decrease slightly in FY 2009 and then increase from 15,600 operations in FY 2010 to 16,400 operations in FY 2016, a CAGR of 0.8 percent during this period. It is expected that the majority of general aviation traffic at the Airport will be corporate/business travel during the projection period.

All-cargo activity at the Airport is expected to increase from 19,890 operations in FY 2010 to 23,140 operations in FY 2016. This increase represents a CAGR of 2.6 percent during this period.

Activity by other air taxi operators is expected to increase moderately from 3,890 operations in FY 2010 to 4,200 operations in FY 2016, a CAGR of 1.3 percent during this period.

Future military activity at the Airport will be influenced by U.S. Department of Defense policy, which largely dictates the level of military activity at an airport. Military activity at the Airport is projected to remain constant at approximately 2,700 operations each year during the projection period, comparable to its five-year average activity level between FY 2005 and FY 2009.

### **2.7.3 Projected Passenger Airline and All-Cargo Landed Weight**

**Table II-27** presents historical and projected passenger airline and all-cargo carrier landed weight at the Airport. With continued decreases in passenger airline operations expected in FY 2010, passenger airline landed weight at the Airport is projected to decrease accordingly. Thereafter, passenger airline landed weight is projected to increase from 42,001,388 thousand pounds in FY 2010 to 47,298,271 thousand pounds in FY 2016, a CAGR of 2.0 percent during this period. As also shown, all-cargo landed weight at the Airport is projected to increase from 3,818,428 thousand pounds in FY 2010 to 4,382,312 thousand pounds in FY 2016, a CAGR of 2.3 percent during this period. In general, the increases in landed weight following decreases in the short-term for both groups are expected as a result of anticipated use of larger aircraft and/or increased operations at the Airport during the projection period.

**Table II-27**

Landed Weight Projections (thousand pounds) - LAX

Fiscal Year	Domestic Majors/Nationals	Regionals/ Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger Airlines	All Cargo	Airport Total	Annual % Change
<b>Historical</b>								
1999	33,529,789	2,443,970	3,305,432	12,834,346	52,113,537	5,744,879	57,858,416	-
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884	5.9%
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663	2.6%
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225	(14.9%)
2003	28,821,535	2,664,517	2,352,102	13,633,282	47,471,436	4,325,572	51,797,008	(3.1%)
2004	28,456,279	2,567,616	2,256,763	13,995,149	47,275,807	4,290,136	51,565,943	(0.4%)
2005	27,569,570	2,682,342	2,570,214	14,708,859	47,530,985	4,696,906	52,227,891	1.3%
2006	26,497,228	2,719,157	2,634,517	15,074,170	46,925,072	4,878,126	51,803,198	(0.8%)
2007	26,677,762	2,954,684	2,843,496	14,845,477	47,321,419	4,964,390	52,285,809	0.9%
2008	26,130,346	3,639,478	2,732,947	15,219,240	47,722,011	4,376,934	52,098,945	(0.4%)
2009	24,387,381	2,704,501	2,121,612	13,750,211	42,963,705	3,735,442	46,699,147	(10.4%)
<b>Projected</b>								
2010	24,324,394	2,454,912	1,995,673	13,226,409	42,001,388	3,818,428	45,819,816	(1.9%)
2011	24,472,596	2,533,565	2,046,996	13,696,207	42,749,364	3,926,668	46,676,033	1.9%
2012	24,841,193	2,617,661	2,108,189	14,242,146	43,809,189	4,045,849	47,855,038	2.5%
2013	25,141,514	2,711,656	2,169,382	14,741,101	44,763,653	4,158,729	48,922,381	2.2%
2014	25,618,592	2,785,460	2,230,574	15,077,199	45,711,826	4,253,933	49,965,759	2.1%
2015	25,988,691	2,847,052	2,291,767	15,361,232	46,488,742	4,323,986	50,812,728	1.7%
2016	26,413,067	2,900,391	2,352,960	15,631,852	47,298,271	4,382,312	51,680,583	1.7%
<b>Compounded Annual Growth Rate</b>								
1999 - 2001	4.3%	0.6%	7.8%	4.1%	4.3%	3.7%	4.2%	
2001 - 2002	(18.6%)	(2.7%)	(5.0%)	(14.3%)	(15.9%)	(5.5%)	(14.9%)	
2002 - 2008	(2.1%)	7.2%	(4.7%)	4.1%	0.0%	(4.7%)	(0.4%)	
2008 - 2009	(6.7%)	(25.7%)	(22.4%)	(9.7%)	(10.0%)	(14.7%)	(10.4%)	
2009 - 2010	(0.3%)	(9.2%)	(5.9%)	(3.8%)	(2.2%)	2.2%	(1.9%)	
2010 - 2016	1.4%	2.8%	2.8%	2.8%	2.0%	2.3%	2.0%	
2009 - 2016	1.1%	1.0%	1.5%	1.8%	1.4%	2.3%	1.5%	

Sources: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., August 2009.

Prepared by: Ricondo & Associates, Inc., August 2009.

### **III. Airport Facilities and Capital Program**

This chapter presents a review of existing Airport facilities, a discussion of the Series 2009 Projects, and a description of other planned capital improvements at the Airport.

#### **3.1 Existing Airport Facilities**

The Airport is located approximately 15 miles southwest of downtown Los Angeles and occupies approximately 3,673 acres of land, consisting of the Central Terminal Area (CTA), airfield facilities, air cargo facilities, and ancillary facilities. The Airport is generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the South by Imperial Highway, and on the west by the Pacific Ocean. Existing facilities at the Airport are described in the following paragraphs and are shown on **Exhibit III-1**.

##### **3.1.1 Airfield Facilities**

The existing airfield consists of four parallel air carrier runways configured in two pairs. The north airfield complex includes outboard Runway 6L-24R (8,925 feet) and inboard Runway 6R-24L (10,285 feet). The south airfield complex includes outboard Runway 7R-25L (11,095 feet) and inboard 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 (IFR) conditions, instrument landing systems are installed on all four runways.

Primary runway use is arrival operations on the outboard runways and departure operations on the inboard runways. Simultaneous approaches to the outboard and inboard runways are conducted only in west flow during Visual Flight Rules (VFR) using visual approach procedures. All four runways are capable of accommodating fully loaded widebody aircraft, such as the Boeing 747 and 787, and the Airbus 340 and 380. Air traffic control procedures and airfield geometry govern where and how Airbus 380 aircraft operate at the Airport.

A taxiway network to facilitate the movement of aircraft between the runways and the CTA and other Airport facilities serves both sets of parallel runways. The north and south airfield complexes are separated by the CTA, aircraft maintenance hangar facilities, the fuel farm, and remote aircraft gates, all of which are located along an east-west spine through the Airport.

Lighting for the entire flight area, including lighting for the four runways and all connecting taxiways, approach lights, and obstruction lights, is provided on a 24-hour basis.

##### **3.1.2 Terminal Facilities**

There are nine passenger terminals at the Airport that accommodate domestic and international passenger activity. Although many of the terminals are physically connected and share a common U-shaped, two-level enplaning/deplaning roadway system, they function as independent terminals with separate ticketing, baggage, security checkpoints, and passenger processing systems. The terminals share a common aircraft gate access system, which is comprised of a single taxi lane between terminal piers, requiring considerable airline cooperation to minimize aircraft arrival and departure delays.

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|---|--|--|
| ① Completion of TBIT Improvements                               | ④ Crossfield Taxiway Projects (see Note 2)               | ⑦ Airfield Operations Area Perimeter Fence - Phase 3 |
| ② In-Line Baggage Screening System - Terminal 3                 | ⑤ Airfield Intersection Improvements - Phase 2           | ⑧ Acquisition of Park One Property                   |
| ③ Elevators and Escalators Replacements (Terminals and Parking) | ⑥ Aircraft Rescue and Fire Fighting Station Construction |  |

Note 1: To date, not all parcels in Manchester Square have been acquired by the Department.

Note 2: The Crossfield Taxiway Projects include the construction of Crossfield Taxiway C13, Crossfield Taxilane S, and associated projects.

Source: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).

Prepared by: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).

Exhibit III-1

## Existing Airport Facilities and Series 2009 Projects

The combined area of all nine passenger terminals is approximately 4.4 million square feet. Each of the nine terminals is briefly described below:

- **Terminal 1** is used for domestic operations and comprises approximately 350,000 square feet on three levels. Tenants of this facility include Southwest Airlines and US Airways.
- **Terminal 2** is leased by LAX TWO Corp. and is used by 14 airlines, including Air Canada, Air China, Air France, Air New Zealand, Aviacsa, Avianca, Hawaiian Airlines, KLM, LACSA, Sun Country, TACA, Virgin Atlantic, Volaris, and WestJet, for domestic and international use. The building is comprised of approximately 501,000 square feet on three levels. In addition, there is a mezzanine level with airline clubs and offices.
- **Terminal 3** is a Joint Use Facility and is used by four airlines (Alaska, Horizon, Virgin Australia, and Virgin America) primarily for domestic operations, although international departures do occur. This terminal is comprised of approximately 303,000 square feet and includes two levels and a mezzanine with an airline club and offices.
- **Terminal 4** is leased by American for both domestic and international operations at many of its gates. Other tenants include American Eagle, Midwest Airlines, and Qantas. The terminal is comprised of approximately 575,000 square feet and includes two levels and a mezzanine.
- **Terminal 5** is leased by Delta/Northwest and also used by Aerolitoral and Aeromexico, and includes approximately 505,000 square feet. The terminal includes three levels (departure, ticketing, and arrival) and many of the gates in Terminal 5 are capable of both domestic and international operations.
- **Terminal 6** is a Joint Use Facility used by Continental, United, AirTran, Allegiant Air, Frontier, JetBlue, Copa, and Spirit, mainly for domestic operations, although international operations do occur from time to time. The two levels comprise approximately 428,000 square feet.
- **Terminals 7 and 8** are leased by United for domestic and international operations, and encompass approximately 692,000 square feet, consisting of two pier concourses supported by a single ticketing area and a split baggage claim facility, arranged on three levels with a mezzanine in the satellite.
- **Tom Bradley International Terminal (TBIT)** encompasses approximately 1,008,000 square feet and is the major international terminal serving both foreign flag and U.S. carriers. This terminal is comprised of four levels and is used by approximately 30 airlines providing international service at the Airport.

As discussed below in Section 3.2, as part of the Department's ongoing efforts to facilitate more uniform airline terminal capital rates and charges at the Airport, the Department is engaged in acquiring certain existing terminal improvements that were previously funded by airline tenants through third party debt.

### **3.1.3 Public Parking Facilities**

Approximately 21,000 public parking spaces are available at the Airport, including 10,000 parking spaces in eight parking garages in the CTA and 11,000 spaces in two economy-rate, long term

surface parking lots, including Lot B (111<sup>th</sup> Street and La Cienega Boulevard) and Lot C (96<sup>th</sup> Street and Sepulveda Boulevard). Crosswalks on the lower-level roadway and sky bridges provide pedestrian connections between the eight parking garages in the CTA and the terminal buildings.

In July 2009, the Department purchased the 20-acre Park One parking lot property, which is located adjacent to Terminal 1 and includes approximately 2,700 public parking spaces. More information on the acquisition of the Park One property is provided in Section 3.3.

To help reduce vehicle traffic congestion in the CTA, the Airport also provides a 79-space cell phone waiting lot (located on Airport Boulevard near Arbor Vitae Street, approximately five minutes away from the CTA) where motorists meeting arriving passengers can wait for free until passengers call to indicate they are ready to be picked up along the terminal curbside.

Free shuttle service to the terminals is provided 24 hours per day from Lot B and Lot C. Lot C also contains the Los Angeles County Metropolitan Transportation Authority Bus Center, which connects public bus systems with the courtesy shuttle bus service provided by the Airport.

In addition to the public parking spaces discussed above, nearly 3,300 parking spaces are available in various parking lots for Airport employees. Other individual employers at the Airport provide parking spaces for employees in various lots at the Airport.

#### **3.1.4 Rental Car Facilities**

Approximately 40 rental car companies operate at the Airport, with vehicle rental sites located off-Airport. Ready/return spaces are included among the various off-Airport sites. Ten rental car companies operating at the Airport provide free shuttle service between the Airport and the rental car companies and are permitted to pick up and drop off their customers directly from the airline terminals. Customers of the other rental car companies use the free LAX Shuttle Bus to reach the Off-Airport Rental Car Terminal (located at Lot C) to meet their rental car courtesy shuttle.

#### **3.1.5 Cargo Facilities**

Based on preliminary data obtained from the Airports Council International (ACI) for CY 2008, the Airport ranked 13<sup>th</sup> worldwide and 5<sup>th</sup> nationwide in total cargo handled with approximately 1.6 million enplaned and deplaned tons.

The cargo areas at the Airport comprise 2.1 million square feet of building space in 26 buildings on 194 acres of land used for cargo-related purposes; approximately 92 percent of this space is leased. Four million square feet is developed for cargo use in the immediate vicinity of the Airport. The City owns all of the cargo-related property at the Airport although the tenants own some buildings located on the property.

The Airport cargo areas are generally oriented around three primary areas, including the 98-acre “Cargo City” (also known as “Century Cargo Complex”), the 57.4-acre “Imperial Cargo Complex,” and a number of terminals on the south side of the Airport comprising the “South Cargo Area.” Improvements and enhancements by tenants and the Department have been made continually at the Century Cargo Complex, the Airport’s first air cargo area. America, United, Virgin Atlantic, Asiana,



Alaska, British Airways, Southwest, and US Airways utilize this facility. The Imperial Cargo Complex has also undergone extensive development by domestic and international carriers. Major tenants include Lufthansa, Japan Airlines, Korean Air, Federal Express, China Airlines, Delta and Air Canada.

Each Cargo complex at the Airport has a unique landside access system. The primary access for the Airport's cargo areas is provided from three arterial roadways: Century Boulevard, Aviation Boulevard, and Imperial Highway. Parking areas are generally adjacent to each cargo building. To accommodate the truck activity, each cargo building has designated truck docks. Many of these docks are used for storage and other nonloading/unloading activities.

### **3.1.6 Ancillary Facilities**

Ancillary facilities support the aviation-related activities at the Airport. The facilities identified as ancillary are categorized as General Aviation, Ground Service, Federal Aviation Administration, Transportation Security Administration (TSA), Airline Administration and Maintenance, Los Angeles World Airports (the Department), Flight Kitchens, Fuel, and Other Ancillary Facilities.

- **General Aviation.** Two fixed base operators (FBOs), Landmark Aviation and Atlantic Aviation, operate at the Airport, encompassing approximately 14 acres. They provide a full array of services to the general aviation community, such as refueling, light maintenance and pilot lounges.
- **Ground Service.** Several ground service companies operate at the Airport providing a variety of services, employing some 2,400 employees and occupying approximately nine acres.
- **Federal Aviation Administration (FAA).** The FAA occupies the 277-foot Air Traffic Control Tower and handles all flight arrivals and departures as well as ground movement.
- **Transportation Security Administration (TSA).** The TSA occupies the sixth floor of the former control tower.
- **Airline Administration and Maintenance.** These hangars and support facilities are concentrated in six primary airline complexes at the Airport:
  - Delta/United Airlines
  - American Airlines (2)
  - Continental Airlines
  - Federal Express
  - US Airways
- **The Department.** The Department maintains facilities occupying approximately 30 acres at the Airport, consisting of maintenance yard, warehouse, inspection office, administration offices, a telecommunication center and executive offices in the former control tower.
- **Flight Kitchen.** Two catering companies operate flight kitchens at the Airport, including Gate Gourmet and LSG Sky Chefs.
- **Fuel.** Fuel is transported into the Airport's bulk storage fuel farm facility via underground pipelines from several petroleum refineries in the South Bay area. The bulk storage fuel farm at the Airport encompasses approximately 20 acres on the north side of World Way West.

Six petroleum refineries provide fuel to the Airport, and five principal companies store and deliver fuel to aircraft at the Airport for a combined total of over 130 million gallons per month.

- **Other Ancillary Facilities.** Other ancillary and support facilities at the Airport include the U.S. Post Office, Aircraft Rescue and Firefighting, Airport Police Bureau, and the U.S. Coast Guard.

### **3.2 Summary of Capital Planning**

Capital planning at the Airport operates within a series of adopted, comprehensive land use plans and procedures, namely a LAX Master Plan, a LAX Plan and a LAX Specific Plan. Please refer to the “CAPITAL IMPROVEMENT PLANNING” section of front portion of the Official Statement for the Series 2009 Bonds for a more detailed discussion. The Department approaches the development of its Capital Improvement Program (CIP) with a strategic focus on delivering facilities that will support the Airport’s position as a premier international gateway airport and maintain a reasonable cost structure for the airlines operating at the Airport. On a formal basis, Department Management reviews and assesses the program annually, and continuously on a less formal basis, in light of many factors, including but not limited to: improved information regarding the condition and/or requirements of new and existing facilities; improved cost estimates for contemplated projects; new opportunities for investment or acquisition that arise from time to time; current and forecast traffic levels, and; changes within the industry that may influence the cost of the program. Department Management’s analysis of these factors and other information may result in changes to timing or scope of contemplated projects and the addition or removal of projects from the program.

The development of the CIP will also impact the way the Department operates and structures its airline charges at the Airport in the future. Due to the nature of past agreements at the Airport, the cost of some capital investment in some terminals has been borne by airlines while the cost of some capital investment in others has been borne by the Department. The Department has decided to pursue the implementation of a uniform airport-wide capital charge to airlines for capital costs associated with terminal facilities. To affect this change, the Department is actively engaged in identifying those leases related to improvements previously funded by airline tenants which can be terminated on terms favorable to the Airport. For example, in March 2009, the Department closed a transaction with United Airlines for the repurchase of Terminal 6 Gates and FIS improvements (among other things) at the cost of approximately \$35 million. As discussed in Section 3.4 of this report, the Department has identified financial capacity for the purpose of entering into other such transactions in the future.

As discussed further in Chapter 4 of this report, specific funding source decisions are driven by the CIP and are made on the basis of project specific considerations and market factors and are made within the context of the Department’s strategic objectives for managing the Airport’s long term capital structure. The current CIP does not include the approximately \$850 million of project costs funded with proceeds of the Series 2008 Bonds. The two projects listed under the South Airfield Improvement Program were completed on time and under budget. The TBIT Interior Improvements projects that were partially funded by the 2008 Bonds are on schedule with an expected completion date of February 2010.

The Series 2009 Projects and the Other Incorporated Projects discussed in Sections 3.3 and 3.4 below include certain projects that were not elements of the Department’s overall capital program at the



time the Series 2008 Bonds were issued. The projects under consideration to be included in the CIP for FY 2010-2016 are expected to cost approximately \$5.6 billion and do not include the approximately \$850 million of projects that are totally or partially completed. The addition of these projects reflects the Department's progress in refining its facilities planning process and prioritizing of capital investment needs as well as recent strategic opportunities that have been presented to the Department for acquiring previously unavailable facilities. These projects include terminal improvements (Elevators and Escalators Replacements and the Terminal Improvements Program); airfield improvements (Pavement Management Program); acquisitions (Park One Property and the Acquisition of Existing Terminal Improvements); and other improvements (West Maintenance Facility Pad and Infrastructure).

For purposes of this report, the Airport's overall capital program is organized into the following three categories:

- **The Series 2009 Projects.** Includes capital projects to be funded, in part, with Series 2009 Bond proceeds. The capital and operating costs, and any estimated revenue impacts, associated with the Series 2009 Projects **have been included** in the financial analysis incorporated in this report and the financial tables accompanying this report (see Chapter 4).
- **Other Incorporated Projects.** Includes capital projects other than the Series 2009 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in this report, and are expected by the Department to be completed during the projection period (through FY 2016). These projects are referred to in the report as the Other Incorporated Projects. The capital and operating costs, and any estimated revenue impacts, associated with the Other Incorporated Projects **have been included** in the financial analysis incorporated in this report and the financial tables accompanying this report (see Chapter 4). As described in Chapter 4, debt associated with the Other Incorporated Projects is incorporated in the analysis using assumptions that reflect the Department's strategic approach to managing its long-term funding plan.
- **Future Projects.** Includes other potential future projects at the Airport that the Department may consider (referred to as Future Projects) that are not reflected in this report or in the accompanying tables because the scope, timing, cost, and approval of these projects are uncertain. Future Projects can generally be categorized into terminal, airfield, access, ground transportation, infrastructure, or other projects. Potential Future Projects include a range of facility improvements, enhancements and additions that seek to preserve and reinvest in existing infrastructure and to develop the incremental airfield, terminal and ground side capacity needed to meet long-term growth projections. The Department will only undertake Future Projects when demand warrants, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by a reasonable level of Airport user fees or other discrete funding sources such as grants, PFCs, CFCs, Department funds or third party funds.

### **3.3 The Series 2009 Projects**

The Series 2009 Projects are Airport projects that will be funded in part with the proceeds of the Series 2009 Bonds and include terminal projects, airfield and apron projects, parking projects, and the refunding of the Subordinate Subseries 2002 C1 Bonds.

Exhibit III-1 highlights the location of key elements of the Series 2009 Projects. **Table III-1** presents gross costs for the Series 2009 Projects (and the Other Incorporated Projects discussed below in Section 3.4).

The Series 2009 Projects are estimated to cost approximately \$1.0 billion including design, engineering, construction, escalation for inflation (as appropriate), and contingency amounts. Certain expenditures associated with the Series 2009 Projects have already been made by the Department. Sources of funding for the Series 2009 Projects are described in Section 4.7 of this report. The financial impacts of both the Series 2009 Projects and the Other Incorporated Projects are incorporated in this report and the accompanying financial tables in Chapter 4.

The Series 2009 Projects are described in detail in the following subsections.

### **3.3.1 Terminal Projects**

As shown on Table III-1, estimated costs for terminal projects total approximately \$430.4 million. Terminal projects to be funded in part with the proceeds of the Series 2009 Bonds are described in the following paragraphs.

- **Completion of TBIT Improvements.** This project refers to the completion of interior improvements to the terminal that began in February 2007 and were funded in part by proceeds of the Series 2008 Bonds. The project includes the renovation of interior public spaces including the departure ticketing lobby; departure and arrival concourses; Federal Inspection Services area; bus hold room; meeter-greeter area; in-transit lounge; inbound and outbound baggage system (including in-line baggage screening system); IT, electrical, HVAC, and paging system upgrades; upgrade of existing elevators, escalators, and moving walkways; and construction of a new north New Large Aircraft (NLA) gate.

*Estimated project cost: \$200.0 million ♦ Estimated completion date: February 2010*

- **In-Line Baggage Screening System – Terminal 3.** This project will construct an in-line baggage screening system in Terminal 3 pursuant to TSA requirements. The project includes replacement of the existing airline baggage handling spaces, construction of new baggage screening rooms, replacement of the outbound baggage conveyor systems, and installation/integration of TSA-provided Explosive Detection System (EDS) machines. Also included are Explosive Trace Detection (ETD) workstations, On-screen Resolution (OSR) Control Room and closed-circuit television (CCTV) systems.

*Estimated project cost: \$140.0 million ♦ Estimated completion date: January 2010*

- **Elevators and Escalators Replacements (Terminals) – Phases 1 & 2.** There are a total of 87 elevators, 116 escalators, and 29 moving walkways inside the Airport's terminals. Many of the systems have exceeded their 25-year operational life span. This project includes the rehabilitation and replacement of deteriorated equipment and systems to meet current standards and to improve people flow with energy-saving sustainable technology. Phases 1 & 2 of this project will focus on the most critical areas and equipment consisting of 64 elevator/escalator systems throughout the Airport. The project is part of the overall elevators

**Table III-1**

Summary of the Series 2009 Projects and Other Incorporated Projects -- Estimated Costs

	<b>Estimated Project Costs <sup>1/</sup></b>
<b>The Series 2009 Projects</b>	
<b>Terminal Projects</b>	
Completion of TBIT Improvements	\$ 200,000,000
In-Line Baggage Screening System - Terminal 3	140,000,000
Elevators and Escalators Replacements (Terminal) - Phases 1&2	90,400,000
	\$ 430,400,000
<b>Airfield and Apron Projects</b>	
Crossfield Taxiway Projects <sup>2/</sup>	\$ 341,389,000
Airfield Intersection Improvements Phase 2	41,049,000
Airfield Operations Area Perimeter Fence (World Way West) Phase 3	17,162,000
Aircraft Rescue and Fire Fighting Station Construction	13,550,000
	\$ 413,150,000
<b>Parking Projects</b>	
Acquisition of Park One Property	\$ 125,000,000
Elevators and Escalators Replacements (Parking) - Phases 1&2	22,600,000
	\$ 147,600,000
<b>Refunding</b>	
Refunding - Subordinate Subseries 2002 C1	\$ 37,400,000
	\$ 37,400,000
<b>Total Series 2009 Projects</b>	<b>\$ 1,028,550,000</b>
<b>Other Incorporated Projects <sup>3/</sup></b>	
<b>Terminal Projects</b>	
Bradley West Core	\$ 881,454,000
Bradley West Concourses	713,121,000
Terminal Improvements Program <sup>4/</sup>	614,971,000
Central Utility Plant	467,968,000
Acquisition of Existing Terminal Improvements	261,405,000
Elevators and Escalators Replacements (Terminal) - Phases 3&4	125,600,000
Program Reserve--Terminal Development and Improvements	125,000,000
	\$ 3,189,519,000
<b>Airfield and Apron Projects</b>	
Noise Mitigation and Soundproofing	\$ 431,000,000
Bradley West Aprons	188,304,000
West Maintenance Facility Pad and Infrastructure	193,570,000
Pavement Management Program	175,000,000
Bradley West Taxilane T and Associated Projects	97,909,000
Airfield Safety Improvements	51,765,000
Other Airfield and Apron Projects <sup>5/</sup>	43,350,000
	\$ 1,180,898,000
<b>Infrastructure and Other Projects</b>	
Elevators and Escalators Replacements (Parking) - Phase 3&4	\$ 31,400,000
IT Infrastructure Construction	28,365,000
Seismic Retrofit of CTA Pedestrian and Vehicular Bridges	21,112,000
Other Projects <sup>6/</sup>	82,944,000
	\$ 163,821,000
<b>Cash Defeasance of Certain Bonds</b>	
Cash Defeasance - Subordinate Series 2003 A	\$ 23,700,000
Cash Defeasance - Subordinate Subseries 2002 C2	20,000,000
	\$ 43,700,000
<b>Total Other Incorporated Projects</b>	<b>\$ 4,577,938,000</b>
<b>Total Series 2009 Projects and Other Incorporated Projects</b>	<b>\$ 5,606,488,000</b>

Notes:

1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.

2/ Includes construction of Crossfield Taxiway C13, Crossfield Taxilane S, and associated projects.

3/ The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the financial tables included in Chapter 4 of this report (with the impacts reflected in the Projection Period).

4/ Includes in-line bag screening systems for terminals other than TBIT and T3; passenger boarding bridge replacements; utility improvements (including sewer, electrical, etc.); bag claim devices replacement; preconditioned air unit installation; and other terminal infrastructure improvements.

5/ Includes Airport Operations Center Facility; runway status light system; Enhanced Access Control Monitoring System (ACAMS); GSE quick charging stations; and security airfield access posts upgrade.

6/ Includes closed circuit television system enhancement and expansion; wired and wireless improvements; Central Terminal Area expansion joint repair (roadway and parking); air freight roof renovation; Theme Building restoration; and other improvements.

Source: City of Los Angeles, Department of Airports (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).

and escalators replacement project, but is broken out into terminal and parking components for purposes of this feasibility report (see Section 3.3.3 for a description of the parking component of Phases 1 & 2 of this project).

*Estimated project cost: \$90.4 million* ♦ *Estimated completion date: June 2011*

### **3.3.2 Airfield and Apron Projects**

As shown on Table III-1, estimated costs for airfield and apron projects total \$413.2 million. Airfield and apron projects to be funded in part with the proceeds of the Series 2009 Bonds are described in the following paragraphs.

- **Crossfield Taxiway Projects.** These projects include construction of Crossfield Taxiway C13, Crossfield Taxilane S, and associated projects, as well as associated airfield pavement.

The purpose of the Crossfield Taxiway C13 project is to construct a 3,437-foot-long by 100-foot-wide taxiway connection between Taxiway E on the north airfield complex and Taxiway B on the south airfield complex so that existing Taxiway Q can be decommissioned to provide space for future TBIT terminal improvements. The project includes demolishing existing structures, removing existing deteriorated concrete and asphalt pavement, constructing a new Remain Overnight (RON) area, installing airfield signage and lighting systems and airfield pavement markings, and improving storm drains. The project also involves realigning the existing World Way West road and constructing two bridges over the road; one for aircraft and the other for vehicular traffic.

Crossfield Taxiway S consists of the construction of a 3,487-foot long taxilane plus a connector taxiway to connect Taxiway B on the south and Taxiway D on the north. Taxilane S will be constructed as part of a 400-foot wide concrete strip which will be the first part of the future dual taxilane/taxiway system between a future midfield satellite concourse and TBIT.

Also included in the Crossfield Taxiway Projects is construction of associated airfield pavement.

*Estimated project cost: \$341.4 million* ♦ *Estimated completion date: July 2012*

- **Airfield Intersection Improvements – Phase 2.** This project will improve various airfield intersections and modify service road locations to provide safe taxiing routes for current large aircraft and future NLA. This phase includes the widening of five intersections throughout the north and south airfield complex at the Airport, specifically in the vicinity of Taxiways E and C and Runways 24L and 25R. The project includes intersection pavement and shoulder reconstruction, as well as reconstruction and relocation of all affected taxiway lighting and signage, demolition of existing electrical vaults, and construction of a new electrical vault.

*Estimated project cost: \$41.0 million* ♦ *Completion date: September 2009*

- **Airfield Operations Area Perimeter Fence Replacement (World Way West) – Phase 3.** This project is a continuation of the Airport Security Enhancement Program and will enhance approximately 4.4 miles of airfield operations area (AOA) perimeter fence along World Way West from Taxiway AA to Los Angeles Fire Station/Post #5. The project also includes crash gates, each of which consists of a heavy duty electric motor, sliding rail, gate, and heavy gauge latch posts.

*Estimated project cost: \$17.2 million ♦ Estimated completion date: February 2010*

- **Aircraft Rescue and Fire Fighting (ARFF) Station Construction.** In conjunction with the crossfield taxiway project, a new ARFF station is proposed to be constructed as a replacement for the existing Fire Station No. 80 located on the airfield adjacent to Taxiway S. The proposed ARFF station would provide approximately 27,895 square feet of administrative office area and station living quarters within a 2-story structure, six bays for emergency vehicles, along with a service bay, storage area for various emergency response equipment, and briefing and training rooms.

*Estimated project cost: \$13.6 million ♦ Estimated completion date: September 2010*

### **3.3.3 Parking Projects**

As shown on Table III-1, estimated costs for parking projects total \$147.6 million. Parking projects to be funded in part with the proceeds of the Series 2009 Bonds are described in the following paragraphs.

- **Acquisition of Park One Property.** In July 2009, the Department purchased the 20-acre Park One parking lot adjacent to Terminal 1 from AMB Properties, who had owned the land since 2002. Before it was converted into a parking lot in the early 1990s, the property was home to Garrett AiResearch, a military contractor that crafted aerospace products. Park ‘N Fly currently holds the operating lease, which is set to expire at the end of 2012.

*Estimated project cost: \$125.0 million ♦ Completion date: July 2009 (completed)*

- **Elevators and Escalators Replacements (Parking) – Phases 1 & 2.** This project includes the rehabilitation and replacement of the 29 elevators in the Airport’s parking structures. The project is part of the overall elevators and escalators replacement project, but is broken out into terminal and parking components for purposes of this feasibility report (see Section 3.3.1 for a description of the terminal component of Phases 1 & 2 of this project).

*Estimated project cost: \$22.6 million ♦ Estimated completion date: June 2011*

### **3.3.4 Refunding of Subordinate Subseries 2002 C1 Bonds**

The Department expects to refund outstanding Subordinate Subseries 2002 C1 Bonds.

*Estimated project cost: \$37.4 million ♦ Estimated completion date: Upon Issuance of the Series 2009 Bonds*

## **3.4 Other Incorporated Projects**

As described in Section 3.2, Other Incorporated Projects include projects expected by the Department to be completed during the projection period (through FY 2016), and that are generally defined in terms of timing and cost, have been internally reviewed for financial feasibility, and are

moving through the applicable approval level environmental review and approval processes and being discussed with relevant tenants. As shown on Table III-1, preliminary cost estimates for the Other Incorporated Projects included in this report total approximately \$4.6 billion. Sources of funding for the Other Incorporated Projects are described in Section 4.7 of this report. The estimated financial impacts of the Other Incorporated Projects **are incorporated in this report** and the accompanying financial tables in Chapter 4. A brief description of the Other Incorporated Projects is provided in this section.

### **Other Incorporated Projects--Terminal Projects**

- **Bradley West Core and Concourses.** This project calls for new concourses to replace existing ones that will include nine new gates on the west side in addition to the east side gates. Several of these gates will be specifically designed to accommodate new-generation aircraft such as the Airbus 380, Boeing 747-8 and Boeing 787, with features like multiple passenger loading bridges for each aircraft, larger passenger lounges/holdrooms, and wider taxiways and aircraft tarmac areas. The central core of TBIT, which currently provides for passenger processing (i.e., ticketing, baggage check/claim, security screening, concessions, etc.) would also be modified to provide additional floor areas and improvements to serve existing and future passengers at TBIT. These improvements will also include the addition of secured walkways connecting Terminals 3 and 4 to TBIT so passengers with connecting flights do not have to exit the terminals and go through security screening again. The areas in the central core that house the federal inspection services of U.S. Customs & Border Protection, as well as airline and terminal operations offices, and concessions areas also would be renovated and enlarged. For purposes of the financial analysis incorporated in this report, the Bradley West core and concourse project is assumed to include approximately 800,000 square feet of new terminal and concourse space.

*Estimated project cost: \$1,594.6 million* ♦ *Estimated completion date: June 2013*

- **Terminal Improvements Program.** This program includes a variety of terminal specific projects meant to improve the conditions in Terminals 1 through 8 within the CTA. These projects include the construction of in-line baggage screening systems for the other seven terminals at the Airport (TBIT and Terminal 3 projects have already advanced to construction). Other projects included in this program include: passenger boarding bridge replacements; purchase and installation of preconditioned air units; various utility improvements including sewer lines and electrical panel replacements; new bag claim devices; and other general terminal improvements.

*Estimated project cost: \$615.0 million* ♦ *Estimated completion date: Ongoing through FY 2014*

- **Central Utility Plant.** This project replaces the existing, outdated Central Utility Plant (CUP). The project will include replacement of the existing cooling towers, construction of an underground thermal energy storage tank at the site of the existing CUP, electrical upgrades to include a new electrical substation, and a retrofit of the existing Los Angeles Department of Water and Power (LADWP) substation.

*Estimated project cost: \$468.0 million* ♦ *Estimated completion date: April 2014*

- **Acquisition of Existing Terminal Improvements.** This includes the acquisition of various existing terminal improvements at the Airport that were previously funded by certain airline tenants through third party debt.

*Estimated project cost: \$261.4 million ♦ Estimated completion date: June 2010*

- **Elevators and Escalators Replacements (Terminals) – Phases 3 & 4.** This project is a continuation of the elevators and escalators replacements project for the terminals. As reflected in Section 3.3.1 above, Phases 1 & 2 of this project are included in the Series 2009 Projects.

*Estimated project cost: \$125.6 million ♦ Estimated completion date: June 2013*

- **Program Reserve – Terminal Development and Improvements.** This reserve serves as a budget placeholder for the financial capacity needed to address unexpected changes or additions to the terminal development and improvement program as they arise.

*Estimated project cost: \$125.0 million ♦ Estimated completion date: Not applicable*

#### **Other Incorporated Projects--Airfield and Apron Projects**

- **Noise Mitigation and Soundproofing.** The Department is currently implementing an Airport Residential Soundproofing Program (RSP) for aircraft noise impacted areas surrounding the Airport. The program includes installation of acoustic modifications to lessen the effects of aircraft noise in impacted homes adjacent to the Airport. In addition, the Department is managing a Voluntary Residential Acquisition and Relocation Program, under which the Department is in the process of acquiring residences in the Manchester Square and Belford Areas in lieu of soundproofing. These programs are ongoing.

*Estimated project cost: \$431.0 million ♦ Estimated completion date: Ongoing through FY 2017*

- **Bradley West Aprons.** This project is associated with the Bradley West Core and Concourses project and will include the construction of apron areas for aircraft parking.

*Estimated project cost: \$188.3 million ♦ Estimated completion date: July 2012*

- **Pavement Management Program.** This project includes the maintenance, repair, rehabilitation, evaluation, and testing of apron, airfield, taxiway, and related pavement structures.

*Estimated project cost: \$175.0 million ♦ Estimated completion date: Ongoing through FY 2017*

- **Bradley West Taxilane T and Associated Projects.** This project consists of the construction of a 3,166-foot long taxilane to connect Taxiway C on the south and Taxiway D on the north. Taxilane T will be constructed as part of a 300-foot wide concrete strip which will be the second part of the future dual taxilane/taxiway system replacing existing Taxiways Q and S, west of TBIT.

*Estimated project cost: \$97.9 million ♦ Estimated completion date: June 2012*

- **West Maintenance Facility Pad and Infrastructure.** This potential project includes the construction of new RON aircraft aprons, an aircraft maintenance hangar, associated office space, a ground run-up enclosure, and employee parking, all located west of Taxiway AA and south of World Way West.

*Estimated project cost: \$193.6 million ♦ Estimated completion date: March 2015*

- **Airfield Safety Improvements.** The purpose of this project is to evaluate and summarize short-term safety improvements for the North Airfield by establishing a group of subject matter experts to review alternatives. The project also involves initiating the Safety Management System (SMS) process through the FAA to study and recommend short-term solutions.

*Estimated project cost: \$51.8 million ♦ Estimated completion date: December 2012*

- **Other Airfield and Apron Projects.** These projects include the Airport Operations Center facility, runway status light system, enhanced access control monitoring system (ACAMS), GSE quick charging stations, and security airfield access posts upgrades.

*Estimated project cost: \$43.4 million ♦ Estimated completion date: Ongoing through FY 2012*

#### **Other Incorporated Projects—Infrastructure and Other Projects**

- **Elevators and Escalators Replacements (Parking) – Phases 3 & 4.** This project is a continuation of the elevators and escalators replacements project for the parking structures. As reflected in Section 3.3.3 above, Phases 1 & 2 of this project are included in the Series 2009 Projects.

*Estimated project cost: \$31.4 million ♦ Estimated completion date: June 2013*

- **IT Infrastructure Construction.** This project consists of a number of sub-projects which impact the underlying Department IT passive infrastructure, including telecom rooms, conduit, and cable/fiber.

*Estimated project cost: \$28.4 million ♦ Estimated completion date: August 2012*

- **Seismic Retrofit of CTA Pedestrian and Vehicular Bridges.** This project will make non-compliant bridges code compliant by upgrading existing seismic protection with current code compliant retrofits to make them more resistant to seismic activity, ground motion, or soil failure due to earthquakes.

*Estimated project cost: \$21.1 million ♦ Estimated completion date: September 2012*

- **Other Projects.** Includes closed circuit television system enhancement and expansion, improvements to the Department's wired and wireless technology infrastructure, CTA joint repair (roadway and parking areas), renovation of the roof of Air Freight No. 1, restoration of the Theme Building, and other improvements.

*Estimated project cost: \$82.9 million ♦ Estimated completion date: Ongoing through FY 2012*



**Other Incorporated Projects—Cash Defeasance of Certain Bonds**

- **Cash Defeasance of Subordinate Series 2003 A Bonds.** The Department expects to use cash or commercial paper proceeds to defease outstanding Subordinate Series 2003A Bonds.

*Estimated project cost: \$23.7 million* ♦ *Estimated completion date: By June 2010*

- **Cash Defeasance of Subordinate Subseries 2002 C2 Bonds.** The Department expects to use cash or commercial paper proceeds to defease outstanding Subordinate Subseries 2002 C2 Bonds.

*Estimated project cost: \$20.0 million* ♦ *Estimated completion date: By June 2010*

It should be noted that in addition to the Other Incorporated Projects discussed above and the Future Projects discussed in Section 3.2, there are other ongoing CIP projects at the Airport that are smaller in terms of estimated cost and more routine in nature relative to the majority of projects listed on Table III-1. These other ongoing projects (1) are not being funded with Series 2009 Bonds, (2) are not expected to be funded with future Bonds, and (3) are not estimated to have an impact on Airport operating expenses or revenues, and therefore are not reflected in this report or in the accompanying financial tables.

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## **IV. Financial Analysis**

This chapter examines the financial structure of the Airport and the financial implications of the Series 2009 Projects and the Other Incorporated Projects; presents debt service, operating expense, and revenue projections; and presents projections of debt service coverage, airline rates and charges, and other key financial measures.

### **4.1 Financial Structure**

This section discusses the City Charter, accounting practices employed by the Department, the cost center structure utilized for airline rate-setting purposes, the requirements and provisions of the Department's governing bond documents, and the status of the business and operating relationship between the Department and the airlines operating at the Airport.

#### **4.1.1 City Charter**

The City adopted a new City Charter that became effective July 1, 2000. 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 use of the Airport System.

Section 609 of the City Charter confers upon the Department the power to borrow money for any lawful purpose relating to the Department. Bonds so issued do not constitute or evidence indebtedness of the City. The Department has no taxing power. As of August 1, 2009, there were four series of Senior Bonds outstanding (Series 2002A, 2003B, 2008A, and 2008B), with a combined principal amount outstanding of approximately \$713 million. As of August 1, 2009, there were four series of Subordinate Obligations outstanding (Series 2002C-1, 2002C-2, 2003A, and 2008C), with a combined principal amount outstanding of approximately \$321 million. Additionally, pursuant to the Parity Subordinate Indenture, the Department is authorized to issue up to \$500 million aggregate principal amount of its Subordinate Commercial Paper Notes, which as of August 1, 2009 were outstanding with a maturity value of approximately \$182 million.

In 2000, the voters of the City approved Charter Amendment No. 8 relating to the Airport Revenue Fund. This change in the City Charter provided the Department with additional flexibility to account separately for the income and expenses of each airport under its control. The City Council adopted two ordinances, the LAX Ordinance and the Ontario Ordinance, to implement Charter Amendment 8, which resulted in the creation of the LAX Revenue Account and the Ontario Revenue Account.

#### **4.1.2 Organization and Airport Accounting**

The Airport is owned and operated by the City, acting through the Department. The City, acting through the Department, also operates and maintains LA/Ontario International Airport (LA/ONT) and Van Nuys Airport (VNY). In addition, the Department maintains LA/Palmdale Regional Airport (LA/PMD and, together with the Airport, LA/ONT, and VNY, the Airport System) although LA/PMD is not currently certificated by the FAA. The Department is under the management and control of a seven-member Board appointed by the Mayor. An Executive Director administers the Department and reports to the Board.

Each of the airports in the Airport System is accounted for separately by the Department. Currently, the operation of LA/ONT is financially self-sustaining, requiring no revenues from the General Fund of the City or other airports in the Airport System, though LAX revenues could be used at LA/ONT if necessary. Any revenue shortfalls associated with the operation of VNY are included as a requirement in the landing fee for the Airport (LAX), as discussed in Section 4.9.2.

The Airport is reported as a single enterprise fund and maintains its records on the accrual basis of accounting. The accounting and financial reporting policies of the Department conform to generally accepted accounting principles for local governmental units set forth by the Government Accounting Standards Board (GASB) as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public be financed or recovered primarily through user charges.

Maintenance and Operation (M&O) Expenses at the Airport are categorized into Cost Centers. Cost Centers include those areas or functional activities used for the purposes of accounting for the financial performance of the Airport. There are five direct revenue-producing Cost Centers and four indirect Cost Centers included in the Airport's financial structure. The Cost Centers included in the Airport's financial structure are described in greater detail below:

#### 4.1.2.1 Direct Cost Centers

The five direct revenue-producing Cost Centers are as follows:

- Terminal Cost Center. The Terminal Cost Center is comprised of all passenger terminal buildings, other related and appurtenant facilities, and associated land, whether owned, operated, or maintained by the Department. Facilities include the passenger terminal buildings located in the CTA, passenger terminal buildings located outside the CTA, associated concourses, holdrooms, passenger tunnels, and all other facilities that are integral parts of the passenger terminal buildings.
- Apron Cost Center. The Apron Cost Center is comprised of the land and paved areas primarily adjacent to passenger terminal buildings, but also includes remote areas that provide for the exclusive and non-exclusive parking, loading, and unloading of passenger aircraft. The Apron Cost Center does not include aprons associated with general aviation, cargo, or aircraft maintenance facilities.
- Airfield Cost Center. The Airfield Cost Center is comprised of the land and facilities that support air navigation and flight activities, including aircraft access to, and egress from, apron areas. Land and facilities include runways, taxiways, approach and clear zones, navigation and related easements, infield areas, safety areas, and landing and navigational aids.
- Aviation Cost Center. The Aviation Cost Center is comprised of the land and facilities related to air cargo, general aviation, fixed base operator (FBO) operations, aircraft fueling, aircraft maintenance, airline services, and other aviation related activities.

- Commercial Cost Center. The Commercial Cost Center is comprised of the land and facilities not located in passenger terminal buildings that are provided for non-aeronautical commercial and industrial activities, including for example, public automobile parking, car rental service centers, golf course, the Theme Building, and the Proud Bird restaurant.

#### 4.1.2.2 Indirect Cost Centers

The four indirect Cost Centers are as follows:

- Systems Cost Center. The Systems Cost Center includes the costs of providing, maintaining, operating, and administering airport systems. Examples include electrical distribution system, gas distribution system, potable water distribution system, chilled water distribution system, storm and sanitary sewer system, and industrial waste disposal. The Central Utility Plant (CUP) has been treated as a separate cost pool allocable to cost centers based upon BTU consumption.
- General Maintenance Cost Center. The General Maintenance Cost Center includes the costs of providing, maintaining, operating, and administering maintenance services, facilities, and equipment that cannot be directly allocated to cost centers.
- General Administration Cost Center. The General Administration Cost Center includes the general administrative and support costs related to providing, maintaining, operating, and administering the Airport that cannot be directly allocated to cost centers.
- Access Cost Center. The Access Cost Center includes the costs of providing, maintaining, operating, and administering facilities and services for on-Airport and off-Airport ground access for vehicles and pedestrians, including airside and landside access, and Airport access generally. It also includes the costs of increasing, preserving, or managing the throughput capacity of the Airport's access facilities; that is the volume of, and rate at which, users can be accommodated.

## 4.2 Senior Indenture

Pursuant to the terms of the Master Trust Indenture, dated as of April 1, 1995, as subsequently amended and supplemented (and referred to in this report as the Senior Indenture), the Department may issue Los Angeles International Airport Revenue Bonds (referred to in this report as Senior Bonds) secured by Pledged Revenues and by certain other security interests as specified therein.

Articles II, IV and V of the Senior Indenture establish the requirements for the Department to issue Senior Bonds, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Senior Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key provisions of the Senior Indenture as they pertain to this report are summarized below. The capitalized terms used in this Section 4.2 are used as defined in the Senior Indenture.

As summarized in Appendix D-1 of the Official Statement for the Series 2009 Bonds ("Proposed Amendments to the Master Senior Indenture"), certain amendments are proposed to the Senior Indenture that require the consent of the holders of Senior Bonds. Some of these amendments will not become effective until (i) the Department has received the consent of the owners of at least 51 percent in aggregate principal amount of all of the Senior Bonds Outstanding and (ii) either the

Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (the 51 Percent Senior Indenture Amendments) or the refunding or defeasance of the Series 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds has taken place. Certain other amendments to the Master Senior Indenture will not become effective until (i) the Department has received the consent of the owners of 100 percent in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and (ii) either the Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (100 Percent Senior Indenture Amendments) or the refunding or defeasance of the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds has taken place. R&A has assumed that the 51 Percent Senior Indenture Amendments and the 100 Percent Senior Indenture Amendments will not become effective at the time of issuance of the Series 2009 Senior Bonds. The Department does not expect the 51 Percent Senior Indenture Amendments to become effective until 2012. This report does not discuss any of the 100 Percent Senior Indenture Amendments. Neither the 51 Percent Senior Indenture Amendments nor the 100 Percent Senior Indenture Amendments, when effective, will materially change the financial forecasts in this report or the Department's ability to meet the Senior Rate Covenant included in the Senior Indenture.

#### **4.2.1 Key Senior Indenture Definitions**

**“LAX Revenues”** means, for any given period, except to the extent specifically excluded, all income, receipts, earnings, and revenue, received by the Department from the Airport, as determined in accordance with generally accepted accounting principles. LAX Revenues also include all income, receipts, and earnings from the investment of amounts held in the LAX Revenue Account, any Construction Fund (if allowed pursuant to a Supplemental Senior Indenture), the Reserve Fund, any Debt Service Reserve Fund, and earnings on the Maintenance and Operation Reserve Fund which are attributable to the Airport.

**“Pledged Revenues”** means LAX Revenues except for the following, which are specifically excluded:

- Ad valorem taxes and interest earnings thereon received by the Department;
- Any gifts, grants, and other income, including the interest earnings thereon, which by their terms cannot be used to pay debt service;
- Insurance proceeds or funds received as a result of condemnation, including the interest thereon, which by their terms cannot be used to pay debt service;
- Any Transfer (as defined below); and
- LAX Special Facilities Revenue, including interest earnings thereon.

The following amounts are also excluded from Pledged Revenues unless otherwise pledged under the terms of a Supplemental Senior Indenture:

- Swap Termination Payments, including the interest earnings thereon;
- Facilities Construction Credits;
- LAX Passenger Facility Charge (PFC) collections, including the interest earnings thereon;

- LAX rental car customer facility charge (CFC) collections, including the interest earnings thereon;
- All revenues of the Airport System that are not LAX Revenues;
- Released LAX Revenues; and
- Interest earnings on any Construction Fund (unless provided for in a Supplemental Senior Indenture).

“**LAX Maintenance and Operation Expenses**” means for any given period, the total operation and maintenance expenses of the 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 the Airport payable from moneys other than Pledged Revenues.

“**Net Pledged Revenues**” means, for any given period, Pledged Revenues for such period, less LAX Maintenance and Operation Expenses for such period.

**Senior “Aggregate Annual Debt Service”** generally means the aggregate debt service due on the Senior Bonds in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Senior Bonds (e.g. variable rate obligations). For purposes of meeting the Senior Rate Covenant, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service. On the effective date of the 51 Percent Senior Indenture Amendments, for purposes of meeting the Senior Additional Bonds test described below, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Senior Trustee and are set aside exclusively to be used to pay such debt service. The Department expects to use a certain amount of PFCs to pay for a portion of the debt service on Senior Bonds (including certain PFCs irrevocably committed by the Department through FY 2014).

“**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 required deposits and payments under the Senior Indenture have been made as of the last day of the immediately preceding fiscal year).

#### **4.2.2 Additional Senior Bonds**

As of the date of this report, Section 2.11 of the Senior Indenture provides that as a condition to the issuance of any additional series of Senior Bonds, there shall first be delivered to the Senior Trustee either:

- a) a certificate prepared by an Authorized Board Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed series of Senior Bonds or preceding the first issuance of the proposed Senior Program Bonds were at least equal to 125% of Maximum Senior Aggregate Annual Debt Service calculated as if the proposed series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding; or
- b) a certificate, dated as of a date between the date of pricing of the Senior Bonds being issued and the date of delivery of such Senior Bonds, prepared by a Consultant showing that:

- (1) the Net Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance of the proposed series of Senior Bonds or the establishment of a Senior Program were at least equal to 125% of Maximum Senior Aggregate Annual Debt Service;
- (2) for each fiscal year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of the Senior Indenture; and
- (3) the estimated Net Pledged Revenues for each of the first three complete fiscal years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, will be at least equal to 125% of Maximum Senior Aggregate Annual Debt Service calculated as if the proposed series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding.

For purposes of (a) and (b) above, no Transfer can be taken into account in the computation of Pledged Revenues by the Authorized Board Representative or the Consultant.

At the time of issuance of the Series 2009 Senior Bonds, if necessary, R&A expects to deliver a certificate as described in (b) above.

For a description of certain amendments to Section 2.11 of the Senior Indenture that are part of the 51 Percent Senior Indenture Amendments mentioned previously, please refer to Appendix D-1 of the Official Statement for the Series 2009 Bonds (“Proposed Amendments to the Master Senior Indenture”).

#### **4.2.3 Senior Rate Covenant**

The Department covenants in Section 5.04 of the Senior Indenture (the Senior Rate Covenant) that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that Net Pledged Revenues together with any Transfer in each Fiscal Year will be equal to at least 125% of Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds for that Fiscal Year. The amount of any Transfer taken into account shall not exceed 25% of Senior Aggregate Annual Debt Service on the outstanding Senior Bonds in such fiscal year.

#### **4.2.4 PFC Revenues Used to Pay Debt Service**

Pursuant to the Senior Indenture, the Department may, for any period, elect to use PFC Revenues to pay the principal of and interest on Senior Bonds issued to finance approved PFC projects. Pursuant to the Senior Indenture, the definition of Senior Aggregate Annual Debt Service excludes debt service on Senior Bonds paid with PFC revenues for purposes of meeting the Senior Rate Covenant.

The Department expects to use a certain amount of PFCs (including certain PFCs irrevocably committed by the Department through FY 2014) to pay for a portion of the principal of and interest on the Series 2009A Senior Bonds, the Series 2008A Senior Bonds and future Senior Bonds assumed to fund a portion of the costs associated with the Other Incorporated Projects. See Section 4.7.3 below for more detailed information.



## 4.3 Subordinate Indenture

Pursuant to the terms of the Master Subordinate Trust Indenture, dated as of December 1, 2002, as subsequently amended and supplemented (and referred to in this report as the Subordinate Indenture), the Department may issue Los Angeles International Airport Subordinate Revenue Bonds (referred to in this report as Subordinate Bonds) secured by Subordinate Pledged Revenues and by certain other security interests as specified therein.

Articles II, IV and V of the Subordinate Indenture establish the requirements for the Department to issue Subordinate Bonds, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Subordinate Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key aspects of the Subordinate Indenture as they pertain to this report are summarized below. The capitalized terms used in this Section 4.3 are defined in the Subordinate Indenture.

As summarized in the Official Statement for the Series 2009 Subordinate Bonds (in “Appendix D-2 - Proposed Amendments to the Master Subordinate Indenture”), certain amendments are proposed to the Subordinate Indenture that require the consent of the holders of Subordinate Bonds. Some of these amendments will not become effective until (i) the Department has received the consent of the owners of at least 51 percent in aggregate principal amount of all of the Subordinate Bonds Outstanding and (ii) either the Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (51 Percent Subordinate Indenture Amendments). Certain other amendments to the Master Subordinate Indenture will not become effective until (i) the Department has received the consent of the owners of 100 percent in aggregate principal amount of all of the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and (ii) either the Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (100 Percent Subordinate Indenture Amendments). R&A has assumed that the 51 Percent Subordinate Indenture Amendments and the 100 Percent Subordinate Indenture Amendments will not become effective at the time of issuance of the Series 2009 Subordinate Bonds. The Department does not expect the 51 Percent Subordinate Indenture Amendments to become effective until 2012. This report does not discuss any of the 100 Percent Subordinate Indenture Amendments. Neither the 51 Percent Subordinate Indenture Amendments nor the 100 Percent Subordinate Indenture Amendments, when effective, will materially change the financial forecasts in this report or the Department’s ability to meet the Subordinate Rate Covenant included in the Subordinate Indenture.

### 4.3.1 Key Subordinate Indenture Definitions

“**Subordinate Pledged Revenues**” means Pledged Revenues less Senior Aggregate Annual Debt Service on the Senior Bonds, less any required deposits to the Senior Reserve Fund(s).

“**Net Subordinate Pledged Revenues**” means, for any given period, Pledged Revenues, less LAX Maintenance and Operation Expenses, less Senior Aggregate Annual Debt Service (defined previously in Section 4.2.1) on the Senior Bonds, less any required deposits to the Senior Reserve Fund(s).

**Subordinate “Aggregate Annual Debt Service”** generally means the aggregate debt service due on the Subordinate Bonds and the Subordinate Commercial Paper Notes in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Subordinate Bonds and the Subordinate Commercial Paper Notes (e.g. variable rate obligations). For purposes of meeting the Subordinate Rate Covenant, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service. For purposes of meeting the Subordinate Additional Bonds test described below, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Subordinate Trustee and are set aside exclusively to be used to pay such debt service. The Department expects to use a certain amount of PFCs to pay for a portion of the debt service on Senior Bonds (including certain PFCs irrevocably committed by the Department through FY 2014), however, the Department does not expect to use any PFCs to pay debt service on the Series 2009 Subordinate Bonds, the Series 2008 Subordinate Bonds, the Series 2002C-1 and C-2 Subordinate Bonds, Series 2003A Subordinate Bonds or any additional Subordinate Bonds expected to be issued through 2016.

#### **4.3.2 Additional Subordinate Bonds**

As of the date of this report, Section 2.11 of the Subordinate Indenture provides that as a condition to the issuance of any Series of Subordinate Bonds, there shall first be delivered to the Subordinate Trustee either:

- (a) a certificate prepared by an Authorized Board Representative showing that the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed series of Subordinate Bonds or preceding the first issuance of the proposed Subordinate Program Bonds were at least equal to 115% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and the proposed series of Subordinate Bonds calculated as if the proposed Series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding; or
- (b) a certificate, dated as of a date between the date of pricing of the Subordinate Bonds being issued and the date of delivery of such Subordinate Bonds (both dates inclusive), prepared by a Consultant showing that:
  - (i) the Net Subordinate Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the most recent 24 consecutive months immediately preceding the date of issuance of the proposed series of Subordinate Bonds or the establishment of a Subordinate Program were at least equal to 115% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds and Subordinate Commercial Paper Notes;
  - (ii) for each fiscal year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of the Subordinate Indenture; and

(iii) the estimated Net Subordinate Pledged Revenues for each of the first three complete fiscal years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, will be at least equal to 115% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and calculated as if the proposed series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding.

For purposes of subparagraphs (a) and (b) above, no Transfer shall be taken into account in the computation of Pledged Revenues by the Authorized Board Representative or the Consultant.

At the time of issuance of the Series 2009 Subordinate Bonds, R&A expects to deliver a certificate as described in (b) above.

For a description of certain amendments to Section 2.11 of the Subordinate Indenture that are part of the 51 Percent Subordinate Indenture Amendments mentioned previously, please refer to Appendix D-2 of the Official Statement for the Series 2009 Bonds (“Proposed Amendments to the Master Subordinate Indenture”).

#### **4.3.3 Subordinate Rate Covenant**

The Department currently covenants in Section 5.04 of the Subordinate Indenture (the Subordinate Rate Covenant) that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that during each fiscal year Net Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds and Subordinate Commercial Paper Notes. The amount of any Transfer taken into account shall not exceed 15% of Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds and Subordinate Commercial Paper Notes in such fiscal year.

#### **4.3.4 PFC Revenues Used to Pay Debt Service on Subordinate Bonds**

Pursuant to the Subordinate Indenture, the Department may, for any period, elect to use PFC revenues to pay principal and interest associated with approved PFC projects. Pursuant to the Subordinate Indenture, for purposes of meeting the Subordinate Rate Covenant, the definition of Subordinate Aggregate Annual Debt Service excludes debt service in an amount equal to principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid with PFC revenues. The Department does not have any current plans to use any PFC revenues to pay debt service associated with Series 2009 Subordinated Bonds, any of its outstanding Subordinate Bonds, or Subordinate Commercial Paper Notes.

#### **4.4 Parity Subordinate Indenture**

Pursuant to the terms of the Subordinate Trust Indenture, dated as of April 1, 2002, as subsequently amended (and referred to in this report as the Parity Subordinate Indenture), the Department may issue its Los Angeles International Airport Commercial Paper Notes Series A (governmental purpose), Series B (private activity) and Series C (Federally Taxable) (referred to in this report as Subordinate Commercial Paper Notes) secured by Subordinate Pledged Revenues and by certain other security interests as specified therein. Pursuant to the Subordinate Indenture, the Department

has covenanted to issue only Subordinate Commercial Paper Notes under the Parity Subordinate Indenture and to issue all other Subordinate Bonds secured by Subordinate Pledged Revenues pursuant to the Subordinate Indenture.

#### **4.4.1 Additional Parity Subordinate Obligations**

Section 2.11 of the Parity Subordinate Indenture currently provides that the Department will not issue obligations secured by a pledge of Subordinate Pledged Revenues in excess of \$300,000,000 unless the Rating Agencies then rating the Subordinate Commercial Paper Notes confirm their respective ratings and unless there is first delivered to the Subordinate Issuing and Paying Agent:

(a) a certificate prepared by an Authorized Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed additional obligations to be secured by Subordinate Pledged Revenues were at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes calculated as if the proposed additional subordinate obligations were then outstanding; or

(b) a certificate prepared by a Consultant showing that:

(1) the Net Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of the issuance of the proposed additional subordinate obligations to be secured by Subordinate Pledged Revenues were at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes; and

(2) the estimated Net Pledged Revenues (as calculated by such Consultant) for two fiscal years following the date of issuance of the proposed additional subordinate obligations to be secured by Subordinate Pledged Revenues will be at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds, the Subordinate Commercial Paper Notes and the proposed additional subordinate obligations, taking into account the rates, fees and charges in effect at the time of issuance of the proposed additional subordinate obligations.

At the time of issuance of the Series 2009 Subordinate Bonds, R&A expects to deliver a certificate as described in (b) above.

At the time the 51 Percent Subordinate Indenture Amendments become effective (currently projected to be in 2012) the Department expects to amend Section 2.11 of the Parity Subordinate Indenture so that such Section will be the same as Section 2.11 of the Subordinate Indenture.

#### **4.4.2 Parity Subordinate Rate Covenant**

Section 4.04 of the Parity Subordinate Indenture (the Parity Subordinate Rate Covenant) currently provides that the Department will establish, fix prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that during each fiscal year the Net Pledged Revenues will be equal to at least 110% of aggregate annual debt service on all Senior Bonds, Subordinate Bonds and Subordinate Commercial Paper Notes for

that fiscal year. At the time the 51 Percent Subordinate Indenture Amendments become effective (currently projected to be in 2012) the Department expects to amend Section 4.04 of the Parity Subordinate Indenture which amendments will increase the coverage requirements set forth in Section 4.04 of the Parity Subordinate Indenture from 110% to 115%.

## **4.5 Air Carrier Operating Permit**

Airlines at the Airport operate under a 5-year Air Carrier Operating Permit for the use of Landing Facilities at the Airport. The Air Carrier Operating Permit can be terminated with a 30-day notice from the airlines or the Department. The Operating Permit sets forth various terms and conditions related to the use of Landing Facilities, including, but not necessarily limited to, insurance requirements, indemnification provisions, and responsibility for the use and disposal of hazardous substances. Section 4.9.2 of this report describes how landing fees are calculated by the Department and discusses current and projected landing fees.

## **4.6 Terminal Building Leases and Tariff**

As described in more detail below, certain airlines at the Airport lease terminal building space under existing long-term terminal building leases. A few airlines lease terminal building space under short-term leases with terms similar to those in the LAX Passenger Terminal Tariff (the Tariff), as described in more detail below. Aeronautical users (the remainder of this report refers to airlines) occupying or otherwise using terminal space at the Airport without an existing lease pay for terminal space through fees and charges set forth in the Tariff.

### **4.6.1 Long-Term Leases (Terminals 2, 4, 5, 7, 8, and a Portion of Terminal 6)**

Terminal space in Terminals 2, 4, 5, 7, 8, and a portion of Terminal 6 are leased pursuant to existing Long-Term Leases. Significant construction of each of these terminals was financed by third party debt (issued by the Regional Airports Improvement Corporation, or RAIC, on behalf of the relevant airline tenants) payable solely from payments made by the corresponding airline tenants or their subtenants of these terminals. The terms of the Long-Term Leases range from 35 to 40 years and generally expire between 2017 and 2025, and contain the following key provisions:

- Terminal rents under the Long-Term Leases are charged beginning January 1 of each year, and have historically been calculated incorporating actual requirements from the prior fiscal year (e.g., calendar 2010 rents will be based on actual FY 2009 requirements), except as described in the “AGREEMENTS FOR USE OF AIRPORT FACILITIES--Long Term Lease Litigation and Interim Settlement Agreement” section in the front portion of the Official Statement for the Series 2009 Bonds.
- The Long-Term Leases provide for certain preferential use rights, although the airlines also agree to (i) make reasonable efforts to accommodate scheduled airlines in need of passenger terminal facilities (holdroom, ticket counters, etc.) and ground services and (ii) assess such other scheduled airlines only their respective pro rata direct costs plus a reasonable administrative fee.
- Rental rates on pre-existing 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. The airlines subject to Long-Term Leases are also required to pay Maintenance and Operations (M&O) Rent in order to compensate the Department for a portion of its costs of maintaining

and operating the terminal and a portion of the costs of maintaining and operating the Airport. Historically, the airlines subject to Long-Term Leases have paid a charge equivalent to 15 percent of the direct terminal M&O costs as a proxy for certain maintenance and operations costs such as security costs, general administrative costs and access costs (costs associated with the roadways in and connecting to the Airport).

- In December 2006, the Department approved M&O Rates that included increased M&O expenses, including all direct and indirect costs allocated to the Terminal Cost Center (which are higher than the 15 percent proxy discussed above), retroactive to January 1, 2006. Certain of these direct and indirect costs allocated to the Terminal Cost Center, such as security costs and full indirect costs had not previously been included by the Department in Terminal rents and charges. The airline tenants disputed the right of the Department to make these changes. Settlement Agreements concerning, among other things, M&O Rates were reached for calendar years 2006, 2007, 2008 and a portion of 2009—see the “AGREEMENTS FOR USE OF AIRPORT FACILITIES--Long-Term Lease Litigation and Interim Settlement Agreements” subsection of the front portion of the Official Statement for the Series 2009 Bonds for more information.
- The Long-Term Leases also provide the Department the right to defease third party debt that financed terminal improvements under certain circumstances.
- In the event that the leased premises are damaged or destroyed such that the Department can not repair, replace or reconstruct such premises within a reasonable time, the Long-Term Lease may be terminated at the Airline’s option. If the Airlines are prevented from occupying or using the Terminal Facilities, or are materially restricted from operating aircraft to or from the Airport, by any final action, order or ruling of any federal or state governmental authority, the airlines may, at their option, terminate their respective Leases by 30 days written notice.
- In connection with the financing of certain public areas at various terminals, the Department entered into capital lease agreements with the respective airlines. The agreements generally provided for the payment of amounts by the Department to such airlines in the form of rent credits over various terms. In 2002 and 2003, the Department used its cash reserves to pre-pay all of its obligations under these Long-Term Leases, with the exception of obligations under the Long-Term Lease for Terminal 2 (the LAX Two Corporation). The Department continues to use rental credits to pay for its obligations on the capital lease with the LAX Two Corporation. These rental credits are applied as an offset of amounts owed to the Department by the LAX Two Corporation for terminal rentals and landing fees because they are netted out of amounts received by the Department. Rental credits are not included as Pledged Revenues under the Senior Indenture. See the “AGREEMENTS FOR USE OF AIRPORT FACILITIES--Rental Credit” subsection of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information.

#### **4.6.2 LAX Passenger Terminal Tariff and Leases with Provisions Similar to the Tariff (Terminals 1, 3, TBIT, and a Portion of Terminal 6)**

The Tariff applies to all airlines using terminal space at the Airport without an existing lease. The Tariff is similar to rate ordinances used by other airports in that it is used when there is no existing airline agreement or lease, and the Tariff has no term or expiration date but is subject to change from time to time by the Board. Currently, the Tariff applies to airlines using space subject to the Tariff in Terminal 1, Terminal 3, the Tom Bradley International Terminal (TBIT), and Terminal 6. The Tariff

went into effect on February 1, 2007 and was immediately applied to the airlines operating in Terminals 1 and 3 and to certain airlines using space in Terminal 6. On April 1, 2007, the Tariff was applied to airlines operating at TBIT. On September 21, 2009, the Tariff was amended to apply to aeronautical users at the Airport.

For terminal space subject to the Tariff, certain critical areas (including ticket counter space, gate areas, and other facilities from time to time) may be used by airlines on a joint use basis, to be available to airlines that make the most productive use of such areas. The Department has the right to schedule specific areas for the use by particular airlines for specific periods and may, from time to time, establish preferences in the use of joint use space in favor of an airline or airlines when the arrivals and departures of flights operated by such airline or airlines can be scheduled in a manner that will substantially exceed specified utilization standards. If the Department determines that any terminal space occupied or used by any airline under the Tariff is underutilized, the Department may accommodate other airlines in such space. Terminal rates under the Tariff are calculated based on a compensatory rate-making methodology, where all related costs in the Terminal Cost Center are allocated to all entities using or occupying terminal space. Under the Tariff, the Terminal Expenses include the following components:

- Base Charge: Generally equal to the greater of (1) (a) the Space Use Factor multiplied by the per square foot rate based on an appraised value (as annually adjusted to reflect increases in the Consumer Price Index, and as subject to five-year reappraisals), or (b) the Space Use Factor multiplied by the per square foot negotiated rate (as annually adjusted to reflect increases in the Consumer Price Index)(for cases in which negotiated rates apply), or (2) Terminal Capital Charges. Terminal Capital Charges are composed of direct terminal debt service, coverage on direct terminal debt service, and direct terminal amortization.
- Terminal Regular Expenses: Equal to direct and indirect terminal M&O Expenses and any required M&O Reserve deposit.
- Terminal Special Expenses: Equal to debt service, debt service coverage, and/or amortization related to Airline Equipment.
- Airport Infrastructure Charges: Equal to indirect terminal debt service, coverage on indirect terminal debt service, and indirect terminal amortization.

When the Tariff was implemented, the portion of Terminal costs allocated to the airlines was, in general, based on each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally, public use or common use areas). For each airline, its Space Use Factor includes the measured area of its Occupied Terminal Area (its exclusive use areas), its Joint Use Areas and its International Joint Use Areas (if applicable).

Pursuant to either (i) a letter agreement approved by the Board that amends the terms of the Tariff (the Letter Agreement), or (ii) the Partial Settlement Agreement (see the "AGREEMENTS FOR USE OF AIRPORT FACILITIES--Complaints Regarding the Tariff and Subsequent Decisions" subsection of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information), for the airlines using terminal space subject to the Tariff that have entered into the Letter Agreement or the Partial Settlement Agreement, the Base Charge, Terminal Regular Expenses, and Airport Infrastructure Charges are allocated based on each airline's Space Use Factor, without a pro-rata portion of charges related to those parts of the terminal areas not exclusively used by airlines or other tenants. For airlines who have not entered into the Letter Agreement or the Partial

Settlement Agreement, the Base Charge, Terminal Regular Expenses and Airport Infrastructure Charges are allocated according to each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally, public use or common use areas). Because the Terminal Special Expenses relate solely to airline equipment, they are paid entirely by airlines based on each airline's Space Use Factor.

Virgin America has executed a 5-year terminal lease agreement, and United Airlines has executed a 13-year terminal lease agreement covering its premier ticket counters in Terminal 6 with the Department with provisions similar to the Tariff.

#### **4.6.3 Negotiations and Legal Matters Regarding Terminal Rents and Charges**

The Department and many of the airlines operating at the Airport have been involved in negotiations and various legal matters in recent years regarding certain aspects of the Airport's terminal rental rates. These negotiations and legal matters have involved both the airlines that are parties to long-term terminal leases as well as those airlines without long-term leases that are operating under the Tariff. Please refer to the "Long-Term Lease Litigation and Interim Settlement Agreements," "Complaints Regarding the Tariff and Subsequent Decisions", and "2009 Airline Negotiations" subsections in the "AGREEMENTS FOR USE OF AIRPORT FACILITIES" section of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information on specific negotiations and legal matters.

As discussed in Section 3.4 of this Report (Other Incorporated Projects) and as reflected in the tables accompanying this chapter, the Department plans to issue future bonds (assumed to be Senior Bonds for purposes of this report) to acquire certain existing terminal improvements previously and independently financed by certain long-term terminal lease tenants at the Airport. In connection with this plan, for a given terminal with such existing terminal improvements, once such improvements have been acquired by the Department, it has been assumed for the financial projections reflected in this report (see Section 4.6.4 below) that the Department may then recover debt service payments allocated to that given terminal.

#### **4.6.4 Assumptions for Projected Terminal Rents and Charges**

For purposes of the financial projections incorporated in this report (and reflected in the financial tables accompanying this chapter), the following assumptions regarding Terminal rents and charges were incorporated:

- Long-Term Leases (Terminals 2, 4, 5, 7, 8 and a portion of Terminal 6) — Provisions incorporated in the Settlement Agreements related to the payment of M&O Expenses, as amended, (which specify terminal rents and fees for CY 2006, CY 2007, CY 2008, and a portion of CY 2009, and allow the Department to recover a portion of terminal security costs) are assumed, for purposes of the financial projections in this report, to extend through FY 2016. Current space rent and footprint rent amounts paid by LTL terminals are assumed to increase with inflation and, in the case of LTL terminals where certain existing terminal improvements are acquired by the Department, following the acquisition of such improvements, space rent and footprint rent payments are replaced with debt service payments allocated to such LTL terminals (without debt service coverage). For purposes of the analysis, it is assumed that 50 percent of Terminal 6 is leased under the Long-Term Leases, for the entire projection period.



- The Tariff (Terminals 1 and 3, TBIT and a portion of Terminal 6) — Terminal rents and fees specified under the Tariff (as applied pursuant to the Partial Settlement Agreement or the Letter Agreement are assumed, for purposes of the base financial analysis, to extend through FY 2016. Base Rent, Terminal Regular Expenses, and Airport Infrastructure Charges, as described in Section 4.6.2 of this Chapter, are assumed to be allocated to airlines (in each of the Terminals under the Tariff) based on each Airline’s Space Use Factor (without a pro-rata portion of the terminal’s public use or common use areas). Terminal Special Expenses are paid entirely by the specific airline(s) to which such expenses relate. For purposes of the analysis, it is assumed that 50 percent of Terminal 6 is subject to the LAX Passenger Terminal Tariff for the entire Projection Period.
- The final resolution of the ongoing negotiations and/or legal matters related to terminal rentals at the Airport (as discussed above in Section 4.6.3) could result in terminal rental revenues different than as reflected in the financial tables accompanying this chapter for FY 2010 through FY 2016 (based on the assumptions above). However, the assumptions above provide a reasonable basis for purposes of projecting Terminal rents and charges during the projection period.

## 4.7 Financing Plan

As discussed in Chapter 3, the Department’s capital planning efforts are organized for the purposes of this report into the Series 2009 Projects, Other Incorporated Projects and Future Projects. Projects are categorized based on a range of considerations including timing, demand levels, and certainty and stage in the project approval process. The Series 2009 Projects reflect those projects to be funded, in part, with Series 2009 Bond proceeds. The Other Incorporated Projects include projects other than the Series 2009 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in this report, and are expected by the Department to be completed during the projection period (through FY 2016). The financial impacts of the Other Incorporated Projects have been analyzed and incorporated in this report and the accompanying financial tables. As discussed in more detail in Section 3.2 of this report, Future Projects are not reflected in this report or in the accompanying tables because the scope, timing, cost, and approval of these projects are uncertain.

The Department’s funding or finance plan is driven by overall policy objectives and more specific financing strategies for nearer term and more certain projects. The Department’s long term goals for funding its capital requirements include:

- developing over time an appropriate mix of senior and subordinated debt and of fixed and floating rate debt, and the potential incorporation of the use of derivatives;
- maintaining strong credit ratings and active senior and subordinate liens;
- using variable rate debt in a judicious and prudent manner, taking into account outstanding debt balances, cash on hand and market conditions;
- using PFCs, CFCs, and other sources of funds in a manner that optimizes a balance of leverage and pay-as-you-go approaches;
- considering alternative funding approaches such as off-balance sheet financings; and
- funding individual projects with a mix of funding sources based on market conditions, Airport objectives and the facts and circumstances at the time funding is required.

Given the financial strength of the Department and the wide range of funding sources available, the Department has a great deal of flexibility in developing specific funding approaches that will both accommodate project needs and preserve the Department's ability to meet its debt service obligations. The balance of this Section 4.7 discusses funding available to the Department and how these sources are incorporated into the financial analysis of the impacts of the Series 2009 Bond Projects and the Other Incorporated Projects.

- The Department intends to finance the Series 2009 Projects with TSA grants, FAA Airport Improvement Program (AIP) grants, internal Department funds, other funds (Series 2008 Bond proceeds on hand), PFC funding, and the net proceeds of the Series 2009 Bonds.
- The Department expects to finance Other Incorporated Projects with FAA AIP grants, internal Department funds, PFC funding, other funds (including grants other than TSA and AIP grants, Department Funds restricted for use on the Central Utility Plant, and other/third party funds), and the net proceeds of additional future senior and subordinate revenue bonds. Commercial paper may be used and refunded in the future with additional future bonds, however, the use of commercial paper is not assumed or reflected in these analyses.

**Table IV-1** presents the estimated funding sources for the Series 2009 Projects and the Other Incorporated Projects discussed previously in Chapter 3. As shown on Table IV-1, the Series 2009 Projects are estimated to cost approximately \$1.0 billion and the Other Incorporated Projects are estimated to cost approximately \$4.6 billion. The financial impacts of both the Series 2009 Projects and the Other Incorporated Projects are reflected in the accompanying tables in this chapter.

#### **4.7.1 Sources of Funding**

A description of estimated funding sources for the Series 2009 Projects and the Other Incorporated Projects is presented in greater detail in the following paragraphs.

##### **4.7.1.1 TSA Grants**

The Department has received significant TSA funding to be used at several passenger terminals at the Airport and LA/Ontario Airport. To date, the Department has received a \$256 million letter-of-intent (LOI) from the TSA, of which \$235 million is planned to be used for the passenger terminals at the Airport. A portion of the \$235 million for the Airport has been used to date.

The Department is in the process of securing an additional \$225 million of TSA funding, of which the TSA has committed to \$75 million to date. The Department expects that the remaining \$150 million will be obligated through a future TSA LOI or TSA Other Transaction Agreement (OTA). Along with the \$235 million of LOI funding planned to be used at the Airport, this additional \$225 million would mean a total of \$460 million in TSA funding expected to be used at the Airport.

As reflected on Table IV-1, the Department expects to use approximately \$105.0 million of TSA grant funds in connection with the completion ongoing interior TBIT improvements as part of the Series 2009 Projects. In addition, the Department estimates that approximately \$105.0 million of the TSA LOI grant will be used to fund the in-line EDS system for Terminal 3 (also reflected on Table IV-1).

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Table IV-1 (1 of 2)

Summary of the Series 2009 Projects and Other Incorporated Projects -- Costs and Funding (Based on \$4.50 PFC Level Throughout Projection Period)

	Estimated Project Costs <sup>1/</sup>	Sources of Funds											
		TSA Funds	AIP Funds	Department Funds	Other Funds <sup>2/</sup>	PFC Funds	Future Bond Proceeds <sup>3/ 4/</sup>			Series 2009 Bond Proceeds <sup>3/ 5/</sup>			
							Subordinate	Senior	Total	Subordinate	Senior	Total	
<b>The Series 2009 Projects</b>													
<b>Terminal Projects</b>													
Completion of TBIT Improvements	\$ 200,000,000	\$ 105,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,000,000	\$ 95,000,000
In-Line Baggage Screening System - Terminal 3	140,000,000	105,000,000	-	-	-	-	-	-	-	-	-	35,000,000	35,000,000
Elevators and Escalators Replacements (Terminal) - Phases 1&2	90,400,000	-	-	9,040,000	-	36,160,000	-	-	-	-	-	45,200,000	45,200,000
	\$ 430,400,000	\$ 210,000,000	\$ -	\$ 9,040,000	\$ -	\$ 36,160,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 175,200,000	\$ 175,200,000
<b>Airfield and Apron Projects</b>													
Crossfield Taxiway Projects <sup>6/</sup>	\$ 341,389,000	\$ -	\$ 45,606,000	\$ 43,237,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 252,546,000	\$ -	\$ 252,546,000
Airfield Intersection Improvements Phase 2	41,049,000	-	-	-	16,049,000	-	-	-	-	-	-	25,000,000	25,000,000
Airfield Operations Area Perimeter Fence (World Way West) Phase 3	17,162,000	-	-	-	-	-	-	-	-	-	-	17,162,000	17,162,000
Aircraft Rescue and Fire Fighting Station Construction	13,550,000	-	-	-	11,000,000	-	-	-	-	-	-	2,550,000	2,550,000
	\$ 413,150,000	\$ -	\$ 45,606,000	\$ 43,237,000	\$ 27,049,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 297,258,000	\$ -	\$ 297,258,000
<b>Parking Projects</b>													
Acquisition of Park One Property	\$ 125,000,000	\$ -	\$ -	\$ 40,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,000,000	\$ 85,000,000
Elevators and Escalators Replacements (Parking) - Phases 1&2	22,600,000	-	-	22,600,000	-	-	-	-	-	-	-	-	-
	\$ 147,600,000	\$ -	\$ -	\$ 62,600,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,000,000	\$ 85,000,000
<b>Refunding</b>													
Refunding - Subordinate Subseries 2002 C1	\$ 37,400,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,400,000	\$ -	\$ 37,400,000
<b>Total Series 2009 Projects</b>	<b>\$ 1,028,550,000</b>	<b>\$ 210,000,000</b>	<b>\$ 45,606,000</b>	<b>\$ 114,877,000</b>	<b>\$ 27,049,000</b>	<b>\$ 36,160,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 334,658,000</b>	<b>\$ 260,200,000</b>	<b>\$ 594,858,000</b>
<b>Other Incorporated Projects <sup>7/</sup></b>													
<b>Terminal Projects</b>													
Bradley West Core	\$ 881,454,000	\$ -	\$ -	\$ 171,973,000	\$ -	\$ 90,000,000	\$ -	\$ 619,481,000	\$ 619,481,000	\$ -	\$ -	\$ -	\$ -
Bradley West Concourses	713,121,000	-	-	93,469,000	-	90,000,000	-	529,652,000	529,652,000	-	-	-	-
Terminal Improvements Program <sup>8/</sup>	614,971,000	250,000,000	-	54,971,000	-	-	-	310,000,000	310,000,000	-	-	-	-
Central Utility Plant	467,988,000	-	-	10,947,000	35,000,000	154,139,000	-	268,782,000	268,782,000	-	-	-	-
Acquisition of Existing Terminal Improvements	261,405,000	-	-	49,000,000	-	-	-	212,405,000	212,405,000	-	-	-	-
Elevators and Escalators Replacements (Terminal) - Phases 3&4	125,600,000	-	-	98,480,000	-	27,120,000	-	-	-	-	-	-	-
Program Reserve--Terminal Development and Improvements	125,000,000	-	-	125,000,000	-	-	-	-	-	-	-	-	-
	\$ 3,189,519,000	\$ 250,000,000	\$ -	\$ 602,940,000	\$ 35,000,000	\$ 361,259,000	\$ -	\$ 1,940,320,000	\$ 1,940,320,000	\$ -	\$ -	\$ -	\$ -
<b>Airfield and Apron Projects</b>													
Noise Mitigation and Soundproofing	\$ 431,000,000	\$ -	\$ -	\$ -	\$ -	\$ 431,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bradley West Aprons	188,304,000	-	33,182,000	23,278,000	-	-	131,844,000	-	131,844,000	-	-	-	-
West Maintenance Facility Pad and Infrastructure	193,570,000	-	-	-	173,747,000	-	19,823,000	-	19,823,000	-	-	-	-
Pavement Management Program	175,000,000	-	35,000,000	-	-	-	140,000,000	-	140,000,000	-	-	-	-
Bradley West Taxiway T and Associated Projects	97,909,000	-	18,703,000	4,396,000	-	-	74,810,000	-	74,810,000	-	-	-	-
Airfield Safety Improvements	51,765,000	-	25,631,000	-	-	-	26,134,000	-	26,134,000	-	-	-	-
Other Airfield and Apron Projects <sup>9/</sup>	43,350,000	-	352,000	5,868,000	7,721,000	22,226,000	7,183,000	-	7,183,000	-	-	-	-
	\$ 1,180,898,000	\$ -	\$ 112,868,000	\$ 33,542,000	\$ 181,468,000	\$ 453,226,000	\$ 399,794,000	\$ -	\$ 399,794,000	\$ -	\$ -	\$ -	\$ -
<b>Infrastructure and Other Projects</b>													
Elevators and Escalators Replacements (Parking) - Phase 3&4	\$ 31,400,000	\$ -	\$ -	\$ 31,400,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
IT Infrastructure Construction	28,365,000	-	-	-	-	28,365,000	-	-	-	-	-	-	-
Seismic Retrofit of CTA Pedestrian and Vehicular Bridges	21,112,000	-	-	21,112,000	-	-	-	-	-	-	-	-	-
Other Projects <sup>10/</sup>	82,944,000	-	-	37,532,000	7,122,000	38,290,000	-	-	-	-	-	-	-
	\$ 163,821,000	\$ -	\$ -	\$ 90,044,000	\$ 7,122,000	\$ 66,655,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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Summary of the Series 2009 Projects and Other Incorporated Projects -- Costs and Funding (Based on \$4.50 PFC Level Throughout Projection Period)

Estimated Project Costs <sup>1/</sup>	Sources of Funds																
	TSA	AIP	Department	Other	PFC	Future Bond Proceeds <sup>3/ 4/</sup>			Series 2009 Bond Proceeds <sup>3/ 5/</sup>								
	Funds	Funds	Funds	Funds <sup>2/</sup>	Funds	Subordinate	Senior	Total	Subordinate	Senior	Total						
<b>Cash Defeasance of Certain Bonds</b>																	
Cash Defeasance - Subordinate Series 2003 A	\$ 23,700,000	\$ -	\$ -	\$ 23,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Defeasance - Subordinate Subseries 2002 C2	20,000,000	-	-	20,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-
	\$ 43,700,000	\$ -	\$ -	\$ 43,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Other Incorporated Projects</b>	<b>\$ 4,577,938,000</b>	<b>\$ 250,000,000</b>	<b>\$ 112,868,000</b>	<b>\$ 770,226,000</b>	<b>\$ 223,590,000</b>	<b>\$ 881,140,000</b>	<b>\$ 399,794,000</b>	<b>\$ 1,940,320,000</b>	<b>\$ 2,340,114,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Series 2009 Projects and Other Incorporated Projects</b>	<b>\$ 5,606,488,000</b>	<b>\$ 460,000,000</b>	<b>\$ 158,474,000</b>	<b>\$ 885,103,000</b>	<b>\$ 250,639,000</b>	<b>\$ 917,300,000</b>	<b>\$ 399,794,000</b>	<b>\$ 1,940,320,000</b>	<b>\$ 2,340,114,000</b>	<b>\$ 334,658,000</b>	<b>\$ 260,200,000</b>	<b>\$ 594,858,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Notes:

- 1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.
- 2/ Other Funds include Series 2008 Bond proceeds, grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other/3rd party funding (West Maintenance Facility Pad and Infrastructure).
- 3/ A portion of the debt service associated with the Series 2009 Senior Bonds and Future Senior Bonds is expected to be paid with PFC revenues.
- 4/ Includes bond proceeds from future bond issues assumed in 2010 through 2015--see Table IV-3. Future bond proceeds used for Terminal Projects and Infrastructure and Other Projects are assumed to be from future Senior Bonds and future bond proceeds used for Airfield and Apron Projects are assumed to be from future Subordinate Bonds.
- 5/ Series 2009 Bond proceeds for Terminal and Parking projects are from Series 2009 Senior Bonds and Series 2009 Bond proceeds for Airfield and Apron projects are from Series 2009 Subordinate Bonds.
- 6/ Includes construction of Crossfield Taxiway C13, Crossfield Taxilane S, and associated projects.
- 7/ The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the financial tables included in Chapter 4 of this report (with the impacts reflected in the Projection Period).
- 8/ Includes in-line bag screening systems for terminals other than TBIT and T3; passenger boarding bridge replacements; utility improvements (including sewer, electrical, etc.); bag claim devices replacement; preconditioned air unit installation; and other terminal infrastructure improvements.
- 9/ Includes Airport Operations Center Facility; runway status light system; Enhanced Access Control Monitoring System (ACAMS); GSE quick charging stations; and security airfield access posts upgrade.
- 10/ Includes closed circuit television system enhancement and expansion; wired and wireless improvements; Central Terminal Area expansion joint repair (roadway and parking); air freight roof renovation; Theme Building restoration; and other improvements.

Source: City of Los Angeles, Department of Airports (October 2009).  
Prepared by: Ricondo & Associates, Inc. (October 2009).

The remainder of the \$460 million total of expected TSA grant amounts for the Airport will be used to fund the installation of EDS and other security projects at other terminals in the future, as reflected in the Terminal Improvements Program project on Table IV-1 (under Other Incorporated Projects—Terminal Projects).

#### 4.7.1.2 FAA Airport Improvement Program (AIP) Grants

The FAA Airport Improvement Program (AIP) provides Federal discretionary and entitlement grants for eligible airport projects. The entitlement funds are based upon airport passenger enplanement and cargo activity, with entitlement and discretionary funding subject to annual Congressional appropriations levels. AIP grants are distributed to airport operators on a reimbursement basis. As shown on Table IV-1, the Department expects to use \$45.6 million of AIP discretionary grants for the Crossfield Taxiway Projects. In connection with the Other Incorporated Projects, the Department expects to receive approximately \$112.9 million of future AIP grant funding for various apron and taxiway projects.

#### 4.7.1.3 Passenger Facility Charges

The estimated capital project funding sources, projected airline payments, and other key financial results reflected in this report are based on the assumption that the current \$4.50 PFC level at the Airport is **not** increased to a higher PFC level throughout the Projection Period. The Department is actively involved in nationwide efforts to increase the current \$4.50 maximum PFC level nationwide. The Department plans to seek FAA approval for a higher PFC level at the Airport if in fact the maximum PFC level is increased by federal law. If the maximum PFC level is increased and the Department obtains approval to increase the PFC level at the Airport during the Projection Period, the Department plans to use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this report. If the current \$4.50 maximum level is not increased during the Projection Period and/or the Department is not able to obtain approval for a higher PFC level at the Airport during the Projection Period, the Department expects to explore other funding alternatives and seek other ways to reduce the level of projected airline payments reflected in this report.

The Department received its first approval from the FAA to impose a PFC in April 1993, and began collecting a \$3.00 PFC per eligible enplaned passenger on July 1, 1993. The Department subsequently received FAA approval to increase its PFC level to \$4.50 per eligible enplaned passenger and began collecting at the \$4.50 level on August 1, 2003. Pursuant to FAA regulations, the current \$4.50 PFC level collected by the Department results in a 75 percent reduction in AIP passenger entitlement grants.

The Department is currently authorized by the FAA, pursuant to six PFC application approvals, to impose and use approximately \$1.7 billion of PFC revenues (at the \$4.50 PFC level) for various projects at the Airport. Through June 30, 2009, the Department had collected approximately \$1.3 billion of its total approved collection authority for the Airport and had spent approximately \$700 million on approved projects.

As shown on Table IV-1, the Department expects to use approximately \$917.3 million of PFC funds for Series 2009 Projects and Other Incorporated Projects (including noise mitigation, soundproofing, the Central Utility Plant, elevators and escalators replacements, the Bradley West Core and Concourses, among other projects).

As described in more detail below, the Department plans to use PFC revenues to pay for a portion of the debt service on the Senior Bonds including the Series 2009 Senior Bonds, outstanding Series 2008 Senior Bonds, and future Senior Bonds to be issued to finance a portion of the costs associated with the Other Incorporated Projects. Given the level of annual PFC revenues at the Airport (FY 2009 PFC collections excluding interest earnings were \$104.8 million) and substantial existing PFC Fund balances available to apply to projects undertaken during the Projection Period, the Department expects to use PFC revenues and available PFC Fund balances, particularly in the early years when debt service becomes payable, to pay certain principal and interest to help reduce the impact of future debt service on airline rates and charges. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year (allowing the Department to apply PFC revenues strategically to help manage to desired financial results—e.g., lower airline payments).

The Department expects to use PFC revenues to pay for a specific percentage of the total debt service associated with the Series 2009 Senior Bonds and the Series 2008 Senior Bonds issued to finance the TBIT Interior Improvements Project (roughly equivalent to the share of public space within TBIT). The Department has received FAA approval in connection with the use of PFC revenues to pay a portion of the total debt service associated with this project.

In connection with the future Bradley West Core, Bradley West Concourses, and Terminal Improvements Program elements of the Other Incorporated Projects, the Department expects that a range of approximately 25 percent to 50 percent of the estimated cost of these individual projects will be funded with PFC pay-as-you-go funds or future Senior Bond proceeds with associated debt service expected to be paid with PFC revenues. The remaining estimated project costs for these three projects are expected to be funded with Department Funds, and/or future revenue bond proceeds with associated debt service that will not be paid with PFC revenues. Future collection and use of PFC revenues to pay for the debt service associated with these three projects will require a new application and approval for use from the FAA.

Airport industry groups have requested that federal PFC regulations be changed to increase the PFC program's maximum PFC level from its current level of \$4.50. As part of a recent proposed bill for FAA Reauthorization for 2009, the House of Representatives proposed an increase in the maximum PFC level to \$7.00. The Senate's Bill for Reauthorization did not include an increase for the maximum PFC level, however it proposes the creation of a pilot program in which a limited number of airports would be allowed control over the PFC rate (with no maximum level). As of the date of this report, a Reauthorization Bill that could potentially increase the maximum PFC level has not been adopted by the House and the Senate.

#### 4.7.1.4 Department Funds

As reflected on Table IV-1, the Department expects to use approximately \$114.9 million of Department funds for the Series 2009 Projects and approximately \$770.2 million of Department funds for Other Incorporated Projects.

The use of Department funds as reflected on Table IV-1 was based on an internal Department requirement that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to 365 days' worth of LAX Maintenance and Operation Expenses.

#### **4.7.2 Series 2009 Bond Proceeds**

Bond proceeds are assumed to be the remaining source of funding for the Series 2009 Projects. As reflected on Table IV-1, approximately \$594.9 million of Series 2009 Bond proceeds are expected to be used to fund costs of the Series 2009 Projects.

**Table IV-2** presents a listing of estimated sources and uses of funds for the proposed Series 2009 Bonds, broken out into the Series 2009 Senior Bonds and the Series 2009 Subordinate Bonds. Table IV-2 also indicates (see footnote 1) how much of the Series 2009 Bonds will be used to pay off outstanding commercial paper amounts and how much will be used to reimburse the Department for project expenditures to date.

The assumptions, estimated sources and uses of funds, and debt service for the proposed Series 2009 Bonds were provided by the Department and its financial advisors, using information regarding the estimated cost and timing of the Series 2009 Projects and the estimated receipt of federal grants and other funds reflected on Table IV-1.

Debt service estimates for the proposed Series 2009 Bonds are based on the following assumptions:

- Approximately \$594.9 million of Series 2009 Bonds will be issued to fund a portion of the costs of the Series 2009 Projects.
- The Series 2009 Senior Bonds will be issued to fund a portion of the costs of the TBIT Interior Improvements completion project, the Terminal 3 in-line baggage screening system, elevator and escalator replacements (Phases 1 & 2), and the acquisition of the Park One Property.
- The Series 2009 Subordinate Bonds will be issued to fund a portion of the costs of the Crossfield Taxiway Projects, Airfield Intersection Improvements, Airfield Operations Area perimeter fence replacement, and the ARFF Station construction.
- The Series 2009 Senior Bonds are issued with up to a 30-year term and an overall interest rate of 5.37 percent, assuming approximately level debt service.
- The Series 2009 Subordinate Bonds are issued with up to a 30-year term (with the use of Build America Bonds for bonds maturing from 2024 through 2039) and an overall interest rate of 6.05 percent, an 4.01 percent after taking into account the subsidy from the Federal government related to the Build America Bonds, assuming approximately level debt service.
- Interest on the Series 2009 Bonds is capitalized through the various estimated project completion dates with a 2-month cushion.
- A portion of the proceeds of the Series 2009 Bonds will fund a deposit to the Senior Reserve Fund, which is a common reserve fund and is required to be funded at an amount equal to the least of (a) 10 percent of the principal amount of all Senior Bonds, (b) Maximum Annual Debt Service for all Senior Bonds, or (c) 125 percent of Average Annual Debt Service for all Senior Bonds.
- A portion of the proceeds of the Series 2009 Subordinate Bonds will fund a deposit to the Subordinate Reserve in an amount equal to the least of (a) 10 percent of the principal amount of the Series 2009 Subordinate Bonds, (b) Maximum Annual Debt Service for the Series 2009 Subordinate Bonds, or (c) 125 percent of Average Annual Debt Service for the Series 2009 Subordinate Bonds.

**Table IV-2**

Estimated Sources and Uses of Funds -- Series 2009 Bonds

	<b>Senior Series 2009 Revenue Bonds</b>	<b>Subordinate Series 2009 Revenue Bonds</b>	<b>Total Series 2009 Revenue Bonds</b>
<b>Sources</b>			
Par Amount of Bonds	\$ 285,430,000	\$ 388,510,000	\$ 673,940,000
Original Issue Premium / (Discount)	9,233,000	6,642,000	15,875,000
Interest Earnings	1,153,000	1,534,000	2,687,000
<b>Total Sources</b>	<b>\$ 295,816,000</b>	<b>\$ 396,686,000</b>	<b>\$ 692,502,000</b>
<b>Uses</b>			
Project costs funded with Series 2009 Bond proceeds <sup>1/</sup>	\$ 260,200,000	\$ 334,658,000	\$ 594,858,000
Capitalized interest--Series 2009 Bonds <sup>2/</sup>	8,457,000	21,993,000	30,450,000
Debt Service Reserve Fund	22,862,000	34,189,000	57,051,000
Costs of issuance	4,297,000	5,846,000	10,143,000
<b>Total Uses</b>	<b>\$ 295,816,000</b>	<b>\$ 396,686,000</b>	<b>\$ 692,502,000</b>

Notes:

1/ Includes approximately \$65 million of funds to reimburse the Department for project costs to date paid for with Department funds and approximately \$85 million of funds to refund outstanding commercial paper notes.

2/ Interest capitalized on Series 2009 Bonds through estimated completion dates with two months cushion.

Sources: City of Los Angeles, Department of Airports and Public Resources Advisory Group (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).



### 4.7.3 Future Series Bond Proceeds

As reflected on Table IV-1, approximately \$399.8 million of future Subordinate Bond proceeds and \$1.9 billion of future Senior Bond proceeds (for a total of approximately \$2.3 billion) are expected to be used to fund a portion of the estimated costs of the Other Incorporated Projects.

**Table IV-3** reflects future bond issues expected to be issued during the Projection Period (subsequent to the issuance of the Series 2009 Bonds)—including Series 2010 bonds, Series 2011 bonds, and series issued after Series 2011 bonds. Table IV-3 reflects both future bond principal (broken into Senior Bonds and Subordinated Bonds) and bond proceeds used to pay project costs, and which key projects are assumed to be funded with future bond issues.

Debt service estimates for future bonds were based on the following assumptions:

- Future bonds issued to pay for a portion of future Terminal Projects and Infrastructure and Other Projects were assumed to be Senior Bonds, with up to a 30-year term, approximately level debt service, and overall interest rate of 6.00 percent.
- Future bonds issued to pay for a portion of future Airfield and Apron Projects were assumed to be Subordinate Bonds, with up to a 30-year term, approximately level debt service, and overall interest rate of 6.00 percent.
- Parity debt service reserves equal to the Maximum Annual Debt Service for either the outstanding Senior Bonds or the outstanding Subordinate Bonds are funded with bond proceeds.
- Bond insurance has been assumed.
- Interest on the future bonds is capitalized through the estimated project completion date with a 2-month cushion using a capitalized interest investment rate of 1.00 percent and a Construction Fund investment rate of 0.50 percent.

**Table IV-4** presents actual and estimated Senior Aggregate Annual Debt Service for outstanding Senior Bonds, proposed Series 2009 Senior Bonds, and future additional Senior Bonds (as reflected on Table IV-3) for FY 2008 through FY 2016. As discussed in earlier sections of this chapter, pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant, principal of and/or interest on Senior Bonds paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service.

Table IV-4 reflects PFC revenues expected to be used by the Department each year to pay a portion of the debt service on the Series 2009 Senior Bonds, the outstanding Series 2008A Bonds, and future Senior Bonds.

As shown in Table IV-4, Aggregate Annual Debt Service for Senior Bonds is estimated to increase from approximately \$19.3 million in FY 2008 to approximately \$162.8 million in FY 2016. As also shown, the Senior Aggregate Annual Debt Service for Senior Bonds reflects the use of between approximately \$42.9 million and \$98.3 million of PFC revenues to pay Senior Bond debt service for certain years. The actual amount of PFC revenues that the Department will ultimately use to pay debt service may vary from year to year (allowing the Department to apply PFC revenues strategically to help manage to desired financial results—e.g., lower airline payments).

**Table IV-3**

Expected Future Bond Issues (After Issuance of Series 2009 Bonds) <sup>1/</sup>

	Future Series 2010	Future Series 2011	Future Series After 2011	Future Series Total
<b>Bond Principal</b>				
Senior Bonds	\$ 891,300,000	\$ 183,710,000	\$ 1,286,640,000	\$ 2,361,650,000
Subordinate Bonds	15,550,000	126,285,000	338,100,000	479,935,000
Total Expected Future Bond Principal	\$ 906,850,000	\$ 309,995,000	\$ 1,624,740,000	\$ 2,841,585,000

**Bond Proceeds Used to Pay Project Costs**

Senior Bond Proceeds	\$ 691,211,000	\$ 154,950,000	\$ 1,094,159,000	\$ 1,940,320,000
Subordinate Bond Proceeds	12,753,000	99,925,000	287,116,000	399,794,000
Total Expected Bond Proceeds Used to Pay Project Costs	\$ 703,964,000	\$ 254,875,000	\$ 1,381,275,000	\$ 2,340,114,000

	Future Series 2010	Future Series 2011	Future Series After 2011
<b>Key Projects Funded with Expected Future Bonds</b>			
<u>Funded from Senior Bond Proceeds (Paid with Pledged Revenues):</u>			
Bradley West Core	•		•
Bradley West Concourses	•		•
Central Utility Plant	•		•
Acquisition of Existing Terminal Improvements	•		
Terminal Improvements Program		•	•
<u>Funded from Senior Bond Proceeds (Paid with PFCs):</u>			
Bradley West Core	•		•
Bradley West Concourses	•		•
Terminal Improvements Program		•	•
<u>Funded from Subordinate Bond Proceeds:</u>			
Airfield Safety Improvements	•		•
Bradley West Aprons		•	•
Pavement Management Program		•	•
Bradley West Taxilane T and Associated Projects			•
West Maintenance Facility Pad and Infrastructure			•

Note:

1/ Debt service associated with expected future bond issues shown here is reflected on Table IV-4.

Sources: City of Los Angeles, Department of Airports and Public Resources Advisory Group (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).

**Table IV-4 (1 of 2)**  
**Debt Service**

Fiscal Years Ending June 30

		Actual		Projected						
		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Existing Senior Bond Debt Service</b>										
Series 1995-C	\$	298,588	\$ 475,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 1995-D		1,494,540	966,311	-	-	-	-	-	-	-
Series 2002-A		1,624,633	1,624,633	1,624,633	1,624,633	1,624,633	1,624,633	1,624,633	2,819,633	8,100,638
Series 2003-B		15,882,100	15,917,850	15,943,850	16,184,100	16,181,350	16,185,600	16,184,850	1,887,600	-
Series 2008-A		-	-	-	42,075,700	42,074,950	42,077,750	42,079,000	42,074,775	42,074,675
Series 2008-B		-	-	1,434,000	1,435,500	1,434,250	1,435,250	1,433,250	1,433,250	-
Subtotal - Existing Senior Bond Debt Service	[A]	\$ 19,299,860	\$ 18,983,794	\$ 19,002,483	\$ 61,319,933	\$ 61,315,183	\$ 61,323,233	\$ 61,321,733	\$ 48,215,258	\$ 50,175,313
<b>Future Senior Bond Debt Service</b>										
Proposed Series 2009 Bonds -- Paid with Pledged Revenues		\$ -	\$ -	1,442,902	9,950,262	21,626,692	21,626,692	16,021,549	16,021,549	16,021,549
Proposed Series 2009 Bonds -- Paid with PFC Revenues		-	-	700,127	7,354,829	3,530,326	3,530,326	9,135,469	9,135,469	9,135,469
Future Series 2010 Bonds -- Paid with Pledged Revenues		-	-	-	27,759,876	27,759,876	34,409,350	40,604,044	52,160,702	50,160,702
Future Series 2010 Bonds -- Paid with PFC Revenues		-	-	-	-	-	3,035,370	21,678,977	24,913,289	26,913,289
Future Series 2011 Bonds -- Paid with Pledged Revenues		-	-	-	-	-	1,066,776	1,768,301	1,768,301	1,768,301
Future Series 2011 Bonds -- Paid with PFC Revenues		-	-	-	-	-	7,199,946	11,934,719	11,934,719	11,934,719
Other Future Series Bonds -- Paid with Pledged Revenues		-	-	-	-	-	4,525,000	24,562,561	61,594,584	61,594,584
Other Future Series Bonds -- Paid with PFC Revenues		-	-	-	-	-	2,065,652	14,640,528	33,398,096	33,398,096
Subtotal - Future Senior Bond Debt Service	[B]	\$ -	\$ -	\$ 2,143,029	\$ 45,064,967	\$ 52,916,894	\$ 77,459,112	\$ 140,346,148	\$ 210,926,709	\$ 210,926,709
Total Senior Lien Debt Service	[C]=[A]+[B]	\$ 19,299,860	\$ 18,983,794	\$ 21,145,511	\$ 106,384,900	\$ 114,232,076	\$ 138,782,344	\$ 201,667,880	\$ 259,141,966	\$ 261,102,021
<b>Less: PFC Revenues used to pay Debt Service</b>										
Series 2008-A	\$	-	\$ -	\$ -	(42,075,700)	(39,334,000)	(29,134,000)	(16,934,000)	(16,934,000)	(16,934,000)
Proposed Series 2009		-	-	(700,127)	(7,354,829)	(3,530,326)	(3,530,326)	(9,135,469)	(9,135,469)	(9,135,469)
Future Series 2010		-	-	-	-	-	(3,035,370)	(21,678,977)	(24,913,289)	(26,913,289)
Future Series 2011		-	-	-	-	-	(7,199,946)	(11,934,719)	(11,934,719)	(11,934,719)
Other Future Series		-	-	-	-	-	(2,065,652)	(14,640,528)	(33,398,096)	(33,398,096)
Available PFC Revenues	[D]	\$ -	\$ -	\$ (700,127)	\$ (49,430,529)	\$ (42,864,326)	\$ (44,965,293)	\$ (74,323,693)	\$ (96,315,573)	\$ (98,315,573)
<b>AGGREGATE ANNUAL SENIOR DEBT SERVICE<sup>1/</sup></b>	[E]=[C]+[D]	\$ 19,299,860	\$ 18,983,794	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
<b>Allocation to Direct Cost Centers</b>										
Terminal	\$	11,366,460	\$ 11,203,095	\$ 12,785,986	\$ 44,759,754	\$ 55,320,613	\$ 77,767,836	\$ 111,296,400	\$ 150,916,344	\$ 148,426,180
Apron		426,355	421,598	425,216	429,625	429,559	429,649	429,610	253,444	576,572
Airfield		2,161,876	2,092,988	2,122,171	2,144,782	2,144,328	2,144,882	2,144,495	1,114,637	2,044,388
Aviation		1,925,384	1,927,719	1,919,233	1,940,953	1,940,687	1,941,085	1,940,990	987,822	2,292,533
Commercial		2,522,940	2,343,403	2,502,730	6,980,125	10,833,617	10,834,427	10,833,680	9,389,826	9,446,776
Subtotal - Total LAX Debt Service		\$ 18,403,014	\$ 17,988,803	\$ 19,755,335	\$ 56,255,239	\$ 70,668,803	\$ 93,117,879	\$ 126,645,175	\$ 162,662,073	\$ 162,786,448
Exclusions		69,572	114,117	-	-	-	-	-	-	-
Other Airports		827,274	880,874	690,049	699,132	698,947	699,172	699,013	164,321	-
Aggregate Annual Senior Debt Service	= [E]	\$ 19,299,860	\$ 18,983,794	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448

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**Los Angeles World Airports**  
**Los Angeles International Airport**

**Table IV-4 (2 of 2)**

**Debt Service**

Fiscal Years Ending June 30

		Actual		Projected							
		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
<b>Existing Subordinate Bond Debt Service</b>											
Series 2002-C1 <sup>2/</sup>	\$	1,103,289	\$ 1,870,000	\$ 1,365,100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2002-C2 <sup>2/</sup>		585,381	1,000,000	730,000	-	-	-	-	-	-	-
Series 2003-A <sup>2/</sup>		664,656	1,185,000	912,450	-	-	-	-	-	-	-
Series 2008-C		-	11,901,220	15,980,149	15,983,399	15,982,305	15,980,768	15,978,368	15,983,368	15,980,199	
Commercial Paper <sup>3/</sup>		-	-	-	-	-	-	-	-	-	-
Subtotal - Existing Subordinate Bond Debt Service	[F]	\$ 2,353,326	\$ 15,956,220	\$ 18,987,699	\$ 15,983,399	\$ 15,982,305	\$ 15,980,768	\$ 15,978,368	\$ 15,983,368	\$ 15,980,199	
<b>Future Subordinate Bond Debt Service</b>											
Proposed Series 2009 Bonds (before any BABs credit)	\$	-	\$ 10,324,766	\$ 17,458,219	\$ 28,912,397	\$ 34,863,665	\$ 34,711,182	\$ 34,553,351	\$ 34,389,985	\$ 34,389,985	
Future Series 2010 Bonds		-	-	552,547	552,547	591,229	1,138,171	1,138,171	1,138,171	1,138,171	
Future Series 2011 Bonds		-	-	-	-	2,133,327	5,113,691	9,506,701	9,506,701	9,506,701	
Other Future Series Bonds		-	-	-	-	515,060	4,444,151	16,651,262	19,142,924	19,142,924	
Subtotal - Future Subordinate Bond Debt Service	[G]	\$ -	\$ -	\$ 10,324,766	\$ 18,010,766	\$ 29,464,944	\$ 38,103,280	\$ 45,407,196	\$ 61,849,486	\$ 64,177,781	
<b>AGGREGATE ANNUAL SUBORDINATE DEBT SERVICE</b>	[H]=[F]+[G]	\$ 2,353,326	\$ 15,956,220	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,084,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980	
<b>Allocation to Direct Cost Centers</b>											
Terminal	\$	105,105	\$ 171,612	\$ 4,844,409	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650	
Apron		16,847	15,465	441,155	1,349,158	3,525,063	3,525,433	6,725,063	15,487,441	15,472,052	
Airfield		338,809	12,350,760	21,480,387	27,926,358	37,203,536	45,839,966	49,941,851	57,626,762	59,967,278	
Aviation		143,675	186,695	143,319	-	-	-	-	-	-	
Commercial		81,019	350,924	259,975	-	-	-	-	-	-	
Subtotal - Total LAX Debt Service		\$ 685,454	\$ 13,075,457	\$ 27,169,244	\$ 33,994,165	\$ 45,447,249	\$ 54,084,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980	
Exclusions		1,103,289	1,870,000	1,365,100	-	-	-	-	-	-	
Other Airports		564,582	1,010,763	778,120	-	-	-	-	-	-	
Aggregate Annual Subordinate Debt Service	=[H]	\$ 2,353,326	\$ 15,956,220	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,084,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980	
<b>TOTAL DEBT SERVICE</b>	=[E]+[H]	\$ 21,653,186	\$ 34,940,014	\$ 49,757,849	\$ 90,948,536	\$ 116,814,999	\$ 147,901,099	\$ 188,729,751	\$ 240,659,247	\$ 242,944,428	

Notes:

- 1/ As defined in the Senior Indenture, for purposes of meeting the Senior Rate Covenant, Senior Aggregate Annual Debt Service is net of PFC Revenues used to pay Senior Debt Service.
- 2/ Variable rate debt service. Debt service reflected does not include associated letter of credit fees.
- 3/ Commercial paper outstanding as of August 1, 2009 is approximately \$182 million. The Department's current commercial paper authorization is \$500 million. Approximately \$85 million of the Department's \$182 million of outstanding commercial paper is expected to be repaid with the proceeds of the Series 2009 Bonds. Remaining outstanding commercial paper is expected to be repaid with future Series 2010 bond proceeds. Debt service associated with commercial paper is not reflected in this table.

Sources: City of Los Angeles, Department of Airports for existing Debt Service (June 2009), and Public Resources Advisory Group for Series 2009 and Future Debt Service (October 2009).  
Prepared by: Ricondo & Associates, Inc. (October 2009).

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Table IV-4 also presents estimates of Subordinate Aggregate Annual Debt Service for outstanding Subordinate Bonds, proposed Series 2009 Subordinate Bonds, future additional Subordinate Bonds, and commercial paper payments. Subordinate Aggregate Annual Debt Service is estimated to increase from \$2.4 million in FY 2008 to approximately \$80.2 million in FY 2016. At this time, the Department does not expect to use PFC revenues to pay for debt service on the Series 2009 Subordinate Bonds, outstanding Subordinate Bonds, or expected future Subordinate Bonds.

## **4.8 Maintenance & Operation Expenses**

M&O Expenses at the Airport are captured within the SAP accounting system used by the Department. SAP provides the M&O Expense data that is used in the preparation of the annual financial statements and the tracking of budgeted expenses to actual expenses by division. As such, M&O Expenses are tracked within the SAP system in a number of classifications, including by cost center, cost element, and business area.

M&O Expenses are budgeted for each of the Department's Direct Divisions and Administrative Divisions. For rate-setting purposes, M&O Expenses by division are allocated to the various Airport cost centers described previously in Section 4.1.2. Within each division, M&O Expenses are also further categorized by detailed cost elements, including:

- Salaries and benefits;
- Contractual services;
- Administrative Services;
- Materials and Supplies;
- Utilities;
- Advertising and Public Relations; and
- Other Operating Expenses.

M&O Expenses for the Airport, as defined in the Senior Indenture, increased from \$381.5 million in FY 2004 to \$526.9 million in FY 2009 (preliminary actual), representing a CAGR of 6.7 percent. Detailed M&O Expenses presented in Table IV-5 for FY 2009 (\$552.5 million) are for budgeted FY 2009, as data is currently not available in sufficient detail to reflect preliminary actual FY 2009 M&O Expenses (as defined in the Senior Indenture) in the line items presented on Table IV-5. M&O Expenses increased from approximately \$514.1 million in FY 2008 to approximately \$526.9 million in FY 2009, an approximate 2.5 percent increase (reflecting emphasis the Department has placed on minimizing M&O Expense growth). It should be noted that M&O Expenses as defined in the Senior Indenture differ from Airport operating expenses reflected in the Department's audited financial statements.

**Table IV-5** presents actual M&O Expenses at the Airport for actual FY 2007 through projected FY 2016. Projected M&O Expenses are based off budgeted FY 2010 M&O Expenses, equal to approximately \$555.7 million.

As shown at the bottom of Table IV-5, a portion of M&O Expenses at the Airport (approximately \$13.0 million in FY 2010 from various Administrative Divisions in FY 2008) is allocated to other airports in the Airport System. Certain operating expenses from other airports in the Airport System are allocated to the Airport, however any revenue shortfalls associated with the operation of VNY are included in the landing fee for the Airport.

**Los Angeles World Airports**  
**Los Angeles International Airport**

**Table IV-5**

Summary of LAX Maintenance and Operation Expenses <sup>1/</sup>  
Fiscal Years Ending June 30

	Actual		Budget		Projected					
	FY 2007	FY 2008	FY 2009 <sup>2/</sup>	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>BY TYPE OF EXPENSE</b>										
Salaries and Benefits	\$ 250,641,069	\$ 274,743,108	\$ 291,383,582	\$ 296,466,846	\$ 308,341,918	\$ 323,732,314	\$ 339,890,629	\$ 376,312,961	\$ 395,099,309	\$ 414,825,674
Contractual Services	139,335,231	150,241,764	163,053,000	163,377,400	169,921,967	178,402,566	187,308,044	207,379,396	217,731,666	228,602,999
Administrative Services	712,440	2,811,944	3,301,000	3,621,000	3,766,388	3,954,507	4,150,933	4,596,129	4,825,586	5,066,815
Materials and Supplies	43,238,205	38,380,150	39,472,000	37,549,800	39,054,194	41,003,254	43,049,817	47,662,708	50,041,993	52,540,993
Utilities	20,303,114	27,669,858	28,594,370	29,799,019	30,992,391	32,539,061	34,163,314	37,824,979	39,713,078	41,695,832
Advertising and Public Relations	9,994,370	8,278,866	9,846,000	8,150,800	8,477,022	8,899,974	9,344,872	10,345,766	10,862,754	11,404,992
Other Operating Expenses	13,026,035	11,967,579	16,815,500	16,727,200	17,397,562	18,265,340	19,177,107	21,232,012	22,292,313	23,405,378
<b>SUBTOTAL - LAX M&amp;O EXPENSES <sup>1/</sup></b>	<b>\$ 477,250,463</b>	<b>\$ 514,093,270</b>	<b>\$ 552,465,452</b>	<b>\$ 555,692,065</b>	<b>\$ 577,950,442</b>	<b>\$ 606,797,014</b>	<b>\$ 637,084,715</b>	<b>\$ 705,354,951</b>	<b>\$ 740,567,698</b>	<b>\$ 777,541,683</b>
Annual % change	4.3%	7.7%	7.5%	0.6%	4.0%	5.0%	5.0%	10.7%	5.0%	5.0%
Compound annual growth rate FY 2009 to FY 2016										5.0%
Equipment and Vehicles	5,756,513	3,803,041	3,062,300	1,719,000	1,788,132	1,877,489	1,971,263	2,181,676	2,290,960	2,405,358
<b>TOTAL LAX M&amp;O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES</b>	<b>\$ 483,006,976</b>	<b>\$ 517,896,311</b>	<b>\$ 555,527,752</b>	<b>\$ 557,411,065</b>	<b>\$ 579,738,574</b>	<b>\$ 608,674,503</b>	<b>\$ 639,055,978</b>	<b>\$ 707,536,627</b>	<b>\$ 742,858,658</b>	<b>\$ 779,947,041</b>
<b>SUMMARY BY COST CENTER</b>										
Terminal	\$ 215,480,289	\$ 232,680,288	\$ 261,826,624	\$ 263,566,530	\$ 276,196,393	\$ 290,006,713	\$ 304,506,398	\$ 356,313,318	\$ 374,128,034	\$ 392,833,886
Apron	19,910,084	22,587,189	22,712,992	25,909,912	26,635,390	27,967,159	29,365,517	30,833,793	32,375,483	33,994,257
Airfield	108,591,899	114,556,223	121,409,510	111,337,172	114,454,613	120,177,344	126,186,211	132,495,522	139,120,298	146,076,313
Aviation	38,761,834	38,904,066	40,576,956	42,128,805	43,308,412	45,473,833	47,747,524	50,134,900	52,641,645	55,273,728
Commercial	73,272,269	81,902,527	77,047,274	86,484,808	90,376,383	94,843,702	99,534,287	104,457,252	109,626,264	115,053,577
Exclusions / Other	13,339,291	12,833,781	15,958,648	15,029,076	15,449,891	16,222,385	17,033,504	17,885,180	18,779,439	19,718,410
Other Airports	13,651,311	14,432,237	15,995,747	12,954,760	13,317,493	13,983,367	14,682,536	15,416,663	16,187,496	16,996,871
<b>TOTAL LAX M&amp;O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES</b>	<b>\$ 483,006,976</b>	<b>\$ 517,896,311</b>	<b>\$ 555,527,752</b>	<b>\$ 557,411,065</b>	<b>\$ 579,738,574</b>	<b>\$ 608,674,503</b>	<b>\$ 639,055,978</b>	<b>\$ 707,536,627</b>	<b>\$ 742,858,658</b>	<b>\$ 779,947,041</b>

Notes:

1/ M&O Expenses reflected on this table are as defined in the Senior Indenture, and will differ somewhat from expenses reflected in audited financial statements.

2/ At the time this report was prepared, data was not available in sufficient detail to reflect preliminary actual FY 2009 M&O Expenses (as defined in the Senior Indenture) in the line items presented above. Preliminary actual FY 2009 M&O Expenses were approximately \$526.9 million, representing an approximate 2.5 percent increase from actual FY 2008.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).

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Projections of future Airport M&O Expenses are based on an assumed 5.0 percent annual base growth rate for all categories of M&O Expenses to account for the anticipated impacts of inflation, staffing and operational requirements, and activity increases.

The Department expects that the Other Incorporated Projects, specifically the Bradley West terminal projects, will result in an approximately \$37 million increase in Terminal M&O Expenses in FY 2014. Estimated M&O Expenses associated with the Bradley West terminal projects were developed based on preliminary estimates of increased total terminal square footage and current M&O Expenses associated with TBIT. Expenses associated with increased space were discounted somewhat to account for higher efficiency in newer facilities (e.g., lower utility costs). M&O Expenses associated with the Series 2009 Projects (including approximately \$5.3 million estimated for the ongoing interior TBIT improvements and the Terminal 3 in-line bag system) are included in M&O Expenses reflected on Table IV-5 for FY 2011.

As shown, total M&O Expenses are projected to increase from \$555.7 million in FY 2010 to \$777.5 million in FY 2016. As reflected on Table IV-5, the CAGR for Airport M&O Expenses between FY 2009 and projected FY 2016 is 5.0 percent.

Details of the M&O Expense projections by expense category are described below.

#### **4.8.1 Salaries and Benefits**

M&O Expenses for Salaries and Benefits include expenses associated with wages, salaries, and employee benefits, regular overtime, and health subsidies. As shown in Table IV-5, salaries and benefits represented the single largest expense category in FY 2008, accounting for 53.4 percent of total M&O Expenses. As a municipal organization, the Department's employee and labor relations are governed by Civil Service rules and regulations, the Charter and the City Administrative Code, as well as 22 separate labor agreements between management and unions. As shown in Table IV-5, total salaries and benefit expenses are projected to increase from \$296.5 million in FY 2010 to \$414.8 million in FY 2016, representing a CAGR of 5.8 percent. This increase is a result of the base M&O Expense growth rate (5.0 percent, which is higher than inflation) along with increases related to future facilities.

#### **4.8.2 Contractual Services**

Contractual services expenses include expenses associated with various contractual obligations such as parking lot operations, engineering and consulting contracts, security services, fire services, legal services, and other miscellaneous contracts. Contractual services represented the second largest expense category in FY 2008, accounting for 29.2 percent of total M&O Expenses. As shown in Table IV-5, contractual expenses are projected to increase from \$163.4 million in FY 2010 to \$228.6 million in FY 2016, representing a CAGR of 5.8 percent. This increase is a result of the base M&O Expense growth rate (5.0 percent, which is higher than inflation) along with increases related to future facilities.

#### **4.8.3 Administrative Services**

Administrative Services expenses include expenses associated with training, travel, tuition reimbursement, memberships, and other miscellaneous administrative expenses. As shown in Table IV-5, administrative services expenses are projected to increase from \$3.6 million in FY 2010 to approximately \$5.1 million in FY 2016.

#### **4.8.4 Materials and Supplies**

Expenses associated with materials and supplies include various items such as custodial supplies, furniture and equipment, materials and parts for maintenance and repair of facilities, communication supplies, and other miscellaneous materials and supplies. Materials and supplies expenses accounted for 7.5 percent of total M&O Expenses in FY 2008. As shown in Table IV-5, expenses for materials and supplies are projected to increase from \$37.5 million in FY 2010 to \$52.5 million in FY 2016.

#### **4.8.5 Utilities**

Utility expenses include electrical, water, gas, and telephone expenses, and account for 5.4 percent of total M&O Expenses in FY 2008. As shown in Table IV-5, utility expenses are projected to increase from \$29.8 million in FY 2010 to \$41.7 million in FY 2016.

#### **4.8.6 Advertising and Public Relations**

Advertising and Public Relations expenses include expenses associated with media, public relations, marketing services, costumer services, and advertising. The Advertising and Public Relations budget is used to support plans to market the Airport System at local, U.S. and international trade shows and conferences, and to support marketing activities undertaken by the Los Angeles Convention and Visitors Bureau. Other campaigns include efforts to promote the Airport System as safe, secure, and user friendly. Advertising and public relations expenses are projected to increase from \$8.2 million in FY 2010 to \$11.4 million in FY 2016.

#### **4.8.7 Other Operating Expenses**

Other operating expenses include expenses not classified in the other expense categories, and include expenses such as insurance, litigation, lease expenses, and other miscellaneous expenses. Other operating expenses accounted for 2.3 percent of total M&O Expenses in FY 2008. As shown in Table IV-5, other operating expenses are projected to increase from \$16.7 million in FY 2010 to \$23.4 million in FY 2016.

### **4.9 Airport Revenues Other than Airline Terminal, Landing, and Apron Fees**

**Table IV-6** presents Airport revenues other than airline terminal, landing, and apron fees (hereinafter referred to as “nonairline revenues”) for actual FY 2007, actual FY 2008, actual FY 2009 (preliminary), and projected FY 2010 through FY 2016.

Nonairline revenues at the Airport are grouped into four primary categories, including:

- Aviation Revenues (excluding airline terminal rentals, landing fees, and apron fees);
- Concession Revenues;
- Airport Sales and Services Revenues; and
- Miscellaneous Revenues.

In FY 2009, nonairline revenues accounted for approximately \$361.3 million, or 49.0 percent, of total Pledged Revenues.



**Los Angeles World Airports**  
**Los Angeles International Airport**

**Table IV-6**  
Summary of Airport Revenues Other Than Airline Terminal Rentals and Signatory Airline Landing and Apron Fees  
Fiscal Years Ending June 30

	Actual		Preliminary	Projected						
	FY 2007	FY 2008	Actual FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Aviation Revenues <sup>1/</sup></b>										
Building Rent - Other than Pass. Terminals	\$ 30,620,799	\$ 30,041,766	\$ 30,500,000	\$ 30,500,000	\$ 31,415,000	\$ 32,357,450	\$ 33,328,174	\$ 34,328,019	\$ 35,357,859	\$ 36,418,595
Land Rentals	48,054,087	47,739,758	45,185,689	48,082,000	49,524,460	51,010,194	52,540,500	54,116,715	55,740,216	57,412,423
Plane Parking	1,059,555	875,544	684,460	736,000	760,954	791,812	821,562	851,614	879,003	907,380
Fuel Fees	413,463	1,278,420	282,084	499,000	515,918	536,840	557,010	577,385	595,954	615,194
Non-Signatory Landing Fees	49,303	5,759,991	1,413,288	1,200,000	1,259,020	1,329,437	1,399,773	1,472,417	1,542,231	1,615,548
Other Aviation Revenue <sup>2/</sup>	12,162,493	12,038,332	13,376,061	5,880,000	6,199,147	6,577,639	6,959,258	7,355,960	7,742,143	8,149,568
<b>TOTAL AVIATION REVENUES</b>	<b>\$ 92,359,700</b>	<b>\$ 97,733,811</b>	<b>\$ 91,441,582</b>	<b>\$ 86,897,000</b>	<b>\$ 89,674,499</b>	<b>\$ 92,603,371</b>	<b>\$ 95,606,277</b>	<b>\$ 98,702,109</b>	<b>\$ 101,857,406</b>	<b>\$ 105,118,707</b>
Annual % change	8.4%	5.8%	-6.4%	-5.0%	3.2%	3.3%	3.2%	3.2%	3.2%	3.2%
<b>Concession Revenues</b>										
Auto Parking <sup>3/</sup>	\$ 72,917,709	\$ 74,003,834	\$ 67,289,314	\$ 72,523,078	\$ 79,905,052	\$ 84,204,707	\$ 88,510,911	\$ 93,319,385	\$ 98,085,871	\$ 103,058,024
Duty Free	32,036,693	35,379,531	30,501,729	29,000,000	31,202,000	33,718,000	36,296,000	42,422,000	45,082,000	47,868,000
Car Rental	50,761,135	55,336,558	56,890,487	54,883,000	58,014,000	61,744,000	65,511,000	69,770,000	74,027,000	78,565,000
Car Rental CFCs <sup>4/</sup>	-	24,964,160	22,085,910	22,966,000	23,839,000	24,915,000	25,958,000	27,083,000	28,149,000	29,267,000
Food & Beverage	28,731,039	30,080,481	31,803,895	27,894,000	29,556,000	31,533,000	33,537,000	39,152,000	41,540,000	44,087,000
Gifts & News	16,558,524	17,598,667	17,106,410	16,350,000	17,241,000	18,111,000	18,614,000	21,063,000	21,596,000	22,149,000
Bus, Limo & Taxi	5,384,505	6,044,024	5,882,230	5,650,000	5,842,784	6,083,626	6,314,784	6,563,701	6,796,684	7,039,987
Foreign Exchange	6,784,508	6,936,630	6,612,887	6,380,000	6,597,693	6,869,652	7,130,676	7,411,754	7,674,840	7,949,578
Bus Service VNY to LAX	3,190,635	4,737,918	5,999,175	5,500,000	5,687,666	5,922,114	6,147,134	6,389,443	6,616,241	6,853,085
Telecommunications	1,765,601	1,952,584	2,474,991	2,564,000	2,651,487	2,760,782	2,865,682	2,978,642	3,084,371	3,194,784
Other Concession Revenue <sup>5/</sup>	4,746,409	4,855,971	5,448,944	5,517,000	5,705,246	5,940,418	6,166,135	6,409,193	6,636,691	6,874,267
Terminal Advertising <sup>6/</sup>	4,300,021	13,768,301	13,134,578	13,407,000	13,809,210	14,223,486	14,650,191	15,089,697	15,542,388	16,008,659
<b>TOTAL CONCESSION REVENUES</b>	<b>\$ 227,176,779</b>	<b>\$ 275,658,659</b>	<b>\$ 265,230,550</b>	<b>\$ 262,634,078</b>	<b>\$ 280,051,138</b>	<b>\$ 296,025,785</b>	<b>\$ 311,701,513</b>	<b>\$ 337,651,815</b>	<b>\$ 354,831,086</b>	<b>\$ 372,914,385</b>
Annual % change	13.3%	21.3%	-3.8%	-1.0%	6.6%	5.7%	5.3%	8.3%	5.1%	5.1%
<b>Airport Sales and Services</b>										
Airfield Bus	\$ 1,809,355	\$ 1,803,788	\$ 1,720,875	\$ 1,644,000	\$ 1,700,095	\$ 1,770,174	\$ 1,837,434	\$ 1,909,863	\$ 1,977,655	\$ 2,048,449
Other Sales & Services	1,014,662	772,734	507,759	500,000	507,500	515,113	522,839	530,682	538,642	546,722
<b>TOTAL AIRPORT SALES &amp; SERVICES</b>	<b>\$ 2,824,017</b>	<b>\$ 2,576,522</b>	<b>\$ 2,228,634</b>	<b>\$ 2,144,000</b>	<b>\$ 2,207,595</b>	<b>\$ 2,285,286</b>	<b>\$ 2,360,274</b>	<b>\$ 2,440,544</b>	<b>\$ 2,516,297</b>	<b>\$ 2,595,171</b>
Annual % change	38.8%	-8.8%	-13.5%	-3.8%	3.0%	3.5%	3.3%	3.4%	3.1%	3.1%
<b>Miscellaneous Revenues</b>										
Miscellaneous Revenues	\$ 2,011,539	\$ 2,030,296	\$ 2,366,364	\$ 2,008,000	\$ 2,108,400	\$ 2,213,820	\$ 2,324,511	\$ 2,440,737	\$ 2,562,773	\$ 2,690,912
Build America Bond tax credits	-	-	-	4,313,000	7,997,000	7,970,000	7,872,000	7,725,000	7,572,000	7,415,000
<b>TOTAL MISCELLANEOUS</b>	<b>\$ 2,011,539</b>	<b>\$ 2,030,296</b>	<b>\$ 2,366,364</b>	<b>\$ 6,321,000</b>	<b>\$ 10,105,400</b>	<b>\$ 10,183,820</b>	<b>\$ 10,196,511</b>	<b>\$ 10,165,737</b>	<b>\$ 10,134,773</b>	<b>\$ 10,105,912</b>
Annual % change	38.7%	0.9%	16.6%	167.1%	59.9%	0.8%	0.1%	-0.3%	-0.3%	-0.3%
<b>TOTAL NONAIRLINE REVENUES</b>	<b>\$ 324,372,035</b>	<b>\$ 377,999,288</b>	<b>\$ 361,267,130</b>	<b>\$ 357,996,078</b>	<b>\$ 382,038,633</b>	<b>\$ 401,098,262</b>	<b>\$ 419,864,574</b>	<b>\$ 448,960,205</b>	<b>\$ 469,339,562</b>	<b>\$ 490,734,175</b>
Annual % change	12.1%	16.5%	-4.4%	-0.9%	6.7%	5.0%	4.7%	6.9%	4.5%	4.6%
Compound annual growth rate FY 2009 to FY 2016										4.5%

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Notes:

1/ Other than airline terminal rentals and Signatory Airline Landing and Apron Fees.

2/ Includes terminal use fees, gate use fees, TSA revenue, federal grants--operating revenue, and other aviation fees. FY 2008 and FY 2009 includes \$5.1 million of and \$7.6 million, respectively, of TSA revenue for utilities reimbursement, transportation security, canine and explosive program costs, and law enforcement officer staffing. Only \$415,000 of TSA revenue is included in the FY 2010 Budget amount.

3/ Beginning with FY 2010, includes revenues associated with the Park One Property.

4/ This revenue item started in FY 2008.

5/ Includes luggage carts and ATM revenue.

6/ This revenue item started in FY 2007.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).  
Prepared by: Ricondo & Associates, Inc. (October 2009).

In general, projections of nonairline revenues were based on a review of historical trends, budgeted FY 2010 revenues, the anticipated impacts of inflation, impacts related to the Series 2009 Projects and Other Incorporated Projects, current and assumed future lease provisions (described herein), and projected growth in Airport activity. Specific points concerning these projections are discussed in the following sections.

Between FY 2004 and FY 2009, nonairline revenues grew from \$265.6 million to \$361.3 million, representing a CAGR of 6.3 percent. As shown on Table IV-6, nonairline revenues are projected to increase to \$490.7 million in FY 2016, a CAGR of 4.5 percent for FY 2009 to FY 2016.

#### **4.9.1 Aviation Revenues**

Aviation Revenues at the Airport (excluding airline terminal rentals, landing fees, and apron fees) consist primarily of building rentals, land rent, fuel fees, and other aviation revenues. In FY 2009, Aviation Revenues totaled \$91.4 million, including \$7.6 million of TSA revenues in connection with utilities reimbursement, transportation security, canine and explosive program costs, and law enforcement officer staffing. Aviation Revenues are projected to increase to \$105.1 million in FY 2016, representing a CAGR of 2.0 percent for FY 2009 to FY 2016—primarily from expected growth in building and land rentals discussed below.

Specific details regarding key Aviation Revenues are discussed below.

- Building rentals other than passenger terminals are generated from the air freight terminal, hangar rentals, maintenance facilities, as well as other miscellaneous shops and storage facilities—pursuant to agreements between tenants and the Department. Between FY 2004 and FY 2009, nonairline building rental revenue decreased, primarily due to Delta Airlines returning an office building and hangar on Century Boulevard to the Department and decreasing the amount of space leased at their East Maintenance Site. Agreements in connection with two American Airlines maintenance buildings (each approximately 70 acres in size located to the west of TBIT) expire in FY 2010. In connection with future Airport development, the Department expects that these two properties may be moved to other locations at the Airport. For purposes of the analysis incorporated in this report, it was assumed that the Department would receive rental payments for these buildings similar to the current payments subsequent to expiration of the agreements for these two facilities in 2010.

Building rental revenues for the air freight terminal and other miscellaneous shops and storage facilities combined are projected to increase from approximately \$30.5 million in FY 2009 to approximately \$36.4 million in FY 2016, representing a CAGR of 2.6 percent.

- Land rental revenues at the Airport are derived from ground rent charged to various manufacturing and service companies, governmental agencies, transportation companies, and other tenants. Rental rates for ground areas vary depending on the land classification, including airline maintenance area, airline cargo area, nonairline industrial area, and central terminal area. Rates are generally adjusted every five years, reflecting a return on the fair market value of the land. The fair market value of land is determined through a third party appraisal of the property. Land rental revenues increased 5.0 percent in FY 2007 before decreasing slightly in FY 2008 and again in FY 2009. For projection purposes, land rental revenues are assumed to increase at 3.5 percent per year, increasing from approximately \$45.2 million in FY 2009 to approximately \$57.4 million in FY 2016.

- Plane parking and fuel fees at the Airport are derived from aircraft parking fees and fueling fees assessed to the airlines operating at the Airport. Plane parking and fuel fees grew at a CAGR of 11.6 percent between FY 2004 and FY 2008 primarily as a result of several carriers that allowed their permits to lapse during that period and were charged the non-permitted fee (\$0.01 per gallon). Projected revenues from plane parking and fuel fees were assumed to increase based on projected aircraft operational levels at the Airport. Plane parking and fuel fee revenues are projected to increase from approximately \$1.0 million in FY 2009 to approximately \$1.5 million by FY 2016, representing a CAGR of 6.7 percent.
- The Department does not currently impose any ground handling fees on third party and airline ground handling services operating at the Airport, and no such ground handling fees are planned to be implemented (or were assumed) during the Projection Period.

#### **4.9.2 Concession Revenue**

Concession revenues at the Airport consist of a number of revenue sources, and are comprised primarily of auto parking, car rental, ground transportation fees (bus, limo, and taxi), food and beverage, gift and news, duty free, and other concession revenues. Generally, future concession revenues were projected based on historical trends, budget FY 2010 revenues, future Airport passenger activity, assumed inflation, assumed impacts of the TBIT Interior Improvements and Bradley West Core and Concourse projects, and current and assumed future lease terms and provisions.

Between FY 2004 and FY 2009, concession revenues grew at a CAGR of 9.2 percent—primarily as a result of significant increases in parking, duty free, car rental, and food & beverage revenues in FY 2007 and FY 2008 and the collection of CFCs starting in FY 2008. Enplaned passengers between FY 2004 and FY 2009 grew at a CAGR of -0.5 percent.

As shown on Table IV-6, concession revenues decreased 3.8 percent in FY 2009 to \$265.2 million, and are projected to decrease 1.0 percent in FY 2010 to \$262.6 million. Concession revenues are projected to increase to approximately \$372.9 million in FY 2016, representing a CAGR of 5.0 percent for FY 2009 through FY 2016.

Details regarding key concession revenues are discussed below.

- The auto parking facilities at the Airport are operated for the Department by New South Parking under a management contract that expires in June 2010, subject to renewal. Under the terms of the contract, New South Parking receives 105 percent of New South Parking’s direct operating costs (excludes overhead or indirect costs), subject to specified minimum staffing requirements. The Park ‘N Fly sublease on the Park One property (which the Department acquired on July 28, 2009) began its second five-year term on January 1, 2008, which will expire December 31, 2012. Park ‘N Fly has three five-year options left which may potentially extend the lease through December 31, 2027. Base rent for the current term is \$8.2 million per year. Park ‘N Fly must also pay the Department 70 percent of its gross revenues in excess of a breakpoint level of \$12.5 million.

Parking rates at the Airport were last changed in 2002 and are currently \$30 maximum per day for Central Terminal Area garages (at \$3 for the first hour and \$2 for each additional 30 minutes), \$10 per day in Lot C and \$8 per day in Lot B. Parking rates include a 10.0 percent parking occupancy tax.

A number of off-Airport parking operators provide facilities that compete with parking services offered by the Department. Generally, these off-Airport parking operators raise or lower their parking rates in conjunction with rates charged by the Department for Airport parking facilities. For purposes of this report, it was assumed that the current effect of off-Airport competition on the demand for Airport parking facilities would not change materially during the projection period.

Auto parking revenues, the largest source of concession revenues at the Airport, were \$67.3 million in FY 2009, accounting for 25.4 percent of total concession revenues. Parking revenues grew at a CAGR of 2.3 percent between FY 2004 and FY 2009.

Parking transactions remained relatively flat from FY 2006 to FY 2008 at approximately 7.4 million (or, approximately 0.34 per O&D passenger). Parking revenues per transaction grew from approximately \$9.10 in FY 2006 to \$10.04 in FY 2008 (a 10.3 percent increase), suggesting that parking durations increased in FY 2008. Parking revenues decreased to approximately \$67.3 million in FY 2009 (a 9.1 percent decrease from FY 2008) and are projected to increase 7.8 percent to \$72.5 million in FY 2010.

For purposes of projecting public parking revenues for FY 2011 through FY 2016, it was assumed that (1) the number of parking transactions per O&D passenger would remain constant at 0.34 through FY 2016 and (2) the amount of parking revenues per transaction would increase 3.0 percent per year between FY 2011 and FY 2016 to account for any future parking rate increases. Currently, the Department has no specific plans to increase parking rates in the near future. In addition, it was assumed that the Department would collect parking revenue from the newly acquired Park One property in the amount of approximately \$8.4 million per year through the projection period.

As shown on Table IV-6, parking revenues are projected to increase from approximately \$67.3 million in FY 2009 to approximately \$103.1 million in FY 2016, representing a CAGR of 6.3 percent. This is higher than the 2.3 percent CAGR for FY 2004 to FY 2009 due in part to the addition of the Park One revenues beginning in FY 2010 and increasing in FY 2011.

- Duty Free revenues at the Airport are generated from the sale of duty free merchandise at the Airport. The duty free operator at the Airport is DFS Group L.P, which has been the duty free concessionaire at the Airport since 1982. The current agreement with DFS Group L.P. expires on December 31, 2012 with two one-year renewal options. The agreement with DFS Group L.P. provides that DFS pay the Department \$26.0 million or 30 percent of gross receipts, whichever is greater.

Between FY 2004 and FY 2009, duty free revenues increased at a CAGR of 9.2 percent. Duty free revenues on a per international enplaned passenger basis, grew at a CAGR of 9.6 percent for the same period. Duty free revenues were approximately \$30.5 million in FY 2009 and are projected to decrease to \$29.0 million in FY 2010.

For purposes of this report, it was assumed that the business terms of future duty free agreements will be similar to the terms of the existing agreement through the projection period. It was also assumed that following completion of the TBIT Interior Improvements project, beginning with FY 2011, that duty free spending per international passenger would increase by 4.0 percent annually based on (1) an expected increase in spending per passenger once the assumed disruption related to construction has ended and (2) the higher proportion of Duty Free revenues at the Airport generated from TBIT passengers. Duty free spending per international passenger was assumed to increase another 10.0 percent in FY 2014

following the future Bradley West terminal development (included in Other Incorporated Projects) to account for expanded facilities and expectations for such future facilities in terms of optimal location and efficiency. Duty free revenues are projected to increase from approximately \$30.5 million in FY 2009 to approximately \$47.9 million in FY 2016, representing a CAGR of 6.6 percent.

- The Department has entered into agreements with 10 rental car companies that expired in January 2008 and were extended through January 2010. These agreements provide for a concession fee equal to the greater of a minimum annual guarantee, ranging from approximately \$1.0 million to \$14.5 million per year, or 10.0 percent of gross revenues. In total, the minimum annual guarantees with these agencies totals approximately \$45.9 million. Historically, rental car companies have paid the Department 10.0 percent of gross revenues as these amounts have been higher than the minimum annual guarantee.

Car rental revenues to the Department (referred to as car rental revenues hereafter) increased from approximately \$37.4 million in FY 2004 to approximately \$56.9 million in FY 2009, representing a CAGR of 8.7 percent. Car rental revenues on a per O&D enplaned passenger basis increased at a CAGR of 9.3 percent between FY 2004 and FY 2009.

Projections of car rental revenues were based on the assumption that the business terms of the future rental car agreements (subsequent to January 2010) will be similar to terms in the current agreements, and, more specifically, that car rental revenues per O&D enplaned passenger will increase 3.75 percent annually for FY 2009 to FY 2013 and 4.0 percent annually for FY 2014 to FY 2016. Car rental revenues are projected to increase from approximately \$56.9 million in FY 2009 to approximately \$78.6 million in FY 2016, representing a CAGR of 4.7 percent.

The Department currently collects a rental car CFC to help pay for the planning of, and ultimately the design and financing of, a remote consolidated rental car facility. CFC collections totaled \$22.1 million in FY 2009 and are projected to increase to \$29.3 million in FY 2016 (a CAGR of 4.1 percent from FY 2009 to FY 2016). For purposes of this report, CFC collections have been reflected along with car rental revenues as concession revenues (as opposed to including it another category of nonairline revenues).

- Food and beverage agreements with 13 operators (with Host as the general operator) provide for food and beverage revenues at the Airport. The food and beverage agreements extend generally through December 2010 (and December 2012 for TBIT as noted below) and provide for a concession fee equal to the greater of a minimum annual guarantee or a percentage of gross revenues. For Host, percentage rentals range from 14.0 percent of gross revenues for food and beverage to 20.0 percent for alcoholic beverages. In total, the minimum annual guarantees for the various agreements equal approximately \$19.7 million per year. In recent years, the Department has generally received percentage rents from food and beverage operators (as the percentage rents have been higher than minimum annual guarantees). All food and beverage agreements for TBIT have been extended through December 31, 2012, with minimum annual guarantees increased to approximately \$21.8 million for the most recent fiscal year.

Between FY 2004 and FY 2009, food and beverage revenues to the Department (referred to as food and beverage revenues hereafter) grew at a CAGR of 11.6 percent. Food and beverage revenues on a per enplaned passenger basis, grew at CAGR of 12.2 percent for the same period. Food and beverage revenues were approximately \$31.8 million in FY 2009.

Projections of food and beverage revenues were based on the assumption that the business terms of future food and beverage agreements will be similar to the terms of the current agreements. It was also assumed that following completion of the TBIT Interior Improvements project, beginning with FY 2011, that food and beverage revenues per enplaned passenger would increase 4.0 percent annually based on (1) an expected increase in spending per passenger (once the assumed disruption related to construction has ended) to account for additional food and beverage facilities and expectations for such facilities in terms of optimal location and efficiency and (2) the higher proportion of food and beverage revenues at the Airport generated from TBIT passengers (who generally spend more time waiting for international flights relative to passengers at other Airport terminals). Food and beverage revenues per enplaned passenger are assumed to increase an additional 10.0 percent in FY 2014 following the future Bradley West terminal development (included in Other Incorporated Projects) to account for expanded facilities and expectations for such future facilities in terms of optimal location and efficiency.

Food and beverage revenues are projected to increase from \$31.8 million in FY 2009 to approximately \$44.1 million in FY 2016, representing a CAGR of 4.8 percent.

- Gift and news agreements comprising four operators (including AMS as the largest operator) provide for gift and news revenues at the Airport. The gift and news agreements generally extend through December 2010 and provide for a concession fee equal to the greater of a minimum annual guarantee or a percentage of gross revenues. The AMS Retail Agreement for TBIT operations only has been extended through December 31, 2012, with two one-year options. The percentage rent for AMS is 17.0 percent of gross sales. In total, the minimum annual guarantees for the various agreements equaled approximately \$16.3 million for the most recent fiscal year.

Between FY 2004 and FY 2009, gift and news revenues to the Department (referred to as gift and news revenues hereafter) were essentially flat, with a CAGR of -0.2 percent. Gift and news revenues on a per enplaned passenger basis, grew at a CAGR of 0.3 percent for the same period. Gift and news revenues were approximately \$17.1 million in FY 2009.

Projections of gift and news revenues were based on the assumption that the business terms of the future gift and news agreements will be similar to terms of the current agreements, and, more specifically, that gift and news revenues per enplaned passenger remain flat following FY 2009, with the exception of (1) a 3.0 percent increase in revenue per enplaned passenger assumed in FY 2011 following the completion of the TBIT Interior Improvements project (2) a 2.5 percent increase in revenue per enplaned passenger in FY 2012 related to the renewal of certain agreements, and (3) an additional 10.0 percent increase in FY 2014 following the future Bradley West terminal development (included in Other Incorporated Projects) to account for expanded facilities and expectations for such future facilities in terms of optimal location and efficiency.

Gift and news revenues are projected to increase from \$17.1 million in FY 2009 to \$22.1 million in FY 2016, representing a CAGR of 3.8 percent.

- The Department began collecting advertising revenues in April 2007, under an agreement between the Department and JCDecaux Airport, Inc. executed in October 2006. Pursuant to this advertising agreement, which expires in April 2013, JCDecaux pays the Department the greater of a minimum annual guarantee or 70 percent of gross sales. The advertising agreement includes one optional four-year term extension if JCDecaux and the Department both agree to such an extension.

Advertising revenues to the Department were approximately \$13.1 million in FY 2009 and are projected to remain flat in FY 2010. For purposes of this report, advertising revenues to the Department were assumed to increase 3.0 percent annually for FY 2011 through FY 2016.

- Ground transportation at the Airport is currently provided by a number of operators including limousine, charter bus, taxi, and various commercial courtesy vehicle operators. In general, revenues generated from limousine, bus, and taxi operators is derived from per trip fees assessed to the operators, and vary based on the type of operator and vehicle. Trip fees at the Airport were last increased in September 2007. Between FY 2004 and FY 2009, bus, limo, and taxi revenues grew from approximately \$4.1 million to approximately \$5.9 million, at a CAGR of 7.5 percent. Projections of bus, limo, and taxi revenues for the various operators at the Airport are based on the assumption that bus, limo, and taxi revenues per enplaned passenger increase 1.5 percent annually. As shown on Table IV-6, bus, limo, and taxi revenues are projected to increase from approximately \$5.9 million in FY 2009 to approximately \$7.0 in FY 2016, representing a CAGR of 2.6 percent.
- Other concession revenues shown on Table IV-6 include revenues from luggage carts, ATMs, and telecommunications. These other concession revenues were approximately \$7.9 million in FY 2009 and are projected to increase to approximately \$10.1 million in FY 2016 (as a result of increased luggage cart and ATM revenues).

### **4.9.3 Airport Sales and Services Revenue**

Airport sales and services revenues at the Airport include revenue derived from various sales and services provided by the Department to its tenants and users, including van pool fees, accommodations, utilities, airfield bus service, ID badges, and other sales and services. Between FY 2004 and FY 2009, Airport sales and services revenues have varied year to year, with FY 2009 revenues nearly equaling FY 2004 revenues. In FY 2010, total airport sales and services revenue is projected to be approximately \$2.1 million. Airport sales and services revenues are projected to increase to approximately \$2.6 million in FY 2016, representing a CAGR of 2.2 percent for FY 2009 to FY 2016.

### **4.9.4 Miscellaneous Revenue**

Miscellaneous revenues at the Airport include revenue from refunds and reimbursements, litigation settlements, sale of property and equipment, tickets and impound fees, and other miscellaneous revenues. In FY 2009, miscellaneous revenues were approximately \$2.4 million. Due primarily to Build America Bond tax credits (associated with the Subordinate 2009 Bonds), miscellaneous revenues are projected to increase from \$2.4 million in FY 2009 to \$10.1 million in FY 2016.

## 4.10 Airline Revenues

As discussed previously, airline landing fees, apron fees, and terminal rental rates presented in these analyses are calculated pursuant to the methodologies contained in the Operating Permit, the Long-Term Leases, the Tariff, or short-term leases with terms similar to those in the Tariff. The following sections present greater detail with regards to each specific rate calculation.

### 4.10.1 Airline Terminal Rentals

As described in more detail in Section 4.6, certain airlines at the Airport lease terminal building space under existing Long-Term Leases or leases with provisions similar to those in the Tariff. Airlines using terminal space at the Airport without an existing lease pay for terminal space through fees and charges set forth in the Tariff.

**Table IV-7** presents projected terminal rentals associated with the Long-Term Leases, the Tariff, and leases with provisions similar to the Tariff, broken into three categories—(1) LTL Terminal M&O Expense Payments; (2) Tariff Terminal M&O Expense Payments; and (3) Debt Service and Other Payments. As shown on Table IV-7, terminal rents are charged on a CY basis (with requirements for a given CY as described below in items 1. through 4.). At the bottom of Table IV-7, the CY charges are then converted to a FY basis for purposes of being incorporated into the overall Airport financial projections (which are completed on a FY basis).

1. LTL Terminal M&O Expense Payments are based on relevant provisions incorporated in the Interim Settlement Agreements (discussed in Section 4.6, which specify terminal rents and fees for Long-Term Leases for CY 2006, CY 2007, CY 2008, and a portion of CY 2009 and allow the Department to recover a portion of terminal security costs). For purposes of LTL Terminal M&O Expense Payment projections, the provisions in the Interim Settlement Agreements related to M&O Expenses are assumed to extend through FY 2016. CY charges for M&O Expenses are based on the applicable actual prior FY M&O Expenses.
2. Tariff Terminal M&O Expense Payments are based on provisions in the Tariff (as applied pursuant to the Partial Settlement Agreement or the Letter Agreement)--for purposes of the financial analysis, these provisions are assumed to extend through FY 2016. CY charges for M&O Expenses are based on the applicable actual prior FY M&O Expenses.
3. Debt Service and Other Payments for Tariff terminals are based on provisions in the Tariff (as applied pursuant to the Partial Settlement Agreement or the Letter Agreement)—assumed to extend through FY 2016. CY charges for Debt Service and Other Payments are based on applicable requirements for that given CY.

Debt Service and Other Payments for LTL terminals are based on current space rent and footprint rent amounts increased with inflation and, in the case of LTL terminals where certain existing terminal improvements are expected to be acquired by the Department (the acquisition of such existing terminal improvements is an element of the Other Incorporated Projects described in Section 3.4 of this report), space rent and footprint rent



**Table IV-7**

Airline Terminal Rental Payments -- All Terminals Combined  
Reflected on a Calendar Year Basis and a Fiscal Year Basis (Ending June 30)

			Projected												
			CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016						
<b>1. LTL Terminal M&amp;O Expense Payments--T2,T4,T5,T7,T8, and T6 (50%)</b>															
a. M&O Expense Rent <sup>1/</sup>	[A]	\$	38,210,409	\$	40,120,930	\$	42,126,976	\$	44,233,325	\$	46,444,991	\$	48,767,241	\$	51,205,603
<b>2. Tariff Terminal M&amp;O Expense Payments--T1,T3,TBIT, and T6 (50%)</b>															
b. Terminal Regular Expenses <sup>2/</sup>		\$	70,903,869	\$	71,055,131	\$	77,840,934	\$	81,916,676	\$	86,012,370	\$	118,729,382	\$	123,187,943
c. Terminal Special Expenses <sup>2/</sup>			6,481,372		6,805,441		7,145,713		7,502,999		7,878,149		8,272,056		8,685,659
Total Tariff Terminal M&O Expense Payments	[B]	\$	77,385,241	\$	77,860,572	\$	84,986,647	\$	89,419,675	\$	93,890,519	\$	127,001,438	\$	131,873,602
<b>3. Debt Service and Other Payments <sup>3/</sup></b>															
Capital Charges <sup>4/</sup>		\$	39,860,385	\$	72,984,947	\$	85,338,250	\$	105,381,061	\$	156,861,133	\$	180,124,870	\$	177,456,959
Airport Infrastructure Charges <sup>2/</sup>			1,815,619		1,848,418		1,967,014		1,933,745		1,780,748		1,431,496		1,809,006
Space Rent (LTL)			2,612,357		2,690,728		2,771,450		2,854,593		2,940,231		3,028,438		3,119,291
Footprint Rent (LTL)			324,513		327,758		331,036		334,346		337,690		341,066		344,477
	[C]	\$	44,612,874	\$	77,851,852	\$	90,407,748	\$	110,503,745	\$	161,919,802	\$	184,925,870	\$	182,729,733
<b>TOTAL FOR ALL TERMINALS (CY BASIS)</b>	= [A] + [B] + [C]	\$	<b>160,208,524</b>	\$	<b>195,833,353</b>	\$	<b>217,521,372</b>	\$	<b>244,156,745</b>	\$	<b>302,255,312</b>	\$	<b>360,694,548</b>	\$	<b>365,808,938</b>
			Projected												
			FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016						
<b>TOTAL FOR ALL TERMINALS (FY BASIS) <sup>5/</sup></b>		\$	<b>148,891,623</b>	\$	<b>178,020,938</b>	\$	<b>206,677,363</b>	\$	<b>230,839,059</b>	\$	<b>273,206,029</b>	\$	<b>331,474,930</b>	\$	<b>363,251,743</b>

Notes:

- 1/ As described in Section 4.6.1 of this Report. Based on applicable actual prior FY M&O Expenses.
- 2/ As described in Section 4.6.2 of this Report. Based on applicable actual prior FY M&O Expenses.
- 3/ Assumes the acquisition of certain terminal improvements T2, T5, T6, T7, and T8 at the beginning of CY 2010. Debt Service and Other Payments are based on amounts applicable to the current CY shown.
- 4/ Includes (1) debt service payments allocated to T2, T5, T6 (50%), T7, and T8 without debt service coverage, (2) debt service, debt service coverage, and amortization for T1, T3, TBIT, and T6 (50%), and (3) debt service associated with the CUP Project allocated to T4 (without debt service coverage).
- 5/ For example, FY 2011 is roughly equal to 1/2 of CY 2010 Terminal Rentals plus 1/2 of CY 2011 Terminal Rentals.

Sources: City of Los Angeles, Department of Airports and Ricoondo & Associates, Inc. (October 2009).  
Prepared by: Ricoondo & Associates, Inc. (October 2009).

are to be replaced with debt service payments allocated to such LTL terminals (without debt service coverage). Such debt service payments for LTL terminals are included in the line item labeled “Capital Charges”—as footnoted. CY charges for Debt Service and Other Payments are based on applicable requirements for that given CY.

As shown at the bottom of Table IV-7, terminal rental payments are projected to increase from approximately \$148.9 million in FY 2010 to approximately \$363.3 million in FY 2016. This increase in terminal rental payments is primarily a result of (1) increased debt service associated with the TBIT Interior Improvements, the future Bradley West Core and Concourses projects, and the Terminal Improvements Program; and (2) increased M&O Expenses related these same terminal projects.

For airlines that may move from one passenger terminal at the Airport to another (as a result of mergers or other reasons), it is not expected that such moves would result in material differences in terminal rental revenues.

#### **4.10.2 Airline Landing and Apron Fees**

**Table IV-8** presents the calculation of Landing Fee and Apron Fee requirements and rates for FY 2010 through FY 2016, under the Landing Fee and Apron Fee rate methodologies contained in the Operating Permit. Landing and Apron Fees at the Airport are established using a cost-based, or compensatory methodology, and are calculated for each fiscal year based upon budgeted costs. At the end of each fiscal year, Landing and Apron Fees are settled with the airlines for any variances between actual and budgeted costs.

The airline Landing Fee is calculated by dividing the total Airfield requirement by the estimated maximum gross landed weight of all airfield users. The total Airfield requirement is calculated based on the following cost components attributable to the Airfield cost center:

- M&O Expenses
- Expenditures for capital items whose cost net of grants, PFCs, and contributed capital is less than \$100,000
- Amortization of capital expenditures whose cost net of grants, PFCs, and contributed capital is \$100,000 or more
- Annual debt service
- Debt service coverage (0.25x) (debt service coverage is included in the rate base for landing fees only to the extent that coverage is greater than amortization costs—e.g., if debt service in the rate base for landing fees was hypothetically \$40 million for a given Fiscal Year, then debt service coverage of 0.25x would be equal to \$10 million, but if amortization expenses were \$10 million or more then no debt service coverage would be included in the rate base)
- Build America Bonds debt service credit (if applicable)
- The M&O Reserve requirement attributable to the Airfield
- The net costs attributable to operating Van Nuys Airport

**Table IV-8**

Landing and Apron Fees  
Fiscal Years Ending June 30

	Budget		Projected				
	FY 2010 <sup>1/</sup>	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Landing Fee</b>							
Operating Expense	\$ 111,337,172	\$ 114,454,613	\$ 120,177,344	\$ 126,186,211	\$ 132,495,522	\$ 139,120,298	\$ 146,076,313
Amortization Expense	14,016,079	18,906,152	21,343,313	22,797,496	21,169,900	19,907,830	19,221,633
Senior Lien Debt Service	2,122,171	2,144,782	2,144,328	2,144,882	2,144,495	1,114,637	2,044,388
Subordinate Lien Debt Service	21,480,387	27,926,358	37,203,536	45,839,966	49,941,851	57,626,762	59,967,278
Credit for Build America Bonds	(3,883,454)	(7,200,241)	(7,173,218)	(7,089,088)	(6,955,650)	(6,817,532)	(6,674,569)
Debt Service Coverage <sup>2/</sup>	-	-	-	-	-	-	-
M&O Reserve	314,694	1,089,253	1,411,782	1,482,440	3,160,474	1,630,251	1,711,917
Van Nuys Reliever Net Costs	5,331,795	5,557,529	5,643,493	5,733,325	5,827,200	5,925,299	6,027,812
<b>TOTAL AIRFIELD REQUIREMENT</b>	<b>\$ 150,718,843</b>	<b>\$ 162,878,446</b>	<b>\$ 180,750,578</b>	<b>\$ 197,095,231</b>	<b>\$ 207,783,792</b>	<b>\$ 218,507,545</b>	<b>\$ 228,374,772</b>
Total Landed Weight (000's) <sup>3/</sup>	44,894,970	46,849,178	48,028,573	49,096,696	50,140,464	50,988,213	51,856,458
Landing Fee Rate <sup>4/</sup>	\$ 3.33	\$ 3.48	\$ 3.76	\$ 4.01	\$ 4.14	\$ 4.29	\$ 4.40
<b>Apron Fee</b>							
Operating Expense	\$ 25,909,912	\$ 26,635,390	\$ 27,967,159	\$ 29,365,517	\$ 30,833,793	\$ 32,375,483	\$ 33,994,257
Amortization Expense	2,605,110	2,607,342	2,926,330	3,104,545	4,694,304	4,248,640	4,191,596
Senior Lien Debt Service	425,216	429,625	429,559	429,649	429,610	253,444	576,572
Subordinate Lien Debt Service	441,155	1,349,158	3,525,063	3,525,433	6,725,063	15,487,441	15,472,052
Credit for Build America Bonds	(429,285)	(796,611)	(796,611)	(783,204)	(769,326)	(754,962)	(740,093)
Debt Service Coverage <sup>2/</sup>	-	-	-	-	-	-	-
M&O Reserve	73,234	253,486	328,544	344,987	735,492	379,385	398,390
Land Rental	-	-	-	-	-	-	-
<b>TOTAL APRON REQUIREMENT</b>	<b>\$ 29,025,343</b>	<b>\$ 30,478,390</b>	<b>\$ 34,380,044</b>	<b>\$ 35,986,928</b>	<b>\$ 42,648,936</b>	<b>\$ 51,989,431</b>	<b>\$ 53,892,772</b>
Passenger Landed Weight (000's) <sup>3/</sup>	39,319,283	42,749,364	43,809,189	44,763,653	45,711,826	46,488,742	47,298,271
Apron Fee Rate	\$ 0.74	\$ 0.71	\$ 0.78	\$ 0.80	\$ 0.93	\$ 1.12	\$ 1.14
<b>COMBINED RATE</b>	<b>\$ 4.07</b>	<b>\$ 4.19</b>	<b>\$ 4.55</b>	<b>\$ 4.82</b>	<b>\$ 5.08</b>	<b>\$ 5.40</b>	<b>\$ 5.54</b>

Notes:

1/ With the exception of Debt Service and credit for Build America Bonds in FY 2010, amounts reflected in this table are as reflected in FY 2010 Budget.

2/ Debt service coverage is 0.25x for Senior Lien Debt Service and 0.15x for Subordinate Lien Debt Service. Only debt service coverage above and beyond amortization expenses is included in the Landing Fee and Apron Fee calculation.

3/ Landed weight reflected for FY 2010 is budgeted amount; thereafter it is as projected in this report.

4/ For FY 2010, the FY 2010 Budget rate is reflected on this table. The calculated FY 2010 rate based on requirements reflected on this page would be approximately \$0.03 (three cents) higher than the budget rate of \$3.33 as a result of Series 2009 debt service reflected in FY 2010.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).

Because the Department establishes the Landing Fee based on a compensatory methodology using total airline landed weight as a divisor, the Airport does not expose itself to any risk of reduced landing fee revenues that might result from loss of airline service or other such disruptions.

Similarly, the Apron Fee is calculated by dividing the Apron requirement (comprised of the same cost items described above but allocable to the Apron cost center) by the total estimated maximum gross landed weight of the passenger airlines.

As shown in Table IV-8, the Landing Fee is projected to increase from the FY 2010 Budget rate of \$3.33 per thousand pound unit to \$4.40 per thousand pound unit in FY 2016. Overall, Landing Fees are projected to increase from approximately \$150.7 million in FY 2010 to approximately \$228.4 million in FY 2016.

The Apron Fee is projected to increase from the FY 2010 Budget rate of \$0.74 per thousand pound unit to \$1.14 per thousand pound unit in FY 2016. Overall, Apron Fees are projected to increase from approximately \$29.0 million in FY 2010 to approximately \$53.9 million in FY 2016.

The combined Landing and Apron Fee is projected to increase from the FY 2010 Budget rate of \$4.07 per thousand pound unit to \$5.54 per thousand pound unit in FY 2016.

#### **4.10.3 Passenger Airline Cost per Enplanement**

**Table IV-9** presents passenger airline cost per enplanement for actual FY 2008, estimated FY 2009, and projected FY 2010 through FY 2016. Passenger airline cost per enplanement was \$8.87 in FY 2008 and increased to \$10.77 in FY 2009. This increase was due in part to (1) an increase in terminal payments in FY 2009 related to various terminal payments realized in FY 2009 that were associated with terminal legal matters, (2) an increase in landing and apron fees, and (3) a decrease in enplaned passengers in FY 2009.

Based on the estimates and calculations described in the previous sections of this chapter, passenger airline cost per enplanement (in future dollars) is estimated to increase from \$11.33 in FY 2010 to \$19.71 in FY 2016. This increase can be attributed to increases in terminal, airfield, and apron-related capital costs (associated with the Series 2009 Projects and the Other Incorporated Projects); assumed growth in base M&O Expenses allocable to airline-related Cost Centers; and incremental M&O Expenses associated with various terminal improvements.

Table IV-9 also reflects estimates of current and future debt service amounts paid directly and independently (payments are not made to the Department) by certain LTL carriers in connection with certain outstanding bonds previously issued by the Regional Airports Improvement Corporation (RAIC). As noted on Table IV-9, it is estimated that such payments decrease starting in FY 2011 following the Department's planned acquisition of certain existing terminal improvements (see Sections 3.4 and 4.6 for more information).

### **4.11 Application of Pledged Revenues and Debt Service Coverage**

**Table IV-10** presents projected cash flow and debt service coverage ratios, respectively, for the Airport for FY 2010 through FY 2016. Included in this cash flow are Airline Revenues, other aviation revenues, various nonairline revenues, Investment Earnings, M&O Expenses, Debt Service, M&O Reserve deposits, and capital lease payments. Assumptions included in this table include the following:

**Table IV-9**  
Passenger Airline Cost per Enplaned Passenger  
Fiscal Years Ending June 30

	Actual		Preliminary Actual		Projected					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
<b>Airline Revenues</b>										
Airline Terminal Rentals (all terminals combined)	\$ 116,164,146	\$ 154,957,130	\$ 148,891,623	\$ 178,020,938	\$ 206,677,363	\$ 230,839,059	\$ 273,206,029	\$ 331,474,930	\$ 363,251,743	
Signatory Airline Landing and Apron Fees	171,822,321	162,108,164	179,744,186	193,356,836	215,130,621	233,082,159	250,432,728	270,496,976	282,267,544	
Total Airline Revenues	\$287,986,467	\$317,065,294	\$328,635,809	\$371,377,774	\$421,807,984	\$463,921,218	\$523,638,756	\$601,971,906	\$645,519,287	
Less Landing Fees - Cargo Airline	(11,905,260)	(11,990,769)	(12,715,364)	(13,651,673)	(15,226,134)	(16,694,924)	(17,628,444)	(18,530,234)	(19,299,612)	
Total Passenger Airline Revenues	\$276,081,207	\$305,074,525	\$315,920,445	\$357,726,101	\$406,581,850	\$447,226,294	\$506,010,312	\$583,441,672	\$626,219,676	
Enplanements	31,142,339	28,328,978	27,884,300	28,409,600	29,143,500	29,803,800	30,520,800	31,137,100	31,775,099	
<b>Passenger Airline Cost Per Enplanement</b>	<b>\$8.87</b>	<b>\$10.77</b>	<b>\$11.33</b>	<b>\$12.59</b>	<b>\$13.95</b>	<b>\$15.01</b>	<b>\$16.58</b>	<b>\$18.74</b>	<b>\$19.71</b>	
A-159 Estimated LTL Terminal Third Party Debt Service Payments <sup>1/</sup>	\$45,753,000	\$45,691,000	\$45,906,000	\$24,945,000	\$24,948,000	\$24,949,000	\$24,949,000	\$24,949,000	\$24,945,000	
Passenger Airline Revenues including Third Party Debt Service Payments above	\$321,834,207	\$350,765,525	\$361,826,445	\$382,671,101	\$431,529,850	\$472,175,294	\$530,959,312	\$608,390,672	\$651,164,676	
Per Enplanement	\$10.33	\$12.38	\$12.98	\$13.47	\$14.81	\$15.84	\$17.40	\$19.54	\$20.49	

Note:

1/ Includes approximations of debt service payments paid directly by T2, T4, T5, T6, T7, and T8 for outstanding third party debt related to terminal improvements at the Airport (on a Fiscal Year basis) through FY 2010. Thereafter, only T4 debt service payments are included. Payments are approximated based on outstanding principal amounts, scheduled sinking fund payments, and related interest rates. It should be noted that certain outstanding principal amounts are large bullet maturities.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).  
Prepared by: Ricondo & Associates, Inc. (October 2009).

**Los Angeles World Airports**  
**Los Angeles International Airport**

**Table IV-10**

Airport Cash Flow and Debt Service Coverage  
Fiscal Years Ending June 30

		Projected						
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Airline Terminal Rentals and Signatory Airline								
Landing and Apron Fees	Table 9	\$ 328,635,809	\$ 371,377,774	\$ 421,807,984	\$ 463,921,218	\$ 523,638,756	\$ 601,971,906	\$ 645,519,287
Aviation Revenues	Table 6	86,897,000	89,674,499	92,603,371	95,606,277	98,702,109	101,857,406	105,118,707
Concession Revenues	Table 6	262,634,078	280,051,138	296,025,785	311,701,513	337,651,815	354,831,086	372,914,385
Airport Sales & Services	Table 6	2,144,000	2,207,595	2,285,286	2,360,274	2,440,544	2,516,297	2,595,171
Miscellaneous Revenues	Table 6	6,321,000	10,105,400	10,183,820	10,196,511	10,165,737	10,134,773	10,105,912
Investment Earnings		21,788,761	24,887,166	31,762,328	37,972,134	44,171,388	48,005,516	51,971,255
<b>Total Pledged Revenues</b>	<b>[A]</b>	<b>\$ 708,420,648</b>	<b>\$ 778,303,573</b>	<b>\$ 854,668,573</b>	<b>\$ 921,757,926</b>	<b>\$ 1,016,770,350</b>	<b>\$ 1,119,316,984</b>	<b>\$ 1,188,224,717</b>
LAX M&O Expenses	<b>[B]</b>	\$ 555,692,065	\$ 577,950,442	\$ 606,797,014	\$ 637,084,715	\$ 705,354,951	\$ 740,567,698	\$ 777,541,683
<b>NET REVENUES</b>	<b>[C]=[A]-[B]</b>	<b>\$ 152,728,584</b>	<b>\$ 200,353,130</b>	<b>\$ 247,871,559</b>	<b>\$ 284,673,211</b>	<b>\$ 311,415,399</b>	<b>\$ 378,749,286</b>	<b>\$ 410,683,034</b>
Senior Aggregate Annual Debt Service <sup>1/</sup>	<b>[D]</b>	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
Subordinate Aggregate Annual Debt Service	<b>[E]</b>	29,312,465	33,994,165	45,447,249	54,084,048	61,385,563	77,832,853	80,157,980
M&O Reserve		1,496,423	6,452,915	8,362,895	8,780,692	19,792,190	10,208,510	10,719,110
Capital Leases		3,300,000	-	-	-	-	-	-
<b>Total - Other Requirements</b>	<b>[F]</b>	<b>\$ 54,554,271</b>	<b>\$ 97,401,451</b>	<b>\$ 125,177,895</b>	<b>\$ 156,681,791</b>	<b>\$ 208,521,941</b>	<b>\$ 250,867,757</b>	<b>\$ 253,663,538</b>
<b>NET FUNDS REMAINING</b>	<b>[G]=[C]-[F]</b>	<b>98,174,312</b>	<b>102,951,679</b>	<b>122,693,664</b>	<b>127,991,420</b>	<b>102,893,458</b>	<b>127,881,529</b>	<b>157,019,496</b>
<b>SENIOR BOND DEBT SERVICE COVERAGE</b>								
Pledged Revenues	<b>[A]</b>	\$ 708,420,648	\$ 778,303,573	\$ 854,668,573	\$ 921,757,926	\$ 1,016,770,350	\$ 1,119,316,984	\$ 1,188,224,717
LESS: Capital Lease Rental Credits	<b>[H]</b>	3,300,000	-	-	-	-	-	-
<b>PLEDGED REVENUES</b>	<b>[I]=[A]-[H]</b>	<b>\$ 705,120,648</b>	<b>\$ 778,303,573</b>	<b>\$ 854,668,573</b>	<b>\$ 921,757,926</b>	<b>\$ 1,016,770,350</b>	<b>\$ 1,119,316,984</b>	<b>\$ 1,188,224,717</b>
LAX M&O EXPENSES	<b>[B]</b>	\$ 555,692,065	\$ 577,950,442	\$ 606,797,014	\$ 637,084,715	\$ 705,354,951	\$ 740,567,698	\$ 777,541,683
<b>NET PLEDGED REVENUES</b>	<b>[J]=[I]-[B]</b>	<b>\$ 149,428,584</b>	<b>\$ 200,353,130</b>	<b>\$ 247,871,559</b>	<b>\$ 284,673,211</b>	<b>\$ 311,415,399</b>	<b>\$ 378,749,286</b>	<b>\$ 410,683,034</b>
SENIOR AGGREGATE ANNUAL DEBT SERVICE	<b>[D]</b>	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
<b>Senior Bond Debt Service Coverage <sup>2/</sup></b>	<b>[J] / [D]</b>	<b>7.31</b>	<b>3.52</b>	<b>3.47</b>	<b>3.03</b>	<b>2.45</b>	<b>2.33</b>	<b>2.52</b>
<b>SUBORDINATE BOND DEBT SERVICE COVERAGE</b>								
NET PLEDGED REVENUES	<b>[J]</b>	\$ 149,428,584	\$ 200,353,130	\$ 247,871,559	\$ 284,673,211	\$ 311,415,399	\$ 378,749,286	\$ 410,683,034
LESS: Senior Aggregate Annual Debt Service	<b>[D]</b>	20,445,384	56,954,371	71,367,751	93,817,051	127,344,188	162,826,393	162,786,448
<b>NET SUBORDINATE PLEDGED REVENUES</b>	<b>[K]=[J]-[D]</b>	<b>\$ 128,983,199</b>	<b>\$ 143,398,759</b>	<b>\$ 176,503,808</b>	<b>\$ 190,856,160</b>	<b>\$ 184,071,211</b>	<b>\$ 215,922,892</b>	<b>\$ 247,896,585</b>
SUBORDINATE AGGREGATE ANNUAL DEBT SERVICE	<b>[E]</b>	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,084,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980
<b>Subordinate Bond Debt Service Coverage <sup>2/</sup></b>	<b>[K] / [E]</b>	<b>4.40</b>	<b>4.22</b>	<b>3.88</b>	<b>3.53</b>	<b>3.00</b>	<b>2.77</b>	<b>3.09</b>
<b>TOTAL DEBT SERVICE COVERAGE</b>								
NET PLEDGED REVENUES	<b>[J]</b>	\$ 149,428,584	\$ 200,353,130	\$ 247,871,559	\$ 284,673,211	\$ 311,415,399	\$ 378,749,286	\$ 410,683,034
SENIOR AND SUBORDINATE BOND DEBT SERVICE	<b>[L]=[D]+[E]</b>	\$ 49,757,849	\$ 90,948,536	\$ 116,814,999	\$ 147,901,099	\$ 188,729,751	\$ 240,659,247	\$ 242,944,428
<b>Total Debt Service Coverage <sup>2/</sup></b>	<b>[J] / [L]</b>	<b>3.00</b>	<b>2.20</b>	<b>2.12</b>	<b>1.92</b>	<b>1.65</b>	<b>1.57</b>	<b>1.69</b>

<sup>1/</sup> Senior Aggregate Annual Debt Service is net of PFC Revenues committed to pay Senior Lien Debt Service.

<sup>2/</sup> No Transfers were assumed for purposes of calculating debt service coverage ratios.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).  
Prepared by: Ricondo & Associates, Inc. (October 2009).

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- Total Pledged Revenues include investment earnings which include earnings available from balances in the Airport Revenue Fund and various bond service funds. The interest income from available balances in the PFC Fund and various construction funds is restricted and unavailable for Pledged Revenues.
- Debt Service Coverage ratios as required by the Indentures are also presented in Table IV-10. Net Pledged Revenues together with any Transfer which shall not exceed 25% of Aggregate Annual Debt Service on the Senior Bonds are required to be at least 1.25 times the annual debt service requirement for Senior Bonds and 1.15 times for Subordinate Bonds. As presented, the Senior Bond debt service coverage ratio exceeds the 1.25 coverage requirement in each year of the Projection Period. In addition, the Subordinate Bond debt service coverage ratio is projected to also exceed the 1.15 coverage ratio requirements in each year of the projection period.<sup>1</sup> No Transfers were assumed for purposes of the analysis reflected in this report.

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<sup>1</sup> In Table IV-10, annual debt service presented represents estimated “actual” debt service payments required (rather than Maximum Annual Debt Service associated with certain additional bonds tests) so that cash flow for the Airport can be projected. For actual compliance with tests for the issuance of Bonds, see the separate certifications and/or Consultant Certifications.

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**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS 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, 2009 AND 2008**

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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

For the Years Ended June 30, 2009 and 2008

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)  
**LOS ANGELES INTERNATIONAL AIRPORT**

Annual Financial Report  
For the Years Ended June 30, 2009 and 2008

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**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

LOS ANGELES  
515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN DIEGO

## INDEPENDENT AUDITOR'S REPORT

The Members of the Board of Airport Commissioners  
City of Los Angeles, California

We have audited the accompanying basic 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 years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of LAWA's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAX's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 1, the financial statements presents only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2009 and 2008, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAX as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, LAX implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010 on our consideration of LAX'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 for the year ended June 30, 2009. 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* and should be considered in assessing the results of our audit.

*Macias Fini & O'Connell LLP*  
Certified Public Accountants

Los Angeles, California  
March 12, 2010

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
**LOS ANGELES INTERNATIONAL AIRPORT**  
 Statements of Net Assets  
 June 30, 2009 and 2008  
 (Dollars in thousands)

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 560,759	\$ 432,526
Investments with fiscal agents (Note 3)	101,879	101,780
Accounts receivable, net of allowance for uncollectible accounts of \$308 and \$768 in 2009 and 2008, respectively	8,732	11,041
Unbilled receivables	42,781	21,996
Accrued interest receivable	4,426	4,440
Due from other agencies (Note 8)	45,957	40,083
Prepaid expenses and inventories	5,217	4,806
Total unrestricted current assets	769,751	616,672
Restricted current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	691,212	791,178
Investments with fiscal agents (Note 3)	186,005	27,470
Accrued interest receivable	3,985	3,945
Passenger facility charges receivable (Note 13)	16,065	16,917
Total restricted current assets	897,267	839,510
Total current assets	1,667,018	1,456,182
Noncurrent assets:		
Capital assets (Note 4 and 12):		
Land and air easements	619,766	619,766
Buildings, improvements, and equipment	1,775,169	1,709,382
Leased property	184,423	184,423
Intangible assets	5,918	-
Less accumulated depreciation and amortization	(1,127,460)	(1,041,491)
Construction work in process	1,223,322	783,332
Net capital assets	2,681,138	2,255,412
Deferred bond issuance expenses	7,001	2,189
Total noncurrent assets	2,688,139	2,257,601
Total assets	\$ 4,355,157	\$ 3,713,783

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
**LOS ANGELES INTERNATIONAL AIRPORT**  
 Statements of Net Assets (Continued)  
 June 30, 2009 and 2008  
 (Dollars in thousands)

	<b>2009</b>	<b>2008</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Contracts and accounts payable	\$ 91,175	\$ 102,994
Employee benefits and insurance claims payable (Notes 6 and 10)	7,846	5,753
Salaries payable	5,121	5,117
Commercial paper notes payable (Note 5)	96,989	330,228
Current obligations under capital leases (Notes 6 and 12)	1,311	1,197
Accrued interest payable	26	491
Other liabilities (Notes 6 and 15)	1,946	804
Current liabilities payable from unrestricted assets	204,414	446,584
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions	-	165,317
Bonds payable, net of deferred charges and credits of \$565 and \$878 in 2009 and 2008, respectively (Note 5)	99,355	14,158
Contracts and accounts payable	1,749	5,366
Accrued bond interest payable	6,190	877
Current liabilities payable from restricted assets	107,294	185,718
Total current liabilities	311,708	632,302
Long-term liabilities:		
Bonds payable, net of deferred charges and credits of (\$4,615) and \$5,697 in 2009 and 2008, respectively (Note 5)	930,990	198,052
Obligations under capital leases (Notes 6 and 12)	48,207	49,518
Employee benefits and insurance claims payable (Notes 6 and 10)	44,840	41,291
Liability for environmental/hazardous cleanup	12,783	-
Other liabilities (Notes 6 and 15)	56,501	114,384
Total long-term liabilities	1,093,321	403,245
Total liabilities	1,405,029	1,035,547
Net assets:		
Invested in capital assets, net of related debt	1,613,166	1,766,228
Restricted:		
Capital projects	180	174
Debt service	179,816	26,688
Special purpose	669,612	641,089
Central utility plant	39,721	-
Unrestricted	447,633	244,057
Total net assets	\$ 2,950,128	\$ 2,678,236

See accompanying notes to 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 Assets  
 For the years ended June 30, 2009 and 2008  
 (Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Aviation revenue:		
Landing fees	\$ 164,489	\$ 171,822
Building rentals	185,457	146,206
Other aviation revenue	59,528	61,932
Concession revenue	265,182	275,659
Airport sales and services	2,229	2,577
Miscellaneous revenue	2,366	2,030
Total operating revenue	<u>679,251</u>	<u>660,226</u>
Operating expenses:		
Salaries and benefits	298,612	291,015
Contractual services	148,627	151,155
Materials and supplies	38,738	37,870
Administrative expense	1,951	1,665
Utilities	29,018	27,674
Advertising and public relations	7,967	8,286
Net other operating expense/(revenue)	<u>(2,002)</u>	<u>67</u>
Total operating expenses before depreciation and amortization	<u>522,911</u>	<u>517,732</u>
Income from operations before depreciation and amortization	156,340	142,494
Depreciation and amortization	<u>(86,927)</u>	<u>(83,908)</u>
Operating income	<u>69,413</u>	<u>58,586</u>
Nonoperating revenue (expenses):		
Passenger facility charges (Note 13)	103,982	116,705
Interest income	53,602	49,477
Change in fair value of investments	2,723	22,207
Interest expense	(20,483)	(18,278)
Bond expense	(455)	(428)
Other nonoperating revenue, net	<u>(24,661)</u>	<u>1,390</u>
Total nonoperating revenue, net	<u>114,708</u>	<u>171,073</u>
Income before contributions and transfers	184,121	229,659
Capital grant contributions (Note 14)	12,457	34,555
TSA contributions (Note 14)	75,784	52,330
Inter-agency transfers	<u>(470)</u>	<u>(7,188)</u>
Change in net assets	271,892	309,356
Net assets, beginning of year	<u>2,678,236</u>	<u>2,368,880</u>
Net assets, end of year	<u>\$ 2,950,128</u>	<u>\$ 2,678,236</u>

See accompanying notes to 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 years ended June 30, 2009 and 2008  
 (Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from customers	\$ 581,619	\$ 676,397
Cash received in protest from customers	22,322	132
Payments for goods and services	(242,854)	(226,983)
Payments to employees	(292,966)	(275,506)
Other receipts (payments), net	<u>(13,972)</u>	<u>6,633</u>
Net cash provided by operating activities	<u>54,149</u>	<u>180,673</u>
Cash flows from noncapital financing activities:		
Inter-agency transfer out	<u>(470)</u>	<u>(7,188)</u>
Net cash used by noncapital financing activities	<u>(470)</u>	<u>(7,188)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(505,381)	(476,317)
Receipts from passenger facility charges	104,834	118,086
Net principal received (paid) on bonds	818,792	(12,415)
Interest paid on bonds and commercial paper	(19,328)	(18,993)
Bond and commercial paper issuance cost paid	(5,267)	(112)
Bond payment liability set aside (returned) as escheated funds	94	(19)
Principal paid on capital leases	(1,197)	(1,140)
Interest paid on capital leases	(992)	(1,754)
Cash transferred from (to) fiscal agent	(158,535)	58
Net receipts (payments) for commercial paper	(233,239)	151,483
Federal grants and TSA receipts	<u>84,997</u>	<u>86,885</u>
Net cash provided (used) by capital and related financing activities	<u>84,778</u>	<u>(154,238)</u>
Cash flows from investing activities:		
Increase in fair value of investments	2,723	22,207
Interest received	52,503	53,992
Cash collateral paid under securities lending transactions	<u>(165,317)</u>	<u>(21,016)</u>
Net cash provided (used) by investing activities	<u>(110,091)</u>	<u>55,183</u>
Net increase cash and cash equivalents	28,366	74,430
Cash and cash equivalents, beginning of year	<u>1,325,484</u>	<u>1,251,054</u>
Cash and cash equivalents, end of year	<u>\$ 1,353,850</u>	<u>\$ 1,325,484</u>
The following is a reconciliation of cash and cash equivalents		
to the statement of net assets:		
Cash and pooled investments held by the City Treasurer - unrestricted	\$ 560,759	\$ 432,526
Unrestricted investments held with fiscal agents	101,879	101,780
Cash and pooled investments held by the City Treasurer - restricted	<u>691,212</u>	<u>791,178</u>
	<u>\$ 1,353,850</u>	<u>\$ 1,325,484</u>

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
**LOS ANGELES INTERNATIONAL AIRPORT**  
 Statements of Cash Flows (Continued)  
 For the years ended June 30, 2009 and 2008  
 (Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 69,413	\$ 58,586
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	86,927	83,908
Change in provision for uncollectible accounts	(460)	(861)
Other expenses, net	(24,682)	(218)
Changes in assets and liabilities:		
Accounts receivable	2,769	4,844
Unbilled receivables	(17,541)	11,327
Due from other agencies	(5,874)	(8,083)
Prepaid expenses and inventories	(411)	(1,165)
Contracts and accounts payable	(18,555)	17,162
Employee benefits and insurance claims payable	5,642	14,609
Salaries payable	4	899
Other liabilities	(43,083)	(335)
Total adjustments	<u>(15,264)</u>	<u>122,087</u>
Net cash provided by operating activities	<u>\$ 54,149</u>	<u>\$ 180,673</u>
Noncash capital and financing activities:		
Acquisition of capital assets included in accounts payable	\$ 47,572	\$ 44,453

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)  
**LOS ANGELES INTERNATIONAL AIRPORT**

Notes to Financial Statements

June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**(a) Organization and Reporting Entity**

The financial statements of the Los Angeles International Airport (LAX) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) operates LAX. 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 Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), Van Nuys Airport (VNY) and LA/Palmdale Regional Airport (PMD) and collectively, the Airport System.

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 use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The financial statements presented herein represent the financial position and changes in financial position and cash flows of LAX only and are not intended to present fairly the financial position, changes in financial position, or cash flows of LAWA or the City in conformity with GAAP.

**(b) Basis of Accounting**

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting. 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 airport in the Airport System. Only the funds of LAX are included in the reporting entity. Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City. LAX applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. LAX has elected not to follow the private sector guidance issued after November 30, 1989.

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**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(c) *Cash and Pooled Investments***

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAX's outstanding bonds. In order to maximize investment return, LAX pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAX's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost.

Interest income arising from such cash and pooled investments is apportioned to LAX based on the relationship of LAX's respective daily cash balances to aggregate cash and pooled investments.

**(d) *Accounts Receivable and Unbilled Receivables***

LAX recognizes revenue in the period earned. Receivables aged beyond 90 days are put into the collection process and then referred after 120 days to LAX's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set as a reserve by LAX policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense. Unbilled receivable 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 period might not get processed through the billing system for up to sixty days into the next fiscal year. For fiscal year 2008, certain customer accounts with credit balances were offset to Unbilled Receivables.

**(e) *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. Reserves for claims and litigation are recorded as other long-term liabilities.

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**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(f) *Securities Lending***

The City Treasurer engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the accompanying financial statements (see Note 3).

**(g) *Investments with Fiscal Agents***

LAX has funds that are held by fiscal agents and pledged to the payment or security of the 1995, 2002, 2003 and 2008 bonds (see Note 3).

**(h) *Federal Grants***

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as capital grant contributions in the statements of revenues, expenses and changes in net assets.

**(i) *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. Such cost includes, where appropriate, net interest capitalized as part of the cost of construction of capital assets. 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.

**(j) *Landing Fees***

Landing fee rates are used to determine what fees are to be charged to the airlines each time that a qualified aircraft lands at LAX. The type of landing fee method applied by LAX is compensatory. Under this fee methodology, the fees charged by LAX for a facility or service are based on costs attributable only to that facility or service. For example, the landing fees charged for using the airfield and apron are based on LAX's actual costs of operating the airfield and apron. For control purposes, the landing fees are calculated twice each fiscal year.

**(k) *Concession Revenue***

Concession revenue is generated through LAX concessionaires or tenants, who pay monthly fees for using airport facilities to offer their goods and services to the general public and air traveling community. Payments to LAX are based on negotiated agreements with concessionaires to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to concession 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 determines when accruals are required for each tenant.

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**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

***(l) Depreciation and Amortization***

Depreciation expense includes amortization of assets under capital leases. Amortization of assets under capital leases is based on the shorter of the useful life of the asset or the lease term. 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; landplane ports, 10 to 35 years; and equipment, 5 to 20 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

***(m) Preliminary Costs of Capital Projects***

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.

***(n) Operating and Nonoperating Revenue and Expenses***

Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. LAX derives operating revenue 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 related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.

***(o) Interest Expense***

Interest expense was \$20,483,000 for the year ended June 30, 2009 and \$18,278,000 for the year ended June 30, 2008. LAX also capitalizes interest expense (net of interest earnings) for capital projects during construction. In fiscal year 2009, \$28,419,000 interest expense, net of \$581,000 interest earnings, for capital projects was capitalized. There was no capitalized interest expense for fiscal year 2008 because all outstanding bonds then were used for refunding purposes.

***(p) Employee Benefits***

LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave is recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave.

***(q) Statement of Cash Flows***

Cash and cash equivalents as reported in the statements of cash flows include short-term, highly liquid investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase. Cash and investments (both restricted and unrestricted) held by the City Treasurer are, in effect, demand deposits and are, therefore, considered to be cash equivalents.

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June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(r) 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 the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

**(s) Reclassifications**

Certain reclassifications have been made to fiscal year 2008 amounts in order to conform to the fiscal year 2009 presentation.

**(t) Inventory**

LAX's inventory consists primarily of general office supplies and is recorded at cost on a first-in, first-out basis.

**(u) Bond Premiums, Discounts, and Issuance Costs**

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on extinguishment. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**(v) Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. 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 Assets* – This category presents 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, 2009 and 2008, net assets of \$528.1 million and \$444.2 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAX, not restricted for any project or other purpose.



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**(2) Implementation of New Accounting Standards**

**(a) Governmental Accounting Standards Board (GASB) Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations.***

Effective from July 1, 2007, LAX adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement establishes standards for accounting and financial reporting for pollution remediation obligations. This Statement establishes a framework for recognition and measurement of pollution remediation liabilities that incorporates the following interrelated features:

- Obligating events;
- Components and benchmarks; and
- Measurement, included cash flow technique.

The implementation of GASB 49 did not have a significant impact on LAX as of July 1, 2008 and 2007 or for the fiscal year ended June 30, 2008. For the year ended June 30, 2009, LAX recorded \$12.8 million of pollution remediation obligations and has reported the amount as a liability for environmental/hazardous cleanup.

**(b) GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets***

Issued in June 2007, this Statement establishes standards for accounting and financial reporting for intangible assets, for all states and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. LAX has early implemented GASB 51 beginning in fiscal year 2009. LAX purchased intangible assets in the amount of \$5.9 million in July 2008.

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June 30, 2009 and 2008

**(3) Cash and Investments**

**(a) Cash and Pooled Investments**

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period. Investments in the City Treasury 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.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (the Policy) to the City Council. The policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53636 and 16429.1.

The Investment Advisory Committee (IAC) reviews investment performance and strategy. The IAC is composed of the City Treasurer as chairperson, the Office of the Mayor, City Controller, Chief Legislative Analyst, City Administrative Officer, Director of Office of Finance, and an external investment advisor.

The City Treasurer manages the General and Special Investment Pool. Refer to the City's basic financial statements included in its comprehensive annual financial report for complete disclosures related to the City's General and Special Investment Pools.

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June 30, 2009 and 2008

**(3) Cash and Investments (continued)**

**(b) Investments Authorized by the City's Investment Policy**

The table below identifies the investment types that are authorized for LAX by the City's investment policy for the General Pool. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk.

	<u>Maximum maturities</u>	<u>Maximum concentration</u>
U.S. Treasury and federal agency securities	5 years	100%
Bonds issued by local agencies	5 years	100
Registered state warrants and municipal notes	5 years	100
Bankers' acceptances	180 days	40
Commercial paper	270 days	40
Negotiable certificates of deposit or time deposits	180 days	30
Yankee certificates of deposit	180 days	30
CRA certificates of deposit or time deposits	180 days	30
Repurchase agreements	32 days	15
Reverse repurchase agreements	92 days	5*
Medium-term corporate notes	5 years	30
Shares of a money market mutual fund	N/A	20
Securities lending program	5 years	20*
Asset-backed securities	5 years	20**
Collateralized mortgage obligations	5 years	20**
Local agency investment fund (LAIF)		(per state limit)***

\* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.

\*\* Combined total for mortgage-backed and asset-backed securities.

\*\*\* Current account limit is \$40 million.

*Credit Risk.* The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers' minimum credit ratings shall be Standard & Poor's Corporation (S&P) A-1/A or Moody's Investor Services (Moody's) P-1/A2 and, if available, Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating.

At June 30, 2009 and 2008, LAX had \$1,251,971,000 and \$1,223,704,000, respectively, invested with the City Pool, which represents approximately 21.50% and 21.42%, respectively, of the City Treasury's General Investment Pool. Refer to the City's basic financial statements for complete disclosures of the investments in the pool and related interest rate risk, credit risk, and concentration of credit risk for the City's General Investment Pool.

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June 30, 2009 and 2008

**(3) Cash and Investments (continued)**

**(c) *City of Los Angeles Securities Lending Program***

The Securities Lending Program (the 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 investments 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 General Investment Pool (the Pool) shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In accordance with the California Government 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 shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

Due to the extreme volatility in the financial markets over the past twelve months resulting from the worst global financial crisis, and counterparty risks, the City temporarily suspended its SLP in November 2008. The City, however, continues to monitor the financial markets and will re-enter the SLP market when deemed appropriate.

LAX's share of cash collateral received and corresponding liability aggregated approximately \$0 and \$165,317,000 at June 30, 2009 and 2008, respectively. During the fiscal year, collateralizations on all loaned securities were within the required 102% 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 year. There was no credit risk exposure to the City 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.

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**(3) Cash and Investments (continued)**

**(d) Investments with Fiscal Agents**

LAX also maintains investments with fiscal agents that are pledged to the payment or security of LAX's 1995, 2002, 2003 and 2008 bonds. These investments are also generally invested in short-term investments under the control of the fiscal agents.

The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar investment objectives. These investments are restricted as to their use and have maturities designed to coincide with required bond retirement payments.

These investments are uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAWA's name.

LAX's investments with fiscal agents were as follows (in thousands):

<u>Description</u>	<u>2009</u>	<u>2008</u>
Money Market Funds	\$ 244,184	\$ 109,696
U.S. Treasury Securities	43,700	19,554
Total	<u>\$ 287,884</u>	<u>\$ 129,250</u>

*Concentration of Credit Risk:* The money market funds are comprised of investments in the First American Treasury Obligation Fund and Federated U.S. Treasury Cash Reserve Fund and the entire U.S. Treasury Securities are invested in U.S. Treasury Bills.

*Interest Rate Risk:* The maturity date of the U.S. Treasury Bills invested is less than one year and the weighted average maturity of the money market funds is as follows:

Federated U.S. Treasury Cash Reserve Fund – 51 days

First American Treasury Obligation Fund – 49 days

*Credit Risk:*

First American Treasury Obligation Fund – Aaa (Moody's) and AAA (Standard & Poor's)

Federated U.S. Treasury Cash Reserve Fund – Aaa (Moody's) and AAA (Standard & Poor's)

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**(4) Changes in Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2009</u>
Capital assets, not depreciated:				
Land	\$ 575,420	\$ -	\$ -	\$ 575,420
Air easements	44,346	-	-	44,346
Intangible asset - ERC*	-	5,918	-	5,918
Construction work in process	783,332	457,849	(17,859)	1,223,322
Total capital assets, not depreciated	<u>1,403,098</u>	<u>463,767</u>	<u>(17,859)</u>	<u>1,849,006</u>
Capital assets, depreciated:				
Buildings	521,839	-	-	521,839
Improvements	1,032,936	48,127	-	1,081,063
Equipment and vehicles	154,607	21,304	(3,644)	172,267
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>1,893,805</u>	<u>69,431</u>	<u>(3,644)</u>	<u>1,959,592</u>
Less accumulated depreciation and amortization:				
Buildings	(300,890)	(13,036)	-	(313,926)
Improvements	(528,800)	(60,714)	-	(589,514)
Equipment and vehicles	(111,646)	(8,626)	958	(119,314)
Leased property	(100,155)	(4,551)	-	(104,706)
Total accumulated depreciation and amortization	<u>(1,041,491)</u>	<u>(86,927)</u>	<u>958</u>	<u>(1,127,460)</u>
Total capital assets depreciated, net	<u>852,314</u>	<u>(17,496)</u>	<u>(2,686)</u>	<u>832,132</u>
Total capital assets, net	<u>\$ 2,255,412</u>	<u>\$ 446,271</u>	<u>\$ (20,545)</u>	<u>\$ 2,681,138</u>

\*Environmental Reduction Credits

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**(4) Changes in Capital Assets (continued)**

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	<b>Balance at July 1, 2007</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2008</b>
Capital assets, not depreciated:				
Land	\$ 575,420	\$ -	\$ -	\$ 575,420
Air easements	44,346	-	-	44,346
Construction work in process	355,555	435,395	(7,618)	783,332
Total capital assets, not depreciated	<u>975,321</u>	<u>435,395</u>	<u>(7,618)</u>	<u>1,403,098</u>
Capital assets, depreciated:				
Buildings	521,799	40	-	521,839
Improvements	998,197	34,739	-	1,032,936
Equipment and vehicles	145,784	11,849	(3,026)	154,607
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>1,850,203</u>	<u>46,628</u>	<u>(3,026)</u>	<u>1,893,805</u>
Less accumulated depreciation and amortization:				
Buildings	(287,845)	(13,045)	-	(300,890)
Improvements	(470,150)	(58,650)	-	(528,800)
Equipment and vehicles	(106,212)	(7,663)	2,229	(111,646)
Leased property	(95,605)	(4,550)	-	(100,155)
Total accumulated depreciation and amortization	<u>(959,812)</u>	<u>(83,908)</u>	<u>2,229</u>	<u>(1,041,491)</u>
Total capital assets depreciated, net	<u>890,391</u>	<u>(37,280)</u>	<u>(797)</u>	<u>852,314</u>
Total capital assets, net	<u>\$ 1,865,712</u>	<u>\$ 398,115</u>	<u>\$ (8,415)</u>	<u>\$ 2,255,412</u>

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**(5) Bonds and Commercial Paper Payable**

LAX issued revenue bonds in 1995, 2002, 2003 and 2008 for various airport improvement projects and to refund previously issued debt. LAX's revenues are pledged as security for the bonds. All revenues used specifically for repayment of bonds for LAX are defined in LAWA's Bond Official Statement as Net Pledged Revenues. Net Pledged Revenues means, for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expense.

The 1995 Revenue Bonds were issued in the amount of \$365,855,000 to finance capital improvements and to refund previously issued debt. The bonds are limited obligations of LAWA payable from and secured by a pledge of LAX revenues.

In fiscal year 2003, LAX issued a total of \$217,175,000 of revenue bonds to fund LAX airport improvement projects and advance refund a portion of the 1995 bonds.

LAX issued three series of bonds totaling \$853,300,000 in fiscal year 2009. Total bond issuance costs were \$5,375,000 and the net discount amounted to \$9,861,000. The proceeds from the sale of these bonds were used to reimburse LAWA for previous capital expenditures, pay for future capital expenditures, repay outstanding commercial paper notes and refund the balance of the LAX 1995 D bonds. LAX's revenues are pledged as security for the bonds.

LAWA used cash from the LAX revenue fund to defease the balance of the LAX 1995 C bonds on July 15, 2008.

In September of 2008, bond proceeds were used to repay the balance of the Series A and Series B commercial paper notes leaving only the Series C notes outstanding. These Series C commercial paper proceeds are being used to fund deposits that have been placed into revocable escrow accounts used as an interim step toward maintaining the required IRS non-taxable definition for long term financing of defeasing outstanding airline debt issued to finance terminal improvements at LAX.

As of June 30, 2009, LAX had \$81.1 million outstanding in variable rate bonds. These bonds consisted of the LAX 2002 C1 bonds with a final maturity of 2020, the LAX 2002 C2 bonds with a final maturity of 2020 and the LAX 2003 A bonds with a final maturity of 2016. Pursuant to a Reimbursement Agreement for the LAX 2002 C1 - C2 bonds and the LAX 2003 A bonds, both dated March 1 2005, LAX obtained credit enhancement and liquidity support for these variable rate bonds in the form of irrevocable transferable direct-pay letters of credit issued by BNP Paribas. The liquidity facility provided by BNP Paribas covers a par amount of up to \$81.1 million plus interest. If LAX is unable to repay principal and interest on bonds funded by BNP Paribas, it would extend a term loan to LAX that would be repaid within three years. The facility fee rate is .275% per annum and LAX is required to pay a drawing fee of \$200 for each drawing under the letters of credit. The letters of credit for the bonds expire on March 10, 2010. Accordingly, these bonds are classified as current liabilities in the statement of net assets.



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**(5) Bonds and Commercial Paper Payable (continued)**

Pursuant to a Reimbursement Agreement dated April 1, 2007, LAWA obtained credit enhancement and liquidity support for LAX's \$500 million commercial paper program in the form of an irrevocable transferable direct-pay letter of credit issued by Citibank and State Street Bank and Trust Company. This liquidity facility covers an amount of up to \$500 million plus interest. The letter of credit fee rate is .12% per annum and the commitment fee rate is .10% per annum. LAX is required to pay a drawing fee of \$350 for each draw under the letter of credit. The letter of credit for the commercial paper program expires on April 1, 2012.

Outstanding revenue bonds as of June 30, 2009 mature in varying amounts through 2038. Bond and commercial paper notes activity for the year ended June 30, 2009 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2009</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 8,965	\$ -	\$ (8,965)	\$ -	\$ -
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	1.10 *	57,400	-	-	57,400	57,400
Issues of 2003 Series A	1.01*	23,700	-	-	23,700	23,700
Issues of 2003 Series B	4.00 to 5.00	83,120	-	(11,780)	71,340	12,395
Issues of 2008 Series A	3.75 to 5.50	-	602,075	-	602,075	-
Issues of 2008 Series B	3.00 to 5.00	-	7,875	(595)	7,280	1,070
Issues of 2008 Series C	3.00 to 5.25	-	243,350	(3,200)	240,150	4,225
Subtotal		<u>205,635</u>	<u>853,300</u>	<u>(24,540)</u>	<u>1,034,395</u>	<u>98,790</u>
Commercial paper Series A	1.49 *	158,400	-	(158,400)	-	-
Commercial paper Series B	1.53*	75,000	-	(75,000)	-	-
Commercial paper Series C	1.70*	96,828	161	-	96,989	96,989
Deferred charges and credits, net	N/A	6,575	-	(10,625)	(4,050)	565
Total		<u>\$ 542,438</u>	<u>\$ 853,461</u>	<u>\$ (268,565)</u>	<u>\$ 1,127,334</u>	<u>\$ 196,344</u>

\* Average variable rate.

Bonds and commercial paper notes activity for the year ended June 30, 2008 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 10,195	\$ -	\$ (1,230)	\$ 8,965	\$ 1,500
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	2.75*	57,400	-	-	57,400	-
Issues of 2003 Series A	2.59*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	94,305	-	(11,185)	83,120	11,780
Subtotal		<u>218,050</u>	<u>-</u>	<u>(12,415)</u>	<u>205,635</u>	<u>13,280</u>
Commercial paper Series A	2.01*	30,000	128,400	-	158,400	158,400
Commercial paper Series B	1.41*	-	75,000	-	75,000	75,000
Commercial paper Series C	4.26*	148,745	1,199	(53,116)	96,828	96,828
Deferred charges and credits, net	N/A	7,499	-	(924)	6,575	878
Total		<u>\$ 404,294</u>	<u>\$ 204,599</u>	<u>\$ (66,455)</u>	<u>\$ 542,438</u>	<u>\$ 344,386</u>

\* Average variable rate.

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**(5) Bonds and Commercial Paper Payable (continued)**

LAX's future annual debt service requirements as of June 30, 2009, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2010	\$ 98,790	\$ 49,625	\$ 148,415
2011	28,585	48,718	77,303
2012	29,880	47,418	77,298
2013	31,270	46,034	77,304
2014	32,760	44,540	77,300
2015–2019	129,165	202,898	332,063
2020–2024	120,950	169,336	290,286
2025 - 2029	156,395	133,891	290,286
2030 - 2034	202,350	87,935	290,285
2035 - 2038	204,250	27,979	232,229
Total	<u>\$ 1,034,395</u>	<u>\$ 858,374</u>	<u>\$ 1,892,769</u>

**(6) Other Long-Term Liabilities**

Other long-term liabilities' activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2009</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 47,044	\$ 5,642	\$ -	\$ 52,686	\$ 7,846
Obligations under capital leases	50,715	1,311	(2,508)	49,518	1,311
Liability for environmental/ hazardous cleanup	-	12,783	-	12,783	-
Other liabilities	115,188	122,532	(179,273)	58,447	1,946
Total	<u>\$ 212,947</u>	<u>\$ 142,268</u>	<u>\$ (181,781)</u>	<u>\$ 173,434</u>	<u>\$ 11,103</u>

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**(6) Other Long-Term Liabilities (continued)**

Other long-term liabilities' activity for the year ended June 30, 2008 was as follows (in thousands):

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 32,435	\$ 14,609	\$ -	\$ 47,044	\$ 5,753
Obligations under capital leases	51,855	-	(1,140)	50,715	1,197
Other liabilities	115,523	2,947	(3,282)	115,188	804
Total	<u>\$ 199,813</u>	<u>\$ 17,556</u>	<u>\$ (4,422)</u>	<u>\$ 212,947</u>	<u>\$ 7,754</u>

**(7) Related Party Transactions**

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAX. The payments for these services, included in operating expenses for the years ended June 30, 2009 and 2008, were \$52,369,000 and \$51,727,000, respectively. In addition, LAX collects parking taxes on behalf of the City of Los Angeles. For the years ended June 30, 2009 and 2008, parking taxes collected and remitted to the City of Los Angeles were \$6,755,000 and \$7,457,000, respectively.

**(8) Inter-Airport Funding Activity**

LAX controls the expense disbursement process for each of LAWA's other airports: Ontario, Van Nuys and Palmdale. LAX supports the payment activities for these airports by first processing their approved budgeted expenditures and then transferring this impact to the airport that ordered the goods and services in the form of an inter-airport cash transfer. The requesting airport then records the expenditure to the appropriate classification on its books of account at the time it reimburses LAX for the activity. Whenever a specific airport is unable to make a cash transfer to LAX, due to a lack of funds, the amount is then recorded as a Due To Other Agency transaction. Conversely, LAX will record the same amount owed to it as a Due from Other Agency transaction. As a result of this process, Palmdale Airport has accumulated a total of \$45,957,000 and \$40,083,000 in Due To Other Agency balance owed to LAX at June 30, 2009 and 2008, respectively.

Upon combining the statement of net assets of all four airports that comprise LAWA, the Due From Other Agency asset balance on LAX's statement of net assets fully offset against the Due To Other Agency liability on the respective statement of net assets of Palmdale Airport. The amount of elimination for this balance at June 30, 2009 is \$45,957,000. With Palmdale Airport being part of the LAWA airport system, there is no near-term expectation for repayment of the Due To Other Agency balances to LAX.

**(9) Retirement System**

**(a) Retirement Plan Description**

All full-time employees of LAX are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS) of the City of Los Angeles, California, a single employer defined benefit pension plan. LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS. LAX makes contributions to LACERS for its pro rata share of retirement costs attributable to its employees.

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**(9) Retirement System (continued)**

**(a) Retirement Plan Description (continued)**

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age.

**(b) Actuarially Determined Contribution Requirements and Contributions Made**

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. LAX's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS, which were based on LAX's salaries relative to total salaries for LAWA as a whole, were approximately \$37,900,000 (100% of ARC), \$39,700,000 (100% of ARC) and \$34,600,000 (100% of ARC) for the years ended June 30, 2009, 2008, and 2007, respectively. The ARCs for the years ended June 30, 2009 and 2008 were based on actuarial valuations performed as of June 30, 2007 and 2006, respectively.

The City's annual pension cost, the percentage of annual pension cost contributed to the plans, and the net pension obligation for fiscal year 2008-09 and the two preceding years for each of the plans are as follows (dollars in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
LACERS	06/30/07	\$ 276,191	86%	\$ (81,723)
	06/30/08	286,367	100%	(79,972)
	06/30/09	272,331	100%	(77,749)

The City allocated a pro rata share of its net pension obligation to LAWA and the amounts recorded at June 30, 2009 and 2008 were \$10,118,000 and \$9,459,000, respectively. The amounts allocated to LAX equaled the amounts allocated to LAWA.

**(c) Funded Status of LACERS**

For complete information related to the funded status of LACERS and contribution information, refer to LACERS' basic financial statements. The LACERS' basic financial statements can be obtained from LACERS, 360 East Second Street, 2<sup>nd</sup> Floor, Los Angeles, CA 90012.

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**(9) Retirement System (continued)**

**(d) Other Postemployment Benefits (OPEB)**

LAX, as a participant in LACERS, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. LACERS is advance funding the retiree health benefits on an actuarial-determined basis.

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2008-09 and the two preceding years for the plan are as follows (dollars in thousands):

	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Asset (Obligation)</u>
LACERS	06/30/07	\$ 115,233	100%	\$ -
	06/30/08	108,848	100%	-
	06/30/09	95,122	100%	-

For complete information related to the funded status of LACERS and contribution information, refer to LACERS' basic financial statements. The LACERS' basic financial statements can be obtained from LACERS, 360 East Second Street, 2<sup>nd</sup> Floor, Los Angeles, CA 90012.

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**(10) Self-Insurance**

LAX is part of the City's self-administered and self-funded workers' compensation system. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The liability for workers' compensation claims includes a provision for incurred but not reported claims and loss adjustment expenses. Payment to the Workers' Compensation Division of the City Personnel Department has been made based on cash payments for workers' compensation claims. LAX's accrued total liability for workers' compensation has been based on the results of an actuarial study and has been allocated to LAX based on a ratio of LAX salaries to total LAWA salaries. A reconciliation of the accrued workers' compensation liability (included in employee benefits and insurance claims payable) is as follows (in thousands):

Liability at June 30, 2007	\$	30,280
Provisions for claims		5,918
Claim payments		(4,591)
		31,607
Liability at June 30, 2008		31,607
Provisions for claims		3,862
Claim payments		-
		35,469
Liability at June 30, 2009		35,469
Current portion		(4,217)
		31,252
Long-term liability at June 30, 2009, net of current portion	\$	31,252

The LAWA Risk Management Division oversees a sophisticated, self-administered Risk and Claims Management program. Claims are administered in-house by a dedicated team of Analysts who will manage and direct a claim/lawsuit until resolved. LAWA Risk Management (in cooperation with its contracted broker of record) is responsible for placing insurance policies up to the policy limits of \$1.0 billion for General Liability coverage and \$1.25 billion for War and Terrorism coverage. Additional lines of insurance include General Property Insurance, with policy limits of \$1.5 billion, Boiler and Machinery coverage and Earthquake insurance. These insurance limits are in excess of LAWA's self-insured retention (deductible) which for general liability insurance is \$10,000/claim with a \$300,000 annual aggregate and \$100,000 per occurrence and annual aggregate on Property insurance. The deductible for both Property and Liability insurance as well as the purchase of all insurance policies is budgeted and funded annually by the Risk Management Division. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAWA also continues to maintain a catastrophic loss fund that is held in reserve to fund claims or losses that may conceivably breach insurance policy limits. The transference of risk exposure through the procurement of liability and property insurance has proven to be a very effective program for LAWA in its management of risk.

For other types of claims, commercial insurance is used when it is either legally or contractually required, or judged to be the most effective way to finance risk. LAWA's Risk Management Division estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2009, 2008, and 2007, no claims were in

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**(10) Self-Insurance (continued)**

excess of LAWA's insurance coverage. Other claims liabilities are reported in Other Long-Term Liabilities (see Note 6). LAWA maintains approximately \$2.5 billion coverage of property, casualty general liability and other lines of insurance. LAWA also maintains an annual budget to fund the deductibles for property damage, general liability, and additionally maintains a catastrophic trust fund for any claims, losses in excess of the stated insurance coverage limits. LAWA also maintains an annual budget to fund the deductibles for property damage, general liability, and additionally maintains a catastrophic trust fund for any claims, losses in excess of the stated insurance coverage limits.

**(11) Commitments and Contingencies**

As of June 30, 2009, a number of claims and lawsuits are pending against LAX that arose in the normal course of 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 loss can be reasonably estimated. The following is a summary of certain matters related to LAX's operations.

**(a) Environmental Issues**

As discussed in Note 2a, LAWA implemented GASB Statement No. 49 for the year ended June 30, 2009. This Statement establishes accounting and reporting guidelines for the recognition and measurement of pollution remediation liabilities. Through the normal course of operations, LAWA and its facilities are subject to potential environmental contamination and other environmental concerns.

LAWA bears full financial responsibility for the cleanup of environmental contamination on property owned by it. However, if the contamination originated based on contractual arrangements, this means that the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. As property owner, LAWA assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution. Accordingly, LAWA has established a comprehensive hazardous materials management plan for all facilities under its control. This plan calls for the evaluation of all property utilized by LAWA and the environmental cleanup of any sites found to be contaminated. This evaluation is an on-going process.

As part of this evaluation, LAWA conducts environmental monitoring to identify potential pollution sites that may require further investigation and remediation. Once LAWA makes a determination of potential remedial action, it commences site assessment, testing and/or clean-up activities. During the year ended June 30, 2009, LAWA identified two sites and began voluntary remediation (asbestos removal in both cases). Further, the Regional Water Quality Board (i.e., regulatory agency) notified LAWA of the need for remediation on groundwater contamination. LAWA is currently performing remediation based on this regulatory order. LAWA accrues pollution remediation liabilities when costs are incurred or amounts can reasonably be estimated. Under LAWA policy, estimated liabilities are determined by the Environmental Services Division based on the expected outlays to settle pollution remediation liabilities. Amounts accrued for LAX at June 30, 2009 totaled \$12.8 million.

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**(11) Commitments and Contingencies (continued)**

**(a) Environmental Issues (continued)**

At this time, LAWA does not expect any recoveries reducing this particular obligation. For subsequent periods, LAWA will adjust estimated liabilities as new information becomes available, as LAWA's environmental remediation evaluation process is on-going.

**(b) High-Security Environment**

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the September 11 Events). Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues, and parking revenue. During fiscal year 2009, LAWA's passenger volume was 16.6%, or 12.3 million, below its pre-September 11<sup>th</sup> Events level.

As part of its program of proactively addressing heightened security concerns and requirements, LAWA has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. LAWA's capital improvement program was also reevaluated and several planned expenditures were suspended, except where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at LAX from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAX will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service.

A number of airlines are recovering from the economic difficulties they experienced immediately following the September 11 Events.

LAX is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAX, (iii) the future financial condition of the airlines using LAX, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

**(c) Other**

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$113,800,000 and \$87,500,000 as of June 30, 2009 and 2008, respectively. The change in commitments is due to the following projects: \$36,000,000 for inspection testing, and surveying for the center taxiway, in-line baggage screening, runway projects, TBIT interior improvement projects, and midfield satellite concourse; and, \$30,500,000 for land acquisition.



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**(12) Capital Lease Agreements**

LAWA has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over a remaining term of 27 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amounted to \$184,423,000 for both June 30, 2009 and 2008. Accumulated depreciation with respect to such property for the respective years was \$104,706,000 million and \$100,155,000 million, respectively.

Estimated future minimum lease payments under these agreements are as follows (in thousands):

Fiscal year ending June 30,	
2010	\$ 3,146
2011	3,268
2012	3,328
2013	3,439
2014	3,545
2015 – 2019	19,535
2020 – 2024	24,092
2025 – 2026	9,111
Total minimum lease payments	<u>\$ 69,464</u>
Less interest portion	<u>(19,946)</u>
Present value of minimum lease payments	<u>\$ 49,518</u>

LAX currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to LAX by such airlines for terminal leases and landing fees.

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**(13) Passenger Facility Charges**

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers.

Since 1990, the following activities have taken place:

- In April 1993, the FAA granted LAWA's authority to collect PFCs at LAX in the amount of \$360,000,000 for 5 years for specifically approved airport improvement projects. Effective July 1, 1993, LAWA began collecting PFCs in the amount of \$3 per passenger.
- In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at ONT. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000.
- In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at ONT. Accordingly, PFC charges totaling \$126,100,000 collected at LAX were transferred.
- In November 1997, the FAA approved LAWA's application to impose \$3 per passenger PFCs at LAX, for noise mitigation projects. Approved collections of \$150,000,000 at LAX were to be used for the soundproofing of City of Los Angeles residences and sound insulation of nearby city residences.
- On October 2, 1998, the FAA approved LAWA's application to amend PFCs at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000.
- Effective August 1, 2003, the FAA approved an increase to the PFC charge at LAX from \$3.00 to \$4.50.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used only on specifically approved projects. Due to their restricted use, PFCs are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to disbursement.

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**(13) Passenger Facility Charges (continued)**

Cumulative PFC collections and the related interest earned as reported to the FAA were as follows (in thousands):

	<b>2009</b>	<b>2008</b>
Amount collected	\$ 1,206,532	\$ 1,101,698
Interest received	129,147	107,918
Cumulative PFC collections	\$ 1,335,679	\$ 1,209,616

Collected but unexpended PFC revenue is included on the statement of net assets as restricted cash and pooled investments held by the City Treasurer. Related accrued interest income and PFC receivables are also reported as restricted assets.

**(14) Capital Grant Contributions**

Contributed capital related to governmental grants and other aid increased by \$1.0 million to \$88.2 million during the year ended June 30, 2009. Capital grant funds were used for projects under the Airport Improvement Program and Transportation Security Administration security-related capital projects. During fiscal year 2008, capital grant contributions increased from fiscal year 2007 by \$13.0 million to \$87.0 million.

**(15) Terminal Rents**

LAX has lease arrangements at its passenger terminal facilities with American Airlines, Continental Airlines, Delta Air Lines, LAX TWO Corporation, and United Airlines (collectively, the “Long-term Airlines”) that have various terms of up to 40 years. Under these leases, the Long-term Airlines pay various charges, including maintenance and operations rent (“M&O Rent”) that reflects the expenses that LAX incurs in maintaining and operating the terminals. The M&O Rent rates are set each calendar year based on the actual audited M&O expenses for the prior fiscal year ending June 30.

Historically, less than the full amount of M&O expenses attributable to the airlines has been charged to the terminal tenants as M&O Rent. On December 18, 2006, the Board of Airport Commissioners (“BOAC”) approved a resolution setting the M&O Rent rate for 2006, effective January 1, 2006, based upon the full amount of M&O expenses expended in the year ended June 30, 2005 attributable to the airlines for all LAX passenger terminals.

The Long-term Airlines have objected to LAX’s calculation of the M&O Rents as approved by the BOAC for 2006. On January 18, 2007, American, Continental and United Airlines filed a complaint with the United States District Court objecting to the 2006 M&O Rents. Subsequently, Northwest Airlines, as the primary shareholder of LAX TWO, and Delta Air Lines also filed objections. In February of 2008 and January of 2009, LAWA entered into interim settlement agreements and amendments to the interim settlement agreements with each of the Long-term Airlines resolving all disputed charges between January 1, 2006 and April 30, 2009. The agreements resulted in the issuance of credits for a portion of the amounts assessed to date. As part of these agreements, the Long-Term Airlines and LAWA agreed to work together to reach an agreement on future charges

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**(15) Terminal Rents (continued)**

by April 30, 2009. Subsequently, Continental and American entered into additional amendments to the interim settlement agreements which resulted in an resolution of M&O Rents between May 1, 2009 and December 31, 2009 and an agreement to work together to reach an agreement on future M&O Rents by December 31, 2009. On February 18, 2009, LAWA reached an agreement with United Airlines to terminate their long term lease in terminal 6 and part of terminal 7 and now has the right to recover full M&O expenses attributable to that space. Negotiations have continued with all other parties.

Separately, the BOAC approved a new lease form on December 18, 2006 with a subsequent institution of a tariff on January 22, 2007. Certain carriers utilizing terminals 1 and 3 as well as carriers that operate from the Tom Bradley International Terminal objected to the tariff and filed a complaint with the Department of Transportation (“DOT”). The DOT issued its final decision on June 15, 2007. The decision resulted in a refund of a portion of the amounts assessed under the tariff to the complainants. A small number of tenants and sub-tenants were not party to the DOT action and continue to be assessed at the tariff rate. Subsequent to the DOT Supplemental Order on July 13, 2007, the carriers that were party to the DOT complaint filed a Petition to Review at the United States Court of Appeals regarding the DOT ruling.

On July 24, 2008, the BOAC approved a partial settlement agreement with the carriers operating in the Tom Bradley International Terminal resolving all disputed charges between January 1, 2006 and December 31, 2009. The agreement resulted in the issuance of credits for portions of the amounts that had been charged to date and created a framework for future negotiations on rates beyond December 31, 2009. On October 20, 2008, the BOAC authorized the executive director to enter into binding letter agreements with all current and new entrant carriers subject to the LAX Passenger Terminal Tariff offering interim rates and charges similar to the partial settlement agreement rates and charges framework pending the outcome of the DOT litigation. The agreements resulted in credits for portions of the amounts that had been charged to date.

Pending the resolution of these objections, LAX has classified the disputed cash portion of the M&O Rent and interest earned as “Cash under Protest” of \$33,548,000 as of June 30, 2009 and has not included these amounts as revenue. The disputed portion of the M&O Rent is classified as “Customer Liability–Protested Revenue” and “Interest Earned under Protest;” both amounts are included as part of other long-term liabilities reported in the Statement of Net Assets.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)  
**LOS ANGELES INTERNATIONAL AIRPORT**

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(16) Subsequent Events**

**(a) *Bond Issuance***

In July 2009, LAX issued \$85,000,000 in commercial paper notes to partially finance the acquisition of the Park One Property. A total of \$126,563,000, which included the purchase price of \$125,000,000 plus closing costs, was spent on acquiring the 20-acre property.

LAX issued four series of bonds totaling \$689,325,000 in December 2009. The proceeds from the sale of these bonds will be used to reimburse LAX for previous capital expenditure, pay for future capital expenditures, repay the outstanding Series B (tax-exempt non-AMT) commercial paper notes, refund the LAX 2002 C1 bonds and purchase a portion of the LAX 2008 A bonds.

The LAX 2002 C1 bonds were redeemed on January 4, 2010. LAX 2002 C2 and LAX 2003A bonds were redeemed on March 1, 2010. The letters of credit terminated upon redemption of the variable rate bonds.

**(b) *Terminal Rents***

On August 7, 2009, the Court of Appeals issued its opinion on the U.S. DOT Decision regarding the complaint filed by the carriers operating in terminals 1 and 3 at LAX. The Court's opinion generally affirmed some of LAWA's positions, but in any case, remanded the majority of the items under dispute back to the U.S. DOT for further review. LAWA is unable to predict whether any further review of the Court of Appeals' ruling will be sought in the Supreme Court or how the U.S. DOT will rule on the issues remanded.

On November 6, 2009, City Council approved an amended and restated lease between United Airlines and LAWA covering terminal space leased by United in terminals 7 and 8. The amended and restated lease resolved all previous disputes between the parties over terminal rates and charges at LAX in terminals 7 and 8.

**COMPLIANCE SECTION**



**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

LOS ANGELES  
515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN DIEGO

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

The Members of the Board of Airport Commissioners  
City of Los Angeles, California

We have audited the accompanying basic financial statements of the Los Angeles International Airport (LAX), a departmental 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, California, as of and for the year ended June 30, 2009, and have issued our report thereon dated March 12, 2010, which included an explanatory paragraph describing LAX's implementation of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the current fiscal year. We conducted our audit 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.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered LAX's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LAX's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LAX's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of LAX in a separate letter dated December 30, 2009.

This report is intended solely for the information and use of LAWA's management, Board of Airport Commissioners, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
March 12, 2010



## APPENDIX C-1

### CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Senior Indenture and the Twelfth Supplemental Senior Indenture found in Appendices C-2 and C-3.

*“Accreted Value”* means (a) with respect to any Capital Appreciation Senior Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Senior Indenture as the amount representing the initial principal amount of such Capital Appreciation Senior Bonds, plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Senior Bonds, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Senior Bonds, 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 Senior Indenture authorizing the issuance of such Capital Appreciation Senior Bond or Original Issue Discount Senior Bond.

*“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 Senior Trustee.

*“Balloon Indebtedness”* means, with respect to any Series of Senior Bonds, 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 Senior Bonds 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 Senior Bonds scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Senior Commercial Paper Program and the Commercial Paper constituting part of such Senior 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 Senior Indenture and which are acceptable to the Department.

*“Bondholder,” “holder,” “owner” or “registered owner”* means the person in whose name any Senior Bond or Senior Bonds are registered on the books maintained by the Senior Registrar and will include any Credit Provider or Liquidity Provider to which a Senior Repayment Obligation is then owed, to the extent that such Senior Repayment Obligation is deemed to be a Senior Bond under the provisions of the Senior 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 Senior Trustee is located are open, provided that such term may have a different meaning for any specified Series of Senior Bonds if so provided by Supplemental Senior Indenture.

“*Capital Appreciation Senior Bonds*” means Senior Bonds 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 Senior Indenture and is payable only upon redemption or on the maturity date of such Senior Bonds. Senior Bonds which are issued as Capital Appreciation Senior Bonds, but later convert to Senior Bonds on which interest is paid periodically will be Capital Appreciation Senior Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Senior Bonds, 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 Senior 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 Senior 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 Senior 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 Senior 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 Senior Bonds, costs of Credit Facilities, Liquidity Facilities, Senior Capitalized Interest, the Senior Reserve Fund, any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund), and Senior Trustee's fees and expenses; (6) any Senior Swap Termination Payments due in connection with a Series of Senior Bonds or the failure to issue such Series of Senior Bonds, 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.

*"Credit Facility"* means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Senior Reserve Fund Surety Policy, a Senior Debt Service Reserve Fund Surety Policy (other than a Senior Reserve Fund Surety Policy), or other financial instrument which obligates a third party to make payment of or provide funds to the Senior Trustee for the payment of the principal of and/or interest on Senior Bonds, 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 Senior Bonds under a Credit Facility.

*"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.

*"Estimated Completion Date"* means the estimated date upon which a Specified LAX Project or a specified Project has been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a Specified LAX Project or a Project is expected to have been acquired and payment therefor made, in each case, as that date will be set forth in a certificate of an Authorized Representative delivered to the Senior Trustee at or prior to the time of issuance of the Senior Bonds which are issued to finance such Project.

*"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 Senior Trustee by the Department.

*"Facilities Construction Credit"* and *"Facilities Construction Credits"* means the amounts further described in the Master Senior 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., a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities 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).

*"Government Obligations"* means (1) United States Obligations (including obligations issued or held in book-entry form), (2) preredeemed municipal obligations meeting the following conditions: (a) 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; (b) 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; (c) 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; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated in their highest rating category by Moody's if Moody's then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds, and (3) any other type of security or obligation that Moody's if Moody's then maintains a rating on any of the Senior Bonds and S&P if S&P then maintains a rating on any of the Senior Bonds have determined to be permitted defeasance securities.

*"Implemented"* means a Senior Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Senior Program, the provisions of the Master Senior 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 Senior Construction Fund allowed to be pledged by the terms of a Supplemental Senior Indenture, the Senior Reserve Fund, any Senior 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 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 Senior Bonds.

“*Liquidity Provider*” means the entity, including the Credit Provider, which is obligated to provide funds to purchase Senior Bonds 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 U.S. Bank National Association, as trustee, as amended.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Moody’s*” will be deemed to refer to any other nationally recognized rating agency designated by the Department.

“*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 Senior Trustee) incurred in the collection of such proceeds or award.

“*Non-Qualified Swap*” means any Swap which is not a Senior 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 Senior Bonds*” means Senior Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Senior Bonds by the Supplemental Senior Indenture under which such Senior Bonds are issued.

“*Outstanding*” means all Senior Bonds which have been authenticated and delivered under the Senior Indenture, except:

(a) Senior Bonds cancelled or purchased by the Senior Trustee for cancellation or delivered to or acquired by the Senior Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Senior Bonds deemed to be paid in accordance with the Master Senior Indenture;

(c) Senior Bonds in lieu of which other Senior Bonds have been authenticated under the provisions of the Senior Master Indenture;

(d) Senior Bonds 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 Senior Trustee or a Senior Paying Agent;

(e) Senior Bonds which, under the terms of the Supplemental Senior Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Senior Repayment Obligations deemed to be Senior Bonds under the Master Senior Indenture to the extent such Senior Repayment Obligation arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Senior Bonds 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 Senior Bonds under the Master Senior Indenture, Senior Bonds 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 Senior Bonds are pledged to secure a debt to an unrelated party;

“*Parity Subordinate Indenture*” means the Subordinate Trust Indenture, dated as of April 1, 2002, by and between the Department and the Parity Subordinate Issuing and Paying Agent, as issuing and paying agent, together with all amendments and supplements thereto.

“*Parity Subordinate Issuing and Paying Agent*” means U.S. Bank Trust National Association, and any successor thereto.

“*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 Senior Bonds, 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, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture (provided that only Passenger Facility Charges in respect of LAX may be so pledged), (d) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (e) Released LAX Revenues. Further, interest earnings or other investment earnings on any Senior Construction Fund established by any Supplemental Senior Indenture are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such Supplemental Senior Indenture.

“*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 Senior Bonds.

“*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 of municipal obligations, but only if 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.

“*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 Senior Indenture in connection with the issuance of the Senior Bonds or any Series of Senior Bonds 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 Senior Bonds the record date as specified in the Supplemental Senior Indenture which provides for the issuance of such Series of Senior Bonds. With respect to the Series 2010D Senior 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 Senior Bonds*” means any Senior Bonds issued pursuant to the Master Senior Indenture to refund or defease all or a portion of any series of Outstanding Senior Bonds or any Subordinated Obligation.

“*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 FIRST through FIFTH described under the caption APPENDIX C-2—"SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account," or (B) an amount not less than 150% of average Senior Aggregate Annual Debt Service 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 FIRST through FIFTH described under the caption APPENDIX C-2—"SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account," or (B) an amount not less than 150% of the average Senior Aggregate Annual Debt Service 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 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.

"*Responsible Officer*" means an officer or assistant officer of the Senior Trustee assigned by the Senior Trustee to administer the Senior Indenture.

"*S&P*" means Standard & Poor's Ratings Group, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation will for any reason no longer perform the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the Department.



“*Senior Aggregate Annual Debt Service*” means for any Fiscal Year the aggregate amount of Senior Annual Debt Service on all Outstanding Senior Bonds and Unissued Senior Program Bonds. For purposes of calculating Senior Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(i) 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 Senior Bonds, and Unissued Senior Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Senior Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Senior Bonds or Original Issue Discount Senior Bonds 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 (ii), (iii) or (iv) 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 Senior Bonds will be excluded to the extent such payments are to be paid from Senior Capitalized Interest for such Fiscal Year;

(ii) if all or any portion or portions of an Outstanding Series of Senior Bonds, or Unissued Senior Program Bonds constitute Balloon Indebtedness (excluding Senior Program Bonds or Unissued Senior Program Bonds to which subsection (vi) applies), then, for purposes of determining Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Senior Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (iii) 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 Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Senior Bonds, Unissued Senior Program Bonds or Senior Program Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (i) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Senior Program Bonds or Senior Program Bonds 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 (i) above or such other provision of this definition as will be applicable;

(iii) any maturity of Senior Bonds which constitutes Balloon Indebtedness as described in provision (ii) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation is made, will be assumed to become due and payable on the stated maturity date and provision (ii) above will not apply thereto unless there is delivered to the entity making the calculation 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 Senior Aggregate Annual Debt Service, provided that such assumption will not result in an amortization period longer than or an interest rate lower than that which would be assumed under provision (ii) above;

(iv) if any Outstanding Senior Bonds (including Senior Program Bonds then issued and Outstanding) or any Senior Bonds which are then proposed to be issued constitute Senior Tender Indebtedness (but excluding Senior Program Bonds or Senior Bonds as to which a Senior Qualified Swap is in effect and to which subsection (vi) or (viii) applies), then, for purposes of determining Senior Aggregate Annual Debt Service, Senior Tender Indebtedness will be treated as if the principal amount of such Senior

Bonds 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 Senior Annual Debt Service payments and extending not later than 30 years from the date such Senior Tender 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 Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all principal and interest payments becoming due prior to the year in which such Senior Tender Indebtedness is first subject to tender, such payments will be treated as described in (i) 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 (v) or (vi) below, as appropriate;

(v) if any Outstanding Senior Bonds constitute Variable Rate Indebtedness (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Senior Tender Indebtedness or subsection (vi) relating to Synthetic Fixed Rate Debt or (viii) relating to Senior Qualified Swaps applies), the interest rate on such Senior Bonds will be the average rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the 12 months 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 such Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vi) with respect to any Senior Program Bonds or Unissued Senior Program Bonds (other than a Senior Commercial Paper Program) (a) debt service on Senior Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (b) with respect to Unissued Senior Program Bonds, it will be assumed that the full principal amount of such Unissued Senior Program Bonds will be amortized over a term certified by an Authorized Representative at the time the initial Senior Program Bonds of such Senior Program are issued to be the expected duration of such Senior Program or, if such expectations have changed, over a term certified by an Authorized Representative to be the expected duration of such Senior Program at the time of such calculation, but not to exceed 30 years from the date the initial Senior Program Bonds of such Senior Program are issued and it will be assumed that debt service will be paid in substantially level Senior 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 Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vii) debt service on Senior Repayment Obligations, to the extent such obligations constitute Senior Bonds under the Master Senior Indenture, will be calculated as provided in Master Senior Indenture;

(viii) (a) for purposes of computing the Senior Annual Debt Service of Senior Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon 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 as implied by the

terms of the swap agreement or the net interest rate payable pursuant to offsetting indices, as applicable;

(b) for purposes of computing Senior Annual Debt Service on all other Senior Bonds with respect to which a Senior Qualified Swap is in effect, such Senior Qualified Swap will be marked to market (that is, treated as if it were being closed-out with an at the market bid) at the time of such calculation and the putative gain or loss thereon under the terms and conditions of the agreement creating such Senior Qualified Swap will be treated as amortized over the remaining term of the Senior Qualified Swap and the annualized gain or loss payment thereunder will be added to or subtracted from Senior Annual Debt Service for such Senior Bonds;

(ix) if moneys or Senior Permitted Investments have been irrevocably deposited with and are held by the Senior Trustee or another fiduciary or Senior Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Senior Bonds, then the principal and/or interest to be paid from such moneys, Senior Permitted Investments, or Senior Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Senior Annual Debt Service; and

(x) with respect to any Senior Commercial Paper Program which has been Implemented and not then terminated or with respect to any Senior Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Senior Authorized Amount of such Senior Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Senior Commercial Paper Program is Implemented and with substantially level Senior 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 Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes.

“*Senior Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Senior Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, 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 Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior 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 Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Senior Annual Debt Service*” means, with respect to any Senior Bond, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Senior Qualified Swap is in effect for such Senior Bond, plus the amount payable by the Department (or the Senior Trustee) under the Senior Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Senior Qualified Swap Provider pursuant to the Senior Qualified Swap, calculated using the principles and assumptions set forth in the definition of Senior Aggregate Annual Debt Service.

“*Senior Authorized Amount*” means, when used with respect to Senior Bonds, including Senior Program Bonds, the maximum Senior Principal Amount of Senior Bonds which is then authorized by a resolution or Supplemental Senior Indenture adopted by the Board pursuant to the Master Senior Indenture to be Outstanding at any one time under the terms of such Senior Program or Supplemental Senior Indenture. If the maximum Senior Principal Amount of Senior Bonds or Senior Program Bonds authorized by a preliminary resolution or form of

Supplemental Senior Indenture approved by the Board pursuant to the Master Senior Indenture exceeds the maximum Senior Principal Amount of Senior Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Senior Indenture executed and delivered by the Board pursuant to which such Bonds are issued or such Senior Program is established, the Senior Principal Amount of such Senior Bonds or Senior Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Senior Indenture as executed and delivered by the Department will be deemed to be the “*Senior Authorized Amount.*”

“*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; provided, however, that the Board may provide in a Supplemental Senior Indenture that Subordinated Obligations may be thenceforth issued pursuant to the Master Senior Indenture having the terms applicable to the Senior Bonds, except that such Subordinated Obligations will be junior and subordinate in payment of such Subordinated Obligations from the Pledged Revenues. The term “*Senior Bond*” and “*Senior Bonds*” includes Senior Program Bonds.

“*Senior Capitalized Interest*” means the amount of interest on Senior Bonds, if any, funded from the proceeds of the Senior Bonds or other monies that are deposited with the Senior Trustee upon issuance of Senior Bonds to be used to pay interest on the Senior Bonds.

“*Senior Commercial Paper Program*” means a Senior 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 Senior Program.

“*Senior Construction Fund*” means any of the Senior Construction Funds authorized to be created pursuant to the Master Senior Indenture.

“*Senior Debt Service Fund*” or “*Senior Debt Service Funds*” means a Senior Debt Service Fund or any of the Senior Debt Service Funds required to be created by the Master Senior Indenture.

“*Senior Debt Service Reserve Fund*” means any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund) created by the Department pursuant to a Supplemental Senior Indenture in connection with the issuance of any Series of Senior Bonds and that is required to be funded for the purpose of providing additional security for such Series of Senior Bonds and under certain circumstances to provide additional security for such other designated Series of Senior Bonds issued pursuant to the terms of the Master Senior Indenture and as specified in any Supplemental Senior Indenture.

“*Senior Debt Service Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit (other than a Senior Reserve Fund Surety Policy) deposited with the Senior Trustee for the credit of a Senior Debt Service Reserve Fund created for one or more series of Outstanding Senior Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Senior Debt Service Reserve Fund Surety Policy will be rated in one of the two highest long-term rating categories by both Moody’s if Moody’s is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds at the time such instrument is provided.

“*Senior Designated Debt*” means a specific indebtedness designated by the Department with the intent that the risks associated with such debt be offset with a Swap, such specific indebtedness to include all or any part of a Series of Senior Bonds.

“*Senior Event of Default*” means any occurrence or event specified as a “Senior Event of Default” in the Senior Indenture.

“*Senior Indenture*” means the Master Senior Indenture, together with all Supplemental Senior Indentures.

“*Senior Investment Agreement*” means an investment agreement or guaranteed investment contract (i) 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 Senior Investment Agreement is less than three years) or in either of the two highest long-term rating categories (if the term of the Senior Investment Agreement is three years or longer) by S&P if S&P then maintains a rating on any of the Senior Bonds and by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds or (ii) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (1) or (2) of the definition of Senior 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 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (B) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (C) subject to a perfected first lien on behalf of the Senior Trustee, and (D) free and clear from all third-party liens.

“*Senior Maximum Aggregate Annual Debt Service*” means the maximum amount of Senior Aggregate Annual Debt Service with respect to all Senior Bonds, Unissued Senior Program Bonds, the Senior Authorized Amount of all Senior Bonds then proposed to be issued in the then current or any future Fiscal Year.

“*Senior Maximum Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Senior Maximum Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, 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 Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior 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 Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Senior Notes*” means Senior Bonds issued under the provisions of the Master Senior Indenture which have a maturity of one year or less from their date of original issuance and which are not part of a Senior Commercial Paper Program.

“*Senior Paying Agent*” or “*Senior Paying Agents*” means, with respect to the Senior Bonds or any Series of Senior Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Senior Indenture or a resolution of the Department as the place where such Senior Bonds will be payable.

“*Senior 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:

- (1) Government Obligations,
- (2) 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;
- (3) Direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;

(4) Direct and general short-term obligations of any state which obligations are rated in the highest rating category by Moody's if Moody's then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;

(5) 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 (a) continuously and fully insured by FDIC and with banks that are rated at least "P-1" or "Aa" by Moody's if any of the Senior Bonds are then rated by Moody's and at least "A-1" or "AA" by S&P if any of the Senior Bonds are then rated by S&P or (b) fully secured by obligations described in item (1) or (2) of this definition of Senior Permitted Investments (i) which are 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, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee, and (iv) free and clear from all third-party liens;

(6) Long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody's and S&P in either of their two highest rating categories;

(7) Repurchase agreements which are (a) 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 Moody's if Moody's then maintains a rating on any of the Senior Bonds and from S&P if S&P then maintains a rating on any of the Senior Bonds and (b) fully secured by investments specified in Section (1) or (2) of this definition of Senior Permitted Investments (i) which are 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, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee and (iv) free and clear from all third-party liens;

(8) Prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and at least "A-1" by S&P if S&P then maintains a rating on any of the Senior Bonds;

(9) 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 (a) a money market fund that has been rated in one of the two highest rating categories by Moody's or S&P or (b) a money market fund or account of the Senior Trustee or any state or federal bank that is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or whose one bank holding company parent is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or that has a combined capital and surplus of not less than \$50,000,000;

(10) Senior Investment Agreements; and

(11) Any other type of investment consistent with City policy in which the Department directs the Senior Trustee to invest provided that there is delivered to the Senior Trustee a certificate of an Authorized Representative stating that each of the rating agencies then maintaining a rating on the Senior Bonds has been informed of the proposal to invest in such investment and each of such rating agencies has confirmed that such investment will not adversely affect the rating then assigned by such rating agency to any of the Senior Bonds.

“*Senior Principal Amount*” or “*Senior principal amount*” means, as of any date of calculation, (i) with respect to any Capital Appreciation Senior Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (ii) with respect to any Original Issue Discount Senior Bond, the Accreted Value thereof, unless the Supplemental Senior Indenture under which such Senior Bond was issued will specify a different amount, in which case, the terms of the Supplemental Senior Indenture will control, and (iii) with respect to any other Senior Bonds, the principal amount of such Senior Bond payable at maturity.

“*Senior Program*” means a financing program, including but not limited to a Senior Commercial Paper Program, (i) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Senior Indenture have been filed with the Senior Trustee, (ii) wherein the Board has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an Senior Authorized Amount, and (iii) the Senior Authorized Amount of which has met the additional bonds test set forth in Master Senior Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Senior Authorized Amount.

“*Senior Program Bonds*” means Senior Bonds issued and Outstanding pursuant to a Senior Program, other than Unissued Senior Program Bonds.

“*Senior Qualified Swap*” means any Swap (a) whose Senior Designated Debt is all or part of a particular Series of Senior Bonds; (b) which has been approved in writing by any Credit Provider securing payment of principal of and interest on such Series of Senior Bonds (including any bond insurer); (c) whose Swap Provider is a Senior Qualified Swap Provider or has been a Senior Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Senior Annual Debt Service or Senior Average Annual Debt Service is being made; (d) which has a term not greater than the term of the Senior Designated Debt or to a specified mandatory tender or redemption of such Senior Designated Debt; (e) which has been designated in writing to the Senior Trustee by the Department as a Senior Qualified Swap with respect to such Senior Bonds; and (f) which has been approved by S&P, if S&P has an outstanding rating on any Senior Bonds, and Moody’s, if Moody’s has an outstanding rating on the Senior Bonds.

“*Senior Qualified Swap Provider*” means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Senior 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, and (b) acceptable to the Credit Provider for the Senior Designated Debt.

“*Senior Registrar*” means, with respect to the Senior Bonds or any Series of Senior Bonds, the bank, trust company or other entity designated in a Supplemental Senior Indenture or a resolution of the Board to perform the function of Senior Registrar under the Master Senior Indenture or any Supplemental Senior Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Senior Indenture. The Senior Trustee will act as Senior Registrar with respect to the Series 2010D Senior Bonds.

“*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 Reserve Fund*” means the trust fund created pursuant to the Master Senior Indenture and that is required to be funded for the purpose of providing additional security for the Outstanding Senior Bonds issued pursuant to the terms of the Senior Indenture and as specified in any Supplemental Senior Indenture as participating in the Senior Reserve Fund. The Department will specify in the Twelfth Supplemental Senior Indenture that the Series 2010D Senior Bonds will participate in the Senior Reserve Fund.

“*Senior Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit, deposited with the Senior Trustee for the credit of the Senior Reserve Fund in lieu of or partial substitution for cash

or securities on deposit therein. The entity providing such Senior Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest Rating Categories by both Moody's if Moody's is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds.

*“Senior Reserve Requirement”* means, except as otherwise provided in a Supplemental Senior Indenture, an amount equal to the least of (i) Senior Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, (ii) ten percent of the principal amount of the Senior Bonds that have been issued and are participating in the Senior Reserve Fund or the Senior Bonds that have been issued and are participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, less the amount of original issue discount with respect to any Senior Bond if such original issue discount exceeded 2% on such Senior Bond at the time of its original sale and (iii) 125% of the average Senior Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be.

*“Senior Swap Termination Payment”* means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Senior Qualified Swap, to compensate the other party to the Senior 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 Senior Qualified Swap.

*“Senior Tender Indebtedness”* means any Senior Bonds or portions of Senior Bonds a feature of which is an option and/or an obligation on the part of the Bondholders, under the terms of such Senior Bonds, to tender all or a portion of such Senior Bonds to the Department, the Senior Trustee, the Senior Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Senior Bonds or portions of Senior Bonds be purchased if properly presented.

*“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 Senior Bonds”* means Senior Bonds for which no sinking installment payments are provided.

*“Series”* or *“series”* means Senior Bonds designated as a separate Series by a Supplemental Senior Indenture and, with respect to Senior Program Bonds or a Senior Commercial Paper Program, means the full Senior Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Senior Indenture, designated as separate Series.

*“Series 2010D Senior Bonds”* means the \$875,805,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Twelfth Supplemental Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2010 Series D.”

*“Significant Portion”* means, for purposes of the Master Senior Indenture, 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, and S&P, if S&P then maintains a rating on any of the Senior Bonds, 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 test under the Master Senior 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 test under the Master Senior Indenture.

“*State*” means the State of California.

“*Subordinate Bond*” or “*Subordinate Bonds*” 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.

“*Subordinate Commercial Paper Notes*” or “*Parity Subordinate Obligations*” means the commercial paper notes issued on parity with the Subordinate Bonds from time to time under the terms of the Parity Subordinate Indenture, designated the Department of Airports of the City of Los Angeles (Los Angeles International Airport) Commercial Paper Notes, Series A Notes (Tax-Exempt – Governmental), Series B Notes (Tax-Exempt – Private Activity) and Series C Notes (Federally Taxable) which may be issued from time to time pursuant to the Parity Subordinate Indenture in an aggregate principal amount not to exceed \$500,000,000 at any one time.

“*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 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 the Senior Reserve Fund and 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 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 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, 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 Indenture*” means the Master Subordinate Indenture, together with all supplemental subordinate indentures.

“*Supplemental Senior Indenture*” means any document supplementing or amending the Master Senior Indenture or providing for the issuance of Senior Bonds and entered into as provided in the Master Senior 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 Senior 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 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 Senior Designated Debt with a Senior 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 or Senior Bonds, 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 Senior Bonds under the Code.

“*Term Senior Bonds*” means Senior Bonds of a series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Senior Indenture for such series for that purpose and calculated to retire the Senior Bonds on or before their specified maturity dates.

“*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 SEVENTH described under the caption APPENDIX C-2—“SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account” 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 Senior Indenture*” means the Twelfth Supplemental Trust Indenture, to be dated as of November 1, 2010, by and between the Department and the Senior Trustee.

“*Unissued Senior Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Senior Program and payable from Pledged Revenues, issuable in an amount up to the Senior Authorized Amount relating to such Senior Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Senior Program the items required pursuant to the Master Senior Indenture have been filed with the Senior Trustee but which have not yet been authenticated and delivered pursuant to the Senior 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 Senior Bond or Senior Bonds 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 SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2010D SENIOR BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Senior 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 Senior Indenture.

#### **Grant to Secure Senior Bonds; Pledge of Pledged Revenues**

To secure the payment of the interest, principal and premium, if any, on the Senior Bonds and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Senior Indenture or contained in the Senior Bonds, the Department has pledged and assigned to the Senior Trustee and granted to the Senior Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides 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 Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Senior Trustee under the Master Senior Indenture, moneys and securities held in the Senior Reserve Fund or any Senior Debt Service Reserve Fund and any Senior Reserve Fund Surety Policy or Senior Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Senior Reserve Requirement, and to the extent provided in any Supplemental Senior Indenture moneys and securities held in any Senior Construction Fund whether or not held by the Senior Trustee, (c) earnings on amounts included in provisions (a) and (b) above (except to the extent excluded from the definition of “Pledged Revenues”), 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 Senior Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Senior Bonds, 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 Senior Bond over any other Senior Bond or Senior Bonds, except as to the timing of payment of the Senior Bonds. Any security or Credit Facility provided for specific Senior Bonds or a specific Series of Senior Bonds may, as provided by Supplemental Senior Indenture, secure only such specific Senior Bonds or Series of Senior Bonds and, therefore, will not be included as security for all Senior Bonds under the Master Senior Indenture and moneys and securities held in trust as provided in the Master Senior Indenture exclusively for Senior Bonds which have become due and payable and moneys and securities which are held exclusively to pay Senior Bonds which are deemed to have been paid under the Master Senior Indenture will be held solely for the payment of such specific Senior Bonds.

#### **Senior Repayment Obligations Afforded Status of Senior Bonds**

If a Credit Provider or Liquidity Provider makes payment of principal of and/or interest on a Senior Bond or advances funds to purchase or provide for the purchase of Senior Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department’s Senior Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Senior Bond issued under the Master Senior Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Senior Bondholder and such Senior Bond will be deemed to have been issued at the time of the original Senior Bond 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 Senior Indenture; provided, however, the payment terms of the Senior Bond held by the Credit Provider or Liquidity Provider will be as follows (unless otherwise provided in the Supplemental Senior Indenture pursuant to which the Senior Bonds are issued or in the agreement with the Credit Provider or Liquidity Provider): interest will be due and payable semiannually and 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, (ii)(a) if shorter, a term extending to the maturity date of the enhanced Senior Bonds or (b) if later, the final maturity of the Senior Repayment Obligation under the written agreement, and providing substantially level Senior Annual Debt Service payments, using the rate of interest set forth in the written repayment agreement which

would apply to the Senior 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 Senior Repayment Obligation. Any amount which comes due on the Senior Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Senior Bond will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of the Senior Bonds and any reserve funds established with respect to the Senior Bonds. 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 Senior Indenture. The Senior 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 Senior Repayment Obligation is to be afforded the status of a Senior Bond under the Master Senior Indenture.

### **Obligations Under Qualified Swap; Nonqualified Swap**

The obligation of the Department to make Regularly Scheduled Swap Payments under a Senior Qualified Swap with respect to a Series of Senior Bonds may be on a parity with the obligation of the Department to make payments with respect to such Series of Senior Bonds and other Senior Bonds under the Master Senior Indenture, except as otherwise provided by in the Master Senior Indenture or a Supplemental Senior Indenture with respect to any Senior Swap Termination Payments. The Department may provide in any Supplemental Senior Indenture that Regularly Scheduled Swap Payments under a Senior Qualified Swap will be secured by a pledge of or lien on the Pledged Revenues on a parity with the Senior Bonds of such Series and all other Senior Bonds, regardless of the principal amount, if any, of the Senior Bonds of such Series remaining Outstanding. The Senior Trustee will take all action consistent with the other provisions hereof as will be requested in writing by the Senior 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 Senior Trustee either to exercise the remedies granted in the Master Senior Indenture or to institute any action, suit or proceeding in its own name, the Senior Qualified Swap Provider will provide to the Senior Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Senior Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Senior Qualified Swap, such Senior Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

### **Withdrawals from LAX Revenue Account**

(a) Subject to the provisions of the Master Senior Indenture, the Department will cause the Treasurer to separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board and to deposit all the revenues for each individual airport within the Airport System which are received pursuant to the Charter, in its respective revenue account within the Airport Revenue Fund. The Department has covenanted and agreed that all LAX Revenues, when and as received by or on behalf of the Department, will be deposited by the Department in the LAX Revenue Account and will, immediately upon receipt thereof, become subject to the lien and pledge of the Master Senior Indenture. The Department has notified the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by the Master Senior Indenture and instructed the 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. If the Treasurer fails to comply with such instructions, the Department will separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board.

Earnings on the various funds and accounts created under any Supplemental Senior Indenture will be deposited as provided in such Supplemental Senior Indenture, except that (i) during the continuation of a Senior

Event of Default earnings on such funds and accounts will be deposited into the Senior Debt Service Funds created under the respective Supplemental Senior Indentures, (ii) earnings on the Senior Construction Funds may, if so provided by Supplemental Senior Indenture, be retained in such Senior Construction Fund, (iii) pursuant to the provisions of the Master Senior Indenture, earnings on the Senior Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on any Senior Debt Service Reserve Fund may, if so provided by Supplemental Senior Indenture, be retained in such fund.

The sums of Pledged Revenues required by the Master Senior Indenture to be so set aside out of the LAX Revenue Account into the specified accounts will be set aside out of said LAX Revenue Account and not out of any other funds or revenues of the Department or the City, except as expressly authorized or permitted by the Department or the City. An Authorized Representative will direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of this section.

The provisions in the Master Senior Indenture regarding the use of the LAX Revenue Account and the establishment of certain accounts therein are made pursuant to Section 635 of the Charter and are intended to be in full compliance therewith and will be so construed.

(b) The amounts of Pledged Revenues credited to the LAX Revenue Account will first be applied as follows and in the order set forth:

FIRST To the payment of amounts required to be deposited in the Senior Debt Service Funds as described in “—Deposits and Withdrawals from the Senior Debt Service Funds” below;

SECOND To the payment of amounts required to be deposited in the Senior Reserve Fund, pursuant to the Master Senior Indenture, or any Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture;

(c) After application of moneys as provided in (b) above, Pledged Revenues will then be applied as follows and in the order set forth below:

THIRD To the payment of debt service on any indebtedness (other than Outstanding Senior Bonds), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FOURTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Senior Bonds), including Subordinated 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 indebtedness;

FIFTH 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 pursuant to the Master Senior Indenture;

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

SEVENTH 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, 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, for transfer to the City General Fund of money determined by the Department to be surplus, but only to the extent not inconsistent with federal or state law, regulation or contractual obligations and for any other lawful purpose of the Department, but only to the extent any such purposes relate to LAX.

With respect to the application of LAX Revenues described in subparagraphs FIFTH through SEVENTH above, the Department need apply only such amount of LAX Revenues pursuant to the provisions of such subparagraphs 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 subparagraphs.

Notwithstanding the provisions of the Master Senior Indenture, nothing in the Master Senior Indenture will preclude the Department from making the payments described in paragraphs FIRST through SEVENTH above from sources other than Pledged Revenues.

The Department reserves the right to make modifications to the application of funds provided in subsection (c). The Department has covenanted that no such modifications will violate provisions of subsections (a) or (b) above or the provisions of any other contracts or agreements of the Department or any legal requirements otherwise applicable to the use of such moneys.

### **Deposits and Withdrawals from the Senior Debt Service Funds**

*Deposits into the Senior Debt Service Funds.* So long as any of the Senior Bonds are Outstanding, the Authorized Representative will deliver to the Treasurer, as to each Series of Senior Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Senior Trustee for deposit in the Senior Debt Service Funds established in respect of each Series of Outstanding Senior Bonds: (i) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on Senior Bonds of that Series, as it becomes due, will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (ii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Senior Bonds of that Series, will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due and (iii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Senior Bonds of such Series will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. No such transfer need be made in respect of any Series of Senior Bonds prior to the actual delivery of that Series of Senior Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Senior Bonds, there will be transferred and paid from the LAX Revenue Account to the Senior Debt Service Fund established for that Series of Senior Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Senior Bonds, so that interest due on such Series of Senior Bonds on the first interest payment date to occur after the issuance of such Series of Senior Bonds will be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Senior Bonds, and, if the first principal payment or sinking fund installment of such Series of Senior Bonds is due less than 12 months after the issuance of such Series of Senior Bonds, there will be transferred and paid from the LAX Revenue Account to the Senior Debt Service Fund established for that Series of Senior Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Senior Bonds, so that principal or sinking fund installments of such Series of Senior Bonds due on the first principal payment date to occur after the issuance of such Series of Senior Bonds will be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Senior Bonds. On any day on which the Senior Trustee receives funds from the Treasurer to be used to pay principal of or interest on Senior Bonds, the Senior 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 Senior Debt Service Funds for the Series of Senior Bonds for which such payments were made. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from the LAX Revenue Account or otherwise deposited into any Senior Debt Service Fund for any Series of Senior Bonds 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 Senior Bonds on the next succeeding Payment Date.



The Department may provide in any Supplemental Senior Indenture that, as to any Series of Senior Bonds Outstanding, any amounts required to be transferred to and paid into a Senior Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Senior Debt Service Fund, and in that event any subsequently scheduled monthly transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Senior Indenture, the Department may provide that monies 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 (at a price not greater than par) prior to notice of redemption of such Series. Such Senior Bonds so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Senior Trustee at the principal amount thereof to the next scheduled sinking installment payments on Senior Bonds 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 Senior Bonds 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 Senior Trustee in writing.

Money set aside and placed in a Senior Debt Service Fund for any Series of Senior Bonds will remain therein until 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 Senior Debt Service Fund may be temporarily invested as provided in the Master Senior 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 Senior Debt Service Fund at the time required to meet payments of principal of and interest on Senior Bonds 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 an Senior Event of Default, such earnings will remain in the Senior Debt Service Funds created under the respective Supplemental Senior Indentures.

Each Senior Debt Service Fund established to pay principal of and interest on any Series of Senior Bonds will be held by the Senior Trustee or any agent of the Senior Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Senior Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Senior Trustee or any agent of the Senior Trustee in the various Senior Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Senior Trustee or such agents as will be provided by Supplemental Senior Indenture.

The moneys in each Senior Debt Service Fund established for any issue or Series will be held in trust and applied as provided herein and in the Supplemental Senior Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Senior Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Senior Bonds of such Series.

***Withdrawals From Senior Debt Service Funds.*** On each Payment Date for any Outstanding Senior Bonds, the Senior Trustee will pay to the Owners of the Senior Bonds of a given Series from the appropriate Senior Debt Service Fund or Senior Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Senior Bonds.

On or before the fifteenth day preceding a mandatory redemption date from sinking installment payments for Term Senior Bonds of a Series of Senior Bonds, the Senior Trustee will transfer from the Senior 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 Senior Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Senior Trustee will pay to the Owners of Senior Bonds of such Series from the redemption account for such Series, an amount equal to the amount of interest and the principal amount of Term Senior Bonds of such Series to be mandatorily redeemed on such date.

On each date on which Senior Bonds 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 Senior Indenture, the Senior Trustee will pay to the Owners of such Senior Bonds from the redemption account, an amount of interest and principal, and premium, if any, on such Senior Bonds to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Senior Indenture

pursuant to which such Senior Bonds 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 deposits therein and available for such purpose, is sufficient to pay the redemption price of such Senior Bonds on such redemption date.

The payments made by the Senior Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Senior Debt Service Fund.

All money remaining in a Senior 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 Senior Bonds of the Series for which that Senior 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 Senior Bonds of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Senior Trustee will, at least 10 Business Days prior to each Payment Date on any Senior Bond, or as otherwise directed in any Supplemental Senior Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Senior Trustee to pay the amount required to be paid on such Payment Date in respect of such Senior Bond, in the event the amount then on deposit in any Senior Debt Service Fund is insufficient to pay the amounts due on any Series of Senior Bonds on such Payment Date. With respect to any Series of Senior Bonds, the Supplemental Senior Indenture under which such Senior Bonds 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 Senior Indenture will control.

If, on any Payment Date, the Senior Trustee does not have sufficient amounts in the Senior Debt Service Funds (without regard to any amounts which may be available in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) to pay in full with respect to Senior Bonds of all Series all amounts of principal and/or interest due on such date, the Senior Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) as follows: first to the payment of past due interest on Senior Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Senior Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Senior Bonds 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 Senior Bonds 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 Senior Bonds and, if the amount available will not be sufficient to pay in full all principal on the Senior Bonds then due, then pro rata among the Series according to the Principal Amount then due on the Senior Bonds.

If the Senior Reserve Fund or any Senior Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on the Senior Bonds secured thereby, then the Department may be required by Supplemental Senior Indenture to replenish the Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider from Pledged Revenues provided that (a) no amount from Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Senior Bonds which have become due and payable have been paid in full, (b) the required payments to replenish the Senior Reserve Fund and any Senior 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 Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider exceeds the amount available for such purposes, the payments made to the Senior Trustee for such purpose will be allocated among the Senior Reserve Fund and any Senior Debt Service Reserve Fund and the Credit Provider pro rata on the basis of the Outstanding Principal Amount of Senior Bonds secured thereby.

Notwithstanding the foregoing, the Department may, by Supplemental Senior Indenture, provide for different provisions and timing of deposits with the Senior Trustee and different methods of paying principal of or interest on Senior Bonds of any Series depending upon the terms of such Series of Senior Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Senior Debt Service Fund created for the Series of Senior Bonds for which such Credit Facility is provided.

If Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Senior Bonds, the Department may, at its election, pay to the Senior Trustee funds from any available sources with the direction that such funds be deposited into the Senior Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

### **Additional Security**

The pledge of Pledged Revenues and the other security provided in the Granting Clauses of the Master Senior Indenture, secure all Senior Bonds issued under the terms of the Master Senior 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 Senior Bonds or Series of Senior Bonds with no obligation to provide such additional security or credit enhancement to other Senior Bonds.

### **Payment of Principal and Interest**

The Department has covenanted and agreed that it will duly and punctually pay or cause to be paid from the Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Senior Bond at the place and on the dates and in the manner set forth the Master Senior Indenture, the Supplemental Senior Indentures and in the Senior Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Senior Indenture and in the Senior Bonds contained, provided that the Department's obligation to make payment of the principal of, premium, if any, and interest on the Senior Bonds will be limited to payment from the Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Senior Indenture and any other source which the Department may specifically provide for such purpose and no Bondholder will have any right to enforce payment from any other funds of the Department.

### **Subordinated Obligations**

The Department may, from time to time, incur indebtedness which is subordinate to the Senior Bonds and which indebtedness is, in the Master Senior Indenture, referred to as Subordinated Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that:

(1) Any Supplemental Senior Indenture authorizing the issuance of any Subordinated Obligations will specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Senior Bonds; and

(2) Payment of principal of and interest on such Subordinated Obligations will be permitted, provided that all deposits required to be made to the Senior Trustee to be used to pay debt service on the Senior Bonds or to replenish the Senior Reserve Fund or a Senior Debt Service Reserve Fund are then current in accordance with the provisions of the Master Senior Indenture.

### **LAX Special Facilities and LAX Special Facility Obligations**

The Department is permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities as permitted in this section. The Department may, from time to time, and subject to the terms and conditions set forth below, (1) designate a separately identifiable existing facility or planned facility as an "LAX Special Facility," (2) pursuant to an indenture other than the Senior Indenture and without a pledge of any Pledged Revenues, 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, (3) provide that the contractual payments derived from 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 the payments required by clause (1) of the second succeeding paragraph, be "LAX Special Facilities Revenue" and not included as Pledged Revenues unless on terms provided in any supplemental indenture, and (4) provide that the debt so incurred will be an "LAX Special Facility Obligation" and the principal of and interest thereon will be payable solely from the LAX Special

Facilities Revenue. The Department may from time to time refinance any such LAX Special Facility Obligations with other LAX Special Facility Obligations.

LAX Special Facility Obligations will be payable as to principal, redemption premium, if any, and interest solely from LAX Special Facilities Revenue, which will include contractual payments derived by the Department under and pursuant to a contract (which may be in the form of a lease) relating to an LAX Special Facility by and between the Department and another person, firm or corporation, either public or private, as will undertake the operation of an LAX Special Facility.

No LAX Special Facility Obligations will be issued by the Department unless there has been filed with the Senior Trustee a certificate of an Authorized Representative stating that:

(1) The estimated LAX Special Facilities Revenue pledged to the payment of obligations relating to the LAX Special Facility will be at least sufficient to pay the principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special Facility not paid for by the operator thereof or by a party other than the Department and all sinking fund, reserve or other payments required by the resolution authorizing the LAX Special Facility Obligations as the same become due; and

(2) With respect to the designation of any separately identifiable existing LAX Airport Facilities or LAX Airport Facility as an “LAX Special Facility” or “LAX Special Facilities”, the estimated Pledged Revenues and Net Pledged Revenues, calculated without including the new LAX Special Facilities Revenue and without including any operation and maintenance expenses of the LAX Special Facility as LAX Maintenance and Operation Expenses, will be sufficient so that the Department will be in compliance with the rate covenant set forth in the Master Senior Indenture during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(3) No Senior Event of Default then exists under Master Senior Indenture.

To the extent LAX Special Facilities Revenue received by the Department during any Fiscal Year will exceed the amounts required to be paid pursuant to clause (1) of the immediately preceding paragraph for such Fiscal Year, such excess LAX Special Facilities Revenue, to the extent not otherwise encumbered or restricted, may constitute Pledged Revenues as determined by the Department.

Notwithstanding any other provision of this section, at such time as the LAX Special Facility Obligations issued for an LAX Special Facility including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Department from such facility will be included as Pledged Revenues.

### **Maintenance and Operation of LAX Airport Facilities**

Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, 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 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. Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, 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 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 Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of Los Angeles International Airport.

### **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 Department who handle or are responsible for funds of the Department; and

(3) the Department will place on file with the Senior 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 Senior Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required herein or obtained by the Department.

*“Qualified Self Insurance”* will mean 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, or (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.

### **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 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 covenant set forth in the Master Senior 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.

### **Investments**

Moneys held by the Senior Trustee in the funds and accounts created herein and under any Supplemental Senior Indenture will be invested and reinvested as directed by the Department, in Senior Permitted Investments subject to the restrictions set forth in the Master Senior Indenture and such Supplemental Senior 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 Senior 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 Senior Trustee will, to the extent practicable, invest in Senior Permitted Investments specified in clause (9) of the definition thereof. The Senior 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 Senior Permitted Investment is held. The Senior Trustee may buy or sell any Senior Permitted Investment through its own (or any of its affiliates) investment department.

### **Defeasance**

Senior Bonds 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 Senior Indenture except for the purposes of payment from moneys or Government Obligations held by the Senior Trustee or a Senior Paying Agent for such purpose. When all Senior Bonds which have been issued under the Master Senior Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Senior Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Senior Trustee, the Senior Registrar and the Senior Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Senior Trustee in and to the Pledged Revenues

and the other assets pledged to secure the Senior Bonds under the Master Senior Indenture will thereupon cease, terminate and become void, and thereupon the Senior Trustee will cancel, discharge and release the Master Senior 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 Senior Indenture which may then be in the Senior Trustee's possession, except funds or securities in which such funds are invested and are held by the Senior Trustee or the Senior Paying Agent for the payment of the principal of, premium, if any, and interest on the Senior Bonds.

A Senior Bond will be deemed to be paid within the meaning of the Master Senior Indenture when payment of the principal, interest and premium, if any, either (a) will have been made or caused to be made in accordance with the terms of the Senior Bonds and the Master Senior Indenture or (b) will have been provided for by depositing with the Senior 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 Senior Bonds will be deemed to be paid under the Master Senior Indenture, such Senior Bonds will no longer be secured by or entitled to the benefits of the Master Senior 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 Senior Bonds. Once such deposit will have been made, the Senior Trustee will notify all holders of the affected Senior Bonds that the deposit required by (b) above has been made with the Senior Trustee and that such Senior Bonds are deemed to have been paid in accordance with the Master Senior 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 Senior Indenture under which such Senior Bonds were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Senior Indenture under which such Senior Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Senior Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Senior Bonds or the Master Senior Indenture subject to (a) receipt of an approving opinion of nationally recognized Bond Counsel that such action will not adversely affect the tax exemption of any Senior Bond or Senior Bond then outstanding and (b) 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 Senior Bonds. Notwithstanding anything in this section to the contrary, monies from the trust or escrow established for the defeasance of Senior Bonds may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (a) and (b) above are met prior to or concurrently with any such withdrawal.

### **Senior Events of Default and Remedies**

***Senior Events of Default.*** Each of the following events will constitute and be referred to as a “***Senior Event of Default***”:

- (a) a failure to pay the principal of or premium, if any, on any of the Senior Bonds, except out payments under Senior Qualified Swaps, 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 Senior Bonds when such interest will become due and payable;
- (c) a failure to pay the purchase price of any Senior Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in the Supplemental Senior 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 Senior Indenture or a Supplemental Senior Indenture, which failure, except for a violation under the rate covenant set forth in the Master Senior Indenture which will be controlled by the provisions set forth therein, will continue for a period of 60 days

after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Senior Trustee, which notice may be given at the discretion of the Senior Trustee and will be given at the written request of holders of 25% or more of the Principal Amount of the Senior Bonds then Outstanding, unless the Senior Trustee, or the Senior Trustee and holders of Senior Bonds in a Principal Amount not less than the Principal Amount of Senior Bonds the holders of which requested such notice, will agree in writing to an extension of such period prior to its expiration; provided, however, that the Senior Trustee or the Senior Trustee and the holders of such principal amount of Senior Bonds 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 or 11 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; or

(f) the occurrence of any other Senior Event of Default as is provided in a Supplemental Senior Indenture.

***Remedies.***

(a) Upon the occurrence and continuance of any Senior Event of Default, the Senior Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Senior Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Senior Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Senior Bondholders, and require the Department to carry out any agreements with or for the benefit of the Senior Bondholders 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 this Indenture;

(ii) bring suit upon the Senior Bonds;

(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 Senior Bondholders; 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 Senior Bondholders.

(b) The Senior Trustee will be under no obligation to take any action with respect to any Senior Event of Default unless the Senior Trustee has actual knowledge of the occurrence of such Senior Event of Default.

***Senior Bondholders' Right To Direct Proceedings.*** Anything in the Master Senior Indenture to the contrary notwithstanding, holders of not less than 51% in aggregate Principal Amount of the Senior Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Senior Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Senior Trustee under the Master Senior Indenture to be taken in connection with the enforcement of the terms of the Master Senior Indenture or exercising any trust or power conferred on the Senior Trustee by the Master Senior Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Senior Indenture and that there has been provided to the Senior Trustee security and indemnity satisfactory to the Senior Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Senior Trustee.



***Limitation on Right To Institute Proceedings.*** No Senior Bondholder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the Master Senior Indenture, or any other remedy under the Master Senior Indenture or on such Senior Bonds, unless such Senior Bondholder or Senior Bondholders previously has given to the Senior Trustee written notice of a Senior Event of Default as hereinabove provided and unless also holders of 25% or more of the Principal Amount of the Senior Bonds then Outstanding will have made written request of the Senior Trustee to do so, after the right to institute such suit, action or proceeding under the Master Senior Indenture will have accrued, and will have afforded the Senior 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 Senior Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Senior Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Senior 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 Senior Bondholders will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Senior Indenture, or to enforce any right under the Master Senior Indenture or under the Senior Bonds, except in the manner provided in the Master Senior 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 Senior Indenture and for the equal benefit of all Senior Bondholders.

***Application of Moneys.*** If a Senior Event of Default will occur and be continuing, all amounts then held or any moneys received by the Senior Trustee, by any receiver or by any Senior Bondholder pursuant to any right given or action taken under the provisions of the Master Senior 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 Senior Trustee (including attorneys' fees and disbursements), will be applied as follows:

(a) Unless the principal of all the Senior Bonds subject to acceleration have been declared due and payable, all such moneys will be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on the Senior Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Senior 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 (ii) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Senior Bonds which will have become due with interest on such Senior Bonds at such rate as provided in a Supplemental Senior Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Senior Bonds 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.

(b) If the principal of all the Senior Bonds subject to acceleration will have been declared due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Senior Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Bond over any other Senior Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Senior Bonds subject to acceleration will have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the provisions of the Master Senior Indenture, then, subject to the provisions of clause (b) above which will be applicable in the event that the principal of all the Senior Bonds will later become due and payable, the moneys will be applied in accordance with the provisions of clause (a) above.

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 Senior 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 Senior 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 Senior 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 Senior Bondholders and will not be required to make payment to any Senior Bondholder until such Senior Bonds will be presented to the Senior Trustee for appropriate endorsement or for cancellation if fully paid.

### **The Senior Trustee**

***Duties.*** If a Senior Event of Default has occurred and is continuing, the Senior 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 Senior Trustee will perform the duties set forth in the Senior Indenture and no implied duties or obligations will be read into the Senior Indenture against the Senior Trustee. Except during the continuance of a Senior Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Senior 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 Senior Trustee and conforming to the requirements of the Senior Indenture. However, the Senior Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Senior Indenture.

The Senior 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 Senior Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Senior Trustee was negligent in ascertaining the pertinent facts; and (b) the Senior 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 Senior Bondholders or the Department in the manner provided in the Senior Indenture.

The Senior Trustee will not, by any provision of the Senior Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, 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 (i) a Senior Event of Default has occurred or (ii) an event has occurred which with the giving of notice and/or the lapse of time would be a Senior Event of Default and, with respect to such events for which notice to the Department is required before such events will become Senior Events of Default, such notice has been given, then the Senior Trustee will promptly, after obtaining actual notice of such Senior Event of Default or event described in (ii) above, give notice thereof to each Senior Bondholder. Except in the case of a default in payment or purchase on any Senior Bonds, the Senior 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 Senior Bondholders.

***Eligibility of Senior Trustee.*** The Senior Indenture will always have a Senior 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 Senior Trustee.*** The Senior 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 Senior Bonds may remove the Senior Trustee by notifying the removed Senior Trustee and may appoint a successor Senior Trustee with the Department's consent. The Department may remove the Senior Trustee, by notice in writing delivered to the Senior Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Senior Trustee during any time when a Senior 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 Senior Event of Default.

No resignation or removal of the Senior Trustee will be effective until a new Senior Trustee has taken office and delivered a written acceptance of its appointment to the retiring Senior Trustee and to the Department. Immediately thereafter, the retiring Senior Trustee will transfer all property held by it as Senior Trustee to the successor Senior Trustee, the resignation or removal of the retiring Senior Trustee will then (but only then) become effective and the successor Senior Trustee will have all the rights, powers and duties of the Senior Trustee under the Senior Indenture.

If the Senior Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Senior Indenture, the Department will promptly appoint a successor Senior Trustee.

If a Senior Trustee is not performing its duties under the Senior Indenture and a successor Senior Trustee does not take office within 60 days after the retiring Senior Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Senior Trustee, the Department or the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds may petition any court of competent jurisdiction for the appointment of a successor Senior Trustee.

### **Amendments and Supplements**

***Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders.*** The Department may, from time to time and at any time, without the consent of or notice to the Senior Bondholders, execute and deliver Supplemental Senior Indentures supplementing and/or amending the Master Senior Indenture or any Supplemental Senior Indenture, as follows:

- (a) to provide for the issuance of a Series or multiple Series of Senior Bonds under the provisions of Master Senior Indenture and to set forth the terms of such Senior Bonds and the special provisions which will apply to such Senior Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Senior Indenture or any Supplemental Senior Indenture, provided such supplement or amendment is not materially adverse to the Senior Bondholders;
- (c) to add to the covenants and agreements of the Department in the Master Senior Indenture or any Supplemental Senior 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 Senior Bondholders;
- (d) to confirm, as further assurance, any interest of the Senior Trustee in and to the Pledged Revenues or in and to the funds and accounts held by the Senior Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Senior Indenture or to otherwise add additional security for the Senior Bondholders;
- (e) to evidence any change made in the terms of any Series of Senior Bonds if such changes are authorized by the Supplemental Senior Indenture at the time the Series of Senior Bonds is issued and such change is made in accordance with the terms of such Supplemental Senior Indenture;
- (f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, provided such supplement or amendment is not materially adverse to the Senior Bondholders;
- (g) to provide for uncertificated Senior Bonds or for the issuance of coupons and bearer Senior Bonds or Senior Bonds registered only as to principal;

(h) to qualify the Senior Bonds or a Series of Senior Bonds for a rating or ratings by Moody's and/or S&P;

(i) to accommodate the technical, operational and structural features of Senior Bonds which are issued or are proposed to be issued or of a Senior 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 Senior Bonds or a specific Series of Senior Bonds, provided such supplement or amendment is not materially adverse to the Senior Bondholders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Senior Bond Counsel, to prevent the federal income taxation of the interest on the Senior Bonds, including, without limitation, the segregation of Pledged Revenues into different funds; or

(l) to modify, alter, amend or supplement this Indenture or any Supplemental Senior Indenture in any other respect which is not materially adverse to the Senior Bondholders.

Before the Department executes, pursuant to this section, any Supplemental Senior Indenture, there will be delivered to the Department and Senior Trustee an opinion of Bond Counsel to the effect that such Supplemental Senior Indenture is authorized or permitted by the Master Senior Indenture, the Charter 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 Senior Bonds 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 Senior Indentures Requiring Consent of Senior Bondholders.***

(a) Except for any Supplemental Senior Indenture entered into pursuant to the provisions described in “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above and any Supplemental Senior Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this paragraph (a) and not otherwise, the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Senior 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 Senior Indenture or in a Supplemental Senior Indenture; provided, however, that, unless approved in writing by the holders of all the Senior Bonds then Outstanding or unless such change affects less than all Series of Senior Bonds and the following subsection (b) is applicable, nothing contained in the Master Senior 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 Senior Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds or the rate of interest thereon; and provided that nothing contained in the Master Senior Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Senior Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Senior Indenture) upon or pledge of the Pledged Revenues created by the Master Senior Indenture, ranking prior to or on a parity with the claim created by the Master Senior Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Senior Bonds, a preference or priority of any Senior Bond or Senior Bonds over any other Senior Bond or Senior Bonds with respect to the security granted therefor under the Granting Clauses of the Master Senior Indenture, or (v) a reduction in the aggregate Principal Amount of Senior Bonds the consent of the Senior Bondholders of which is required for any such Supplemental Senior Indenture. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Senior Bondholders of the execution of any Supplemental Senior Indenture as authorized in to “—Supplemental Senior Indentures Not Requiring Consent of Senior

Bondholders” above, including the granting, for the benefit of particular Series of Senior Bonds, security in addition to the pledge of the Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Senior Indenture which amends the provisions of an earlier Supplemental Senior Indenture under which a Series or multiple Series of Senior Bonds were issued. If such Supplemental Senior Indenture is executed for one of the purposes described under “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above, no notice to or consent of the Senior Bondholders will be required. If such Supplemental Senior Indenture contains provisions which affect the rights and interests of less than all Series of Senior Bonds Outstanding and the provisions described under “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above 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 Senior Bonds of all Series which are affected by such changes will have the right from time to time to consent to any Supplemental Senior 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 Senior Indenture and affecting only the Senior Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Senior Bonds of all the affected Series then Outstanding, nothing contained in the Master Senior 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 Senior Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Senior Bondholders of the adoption of any Supplemental Senior Indenture as authorized pursuant to the provisions as described under “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above, including the granting, for the benefit of particular Series of Senior Bonds, security in addition to the pledge of the Pledged Revenues.

### **Rights of Credit Provider**

The Master Senior Indenture provides that if a Credit Facility is provided for a Series of Senior Bonds or for specific Senior Bonds, the Department may in the Supplemental Senior Indenture under which such Senior Bonds are issued, provide any or all of the following rights to the Credit Provider as the Department will deem to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Senior Trustee or to otherwise direct proceedings all as provided in the Master Senior Indenture to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds; (b) the right to act in place of the owners of the Senior Bonds which are secured by the Credit Facility for purposes of removing a Senior Trustee or appointing a Senior Trustee under the Senior Indenture; and (c) the right to consent to Supplemental Senior Indentures, which would otherwise require the consent of the holders of not less than 51% of the aggregate Principal Amount of the Outstanding Senior Bonds, entered into pursuant to the provisions described in “—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders” above, except with respect to any amendments described in clauses (a)(i) through (v) and clauses (b)(i) or (ii) described in “—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders” above, which consent of the actual Senior Bondholders will still be required, to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds.

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## APPENDIX C-3

### SUMMARY OF THE TWELFTH SUPPLEMENTAL SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2010D SENIOR BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Twelfth Supplemental Senior 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 Senior Indenture.

#### Terms of the Bonds

The Twelfth Supplemental Senior Indenture sets forth the terms of the Series 2010D Senior Bonds, most of which terms are described in the forepart of this Official Statement under “DESCRIPTION OF THE SERIES 2010D SENIOR BONDS.”

#### Establishment of Funds and Accounts

Pursuant to the Twelfth Supplemental Senior Indenture the Senior Trustee will establish and maintain the following funds and accounts: the Series 2010D Senior Debt Service Fund (and within the Series 2010D Senior Debt Service Fund an Interest Account, a Principal Account and a Redemption Account), the Series 2010D Senior Construction Fund, the Series 2010D Senior Costs of Issuance Fund, the Series 2010D Senior Reserve Account to be established in the Senior Reserve Fund, and the Series 2010D Senior Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2010D Senior Bonds and from other sources as described in the forepart of this Official Statement under “ESTIMATED SOURCES AND USES OF FUNDS.”

**Series 2010D Senior Debt Service Fund.** The Senior Trustee will deposit into the Interest Account of the Series 2010D Senior Debt Service Fund a portion of the proceeds of the Series 2010D Senior Bonds representing capitalized interest on the Series 2010D Senior Bonds. Additionally, the Senior Trustee will deposit in the Interest Account of the Series 2010D Senior Debt Service Fund amounts received from the Department, as provided in the Master Senior Indenture, to be used to pay interest on the Series 2010D Senior Bonds. The Senior Trustee will also deposit into the Interest Account of the Series 2010D Senior Debt Service Fund any other amounts deposited with the Senior 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 Senior Event of Default exists under the Master Senior Indenture, in which event the earnings will be retained in such account.

The Senior Trustee will deposit into the Principal Account of the Series 2010D Senior Debt Service Fund amounts received from the Department to be used to pay principal of the Series 2010D Senior Bonds at maturity. The Senior Trustee will also deposit into the Principal Account of the Series 2010D Senior Debt Service Fund any other amounts deposited with the Senior 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 a principal Payment Date for deposit into the LAX Revenue Account, unless a Senior Event of Default exists under the Master Senior Indenture, in which event the earnings will be retained in such account.

The Senior Trustee will deposit into the Redemption Account of the Series 2010D Senior Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of, interest on and premium, if any on the Series 2010D Senior Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund). 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 Senior Trustee by an Authorized Representative at the time of such deposit.

The Series 2010D Senior Debt Service Fund will be invested and reinvested in Senior Permitted Investments as directed by an Authorized Representative.

***Series 2010D Senior Construction Fund.*** Amounts in the Series 2010D Senior 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 Series 2010D Projects for which the Series 2010D Senior Bonds were issued. While held by the Senior Trustee, amounts in the Series 2010D Senior Construction Fund will not secure the Outstanding Series 2010D Senior Bonds. Amounts in the Series 2010D Senior Construction Fund will be invested and reinvested in Senior Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

***Series 2010D Senior Costs of Issuance Fund.*** The proceeds of the Series 2010D Senior Bonds deposited into the Series 2010D Senior Costs of Issuance Fund will be disbursed by the Senior Trustee, from time to time, to pay Costs of Issuance of the Series 2010D Senior Bonds. Amounts in the Series 2010D Senior Costs of Issuance Fund will be invested and reinvested in Senior Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

***Series 2010D Senior Reserve Account.*** For a description of the Senior Reserve Fund and the Series 2010D Senior Reserve Account, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010D SENIOR BONDS—Senior Bonds—Senior Reserve Fund.”

***Series 2010D Senior Rebate Fund.*** The Twelfth Supplemental Senior Indenture creates the Series 2010D Senior Rebate Fund for the Series 2010D Senior Bonds 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 Senior Trustee with respect to the Series 2010D Senior 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 2010D Senior Bonds. Such excess is to be deposited into the Series 2010D Senior Rebate Fund and periodically paid to the United States of America. The Series 2010D Senior Rebate Fund while held by the Senior 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 2010D Senior Bonds.



## APPENDIX D

### AMENDMENTS TO THE MASTER SENIOR INDENTURE

#### FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS

The Fifty-One Percent Master Senior Indenture Amendments will not become effective until the Department has received the consent of the owners of at least 51% in aggregate principal amount of all of the Senior Bonds Outstanding and the consents of the CP Banks (the “Fifty-One Percent Master Senior Indenture Consent Requirement”). By the purchase and acceptance of the Series 2010D Senior Bonds, the owners of the Series 2010D Senior Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments. At the time of issuance of the Series 2010D Senior Bonds, the owners of more than 51% in aggregate principal amount of all of the Senior Bonds Outstanding will have consented to the Fifty-One Percent Master Senior Indenture Amendments. However, the Department will not receive the consents of the CP Banks to the Fifty-One Percent Master Senior Indenture Amendments at the time of issuance of the Series 2010D Senior Bonds. At this time there can be no assurance that the Fifty-One Percent Master Senior Indenture Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to the Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

#### ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) Subparagraph (iv) of the definition of “Aggregate Annual Debt Service”

(iv) if any Outstanding Bonds (including Program Bonds then issued and Outstanding) or any Bonds which are then proposed to be issued constitute Tender Indebtedness (~~but excluding Program Bonds or Bonds as to which a Qualified Swap is in effect and to which subsection (vi) or (viii) applies~~), then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness shall be treated as if **(a)** the principal amount of such Bonds 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 Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued, **provided, however, notwithstanding the previous provisions of this clause (a), any principal amortization schedule set forth in a Supplemental Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) shall be applied to determine the principal amortization of such Bonds;** **(b)** the interest rate used for such computation shall 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 Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and **(c)** with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments shall be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (v) or (vi) below, as appropriate;

- (b) Subparagraph (v) of the definition of “Aggregate Annual Debt Service”

(v) if any Outstanding Bonds constitute Variable Rate Indebtedness, including obligations described in subsection (viii)(b) to the extent it applies (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Tender Indebtedness or subsection (vi-viii)(a) relating to Synthetic Fixed Rate Indebtedness or (viii) relating to Qualified Swaps Debt applies), the interest rate ~~on~~ used for such Bonds computation shall be the average rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the ~~12 months~~ 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 such fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(c) Subparagraph (viii ) of the definition of “Aggregate Annual Debt Service”

(viii) (a) for purposes of computing the Aggregate Annual Debt Service of Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon shall, if the Board elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Board does not elect such rate, then it shall 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 ~~as implied by the terms of the Swap Agreement or the net interest rate payable pursuant to offsetting indices, as applicable~~ determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(b) for purposes of computing the Aggregate Annual Debt Service ~~on all other of~~ Bonds with respect to which a Qualified Swap is in effect, such Qualified Swap shall be marked to market (that is, treated as if it were being closed out with an at the market bid) at the time of such calculation and the putative gain or loss thereon under the terms and conditions of the agreement creating such Qualified Swap shall be treated as amortized over the remaining term of the Qualified Swap and the annualized gain or loss payment thereunder shall be added to or subtracted from Annual Debt Service for such Bonds Swap has been entered into whereby the Board has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Bonds to which such Swap pertains shall be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Bonds shall be the sum of that rate as determined in accordance with subsection (v) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider;

(d) Subparagraph (ix) of the definition of “Aggregate Annual Debt Service”

(ix) if moneys ~~or~~ Permitted Investments or any other amounts not included in Pledged Revenues have been used to pay or have been irrevocably deposited with and are held by the Trustee or another fiduciary to pay or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments, other amounts not included in Pledged Revenues or Capitalized Interest or from the earnings thereon shall be disregarded and not included in calculating Aggregate Annual Debt Service; ~~and~~

- (e) Subparagraph (xi) of the definition of “Aggregate Annual Debt Service”

**(xi) if Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Bonds, 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 Pledged Revenues or from earnings thereon shall be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Aggregate Annual Debt Service.**

- (f) The definition of “Authorized Amount”

“Authorized Amount” shall mean, when used with respect to Bonds, including Program Bonds, the maximum Principal Amount of Bonds which is then authorized by a resolution or Supplemental Indenture adopted by the Board pursuant to Section 2.09 hereof to be Outstanding at any one time under the terms of such Program or Supplemental Indenture. If the maximum Principal Amount of Bonds or Program Bonds authorized by a preliminary resolution or form of Supplemental Indenture approved by the Board pursuant to Section 2.09 of this Indenture exceeds the maximum Principal Amount of Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Indenture executed and delivered by the Board pursuant to which such Bonds are issued or such Program is established, the Principal Amount of such Bonds or Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Indenture as executed and delivered by the Board shall be deemed to be the “Authorized Amount.” **Notwithstanding the provisions of this definition of “Authorized Amount,” in connection with Section 2.11(a) and (b) and the calculation of Maximum Aggregate Annual Debt Service and Aggregate Annual Debt Service with respect to a Commercial Paper Program, “Authorized Amount” shall mean the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Commercial Paper Program.**

- (g) The definition of “Costs” or “Costs of a Project”

“Costs” or “Costs of a Project” shall mean 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 shall 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 Bonds, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, the Reserve Fund, any Debt Service Reserve Fund (other than the Reserve Fund), Trustee’s fees and expenses; (6) any Swap Termination Payments due in connection with a Series of Bonds or the failure to issue such Series of Bonds, 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 shall also include 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.**

- (h) The definition of “Customer Facility Charge”

**“Customer Facility Charges” shall mean 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.**

- (i) 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. ~~The~~ **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 highest long-term ~~rating~~ **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 ~~at the time such instrument is provided.~~

- (j) The definition of “Estimated Completion Date”

~~“Estimated Completion Date” shall mean the estimated date upon which a Specified LAX Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a Specified LAX Project is expected to have been acquired and payment therefor made, in each case, as that date shall be set forth in a certificate of an Authorized Board Representative delivered to the Trustee at or prior to the time of issuance of the Bonds which are issued to finance such Project.~~

- (k) The definition of “LAX Special Facility Obligations”

“LAX Special Facility Obligations” shall mean bonds or other debt instruments issued pursuant to an indenture other than this Indenture to finance LAX Special Facilities and which, **except as otherwise provided in Section 5.07 hereof,** 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.

- (l) The definition of “Pledged Revenues”

“Pledged Revenues” shall mean, except to the extent specifically excluded herein or under the terms of any Supplemental Indenture (only with respect to the Series of Bonds issued pursuant to such Supplemental Indenture), LAX Revenues. “Pledged Revenues” shall also include such additional revenues, if any, as are designated as “Pledged Revenues” under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Board 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 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 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 Indenture: (a) any Swap Termination Payments paid to the Board pursuant to a Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture, **(d) Customer Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture** (provided that only ~~Passenger~~ **Customer** Facility Charges in respect of LAX may be so pledged), ~~(d e)~~ unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and ~~(e f)~~ Released LAX Revenues. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such Supplemental Indenture.

- (m) 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) ~~which has been approved in writing by any Credit Provider securing payment of principal of and interest on such Series of Bonds (including any bond insurer);~~ (e) whose Swap Provider is a Qualified Swap Provider or has been a Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service or ~~Average~~ **Aggregate** Annual Debt Service is being made; ~~(d 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; ~~(e d)~~ which has been designated in writing to the Trustee by the Department as a Qualified Swap with respect to such Bonds; and ~~(f 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.

- (n) The definition of “Qualified Swap Provider”

“Qualified Swap Provider” shall mean a financial institution (a) whose senior long -term debt obligations, or whose obligations under any 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, and ~~(b) acceptable to the Credit Provider for the Designated Debt;~~ **(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.**

- (o) The definition of “Unenhanced Commercial Paper Program”

**“Unenhanced Commercial Paper Program” shall be a Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.**

## Section 2.09

Clause (e) of Section 2.09 is to be amended to read as follows:

(e) a certificate of the Authorized Board Representative stating that ~~(i)(A)~~ none of the Events of Default set forth in Section 8.01 of this Indenture ~~have occurred and remain uncured and~~ **has occurred and remains uncured or (B) that upon issuance of such Series of Bonds, all Events of Default set forth in Section 8.01 of this Indenture that have occurred and are continuing, shall be cured, and (ii)** that the Board is in full compliance with the terms of Section 5.04 herein;

## Section 2.11

Section 2.11 is to be amended to read as follows:

Section 2.11. Tests for Issuance of Bonds. Subject to the provisions under subsection (i), (ii) or ~~(# iii)~~ of the last paragraph of this Section ~~2.11~~ and excepting ~~the~~ Initial Bonds, as a condition to the issuance of any Series of Bonds, there shall first be delivered to the Trustee either:

(a) a certificate, **dated as of a date between the date of pricing of the Bonds being issued and the date of delivery of such Bonds (both dates inclusive)**, prepared by an Authorized Board Representative showing that the Net 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 Series of Bonds or preceding the first issuance of the proposed Program Bonds were at least equal to 125% of Maximum Aggregate Annual Debt Service **with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds**, calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding; or

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

(1) the Net Pledged Revenues, ~~(as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date~~ **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 Maximum **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**

(2) ~~for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Board will be in compliance with Section 5.04(a) and (b) of this Indenture; and~~

~~(3)~~ **(2) for the period from and including the first full Fiscal Year following the issuance of such proposed Series of Bonds during which no interest on such Series of Bonds 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 Series of Bonds, or (B) the third full Fiscal Year during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof**, the estimated Net Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an

~~Authorized Board Representative,~~ **together with any estimated Transfer, for each such Fiscal Year,** will be at least equal to 125% of ~~Maximum~~ **the** Aggregate Annual Debt Service **for each such Fiscal Year with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds** (calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding).

For purposes of subparagraphs (a) and (b) above, ~~no~~ **the amount of any Transfer shall be taken into account in the computation of Pledged Revenues by the Authorized Board Representative or the Consultant taken into account shall not exceed 25% of the Aggregate Annual Debt Service 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.**

For purposes of ~~subsections~~ **subsection** (b)(2) ~~and (3)~~ above, in estimating Net 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 shall 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 shall include in the certificate or in a separate accompanying report a description of the assumptions used and the calculations made in determining the estimated Net Pledged Revenues and shall also set forth the calculations of ~~Maximum~~ 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 Board Representative** may rely upon financial statements prepared by the Board 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 Board Representative shall certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year -end adjustments.

Neither of the certificates described above under Section 2.11(a) or (b) shall be required:

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

(ii) if the Bonds being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Board Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the **Net** Pledged Revenues for any 12 consecutive months out of the ~~18~~ **most recent 24** months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Board Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the ~~Department~~ **Board** will be in compliance with Section 5.04 (a) and (b) of this Indenture; **or**

(iii) if the Bonds being issued are to pay costs of completing a Specified LAX Project for which Bonds have previously been issued and the principal amount of such Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Bonds 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 Board Representative and there is delivered to the Trustee (1) a Consultant's certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (2) a certificate of an Authorized Board Representative to the effect that (x) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Specified LAX Project) of the original Bonds issued to finance such Specified LAX Project have been or will be used to pay Costs of the Specified LAX Project, (y) 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 Bonds previously issued for such purpose), and (z) the proceeds to be received from the issuance of such Bonds plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Bonds previously issued for such purpose) will be sufficient to pay the remaining estimated Costs of the Specified LAX Project.

#### Section 4.13

Section 4.13 is to be amended to read as follows:

Section 4.13. Creation of Debt Service Reserve Fund; Additional Funds and Accounts. Notwithstanding Section 4.07 hereof, instead of making or causing a deposit to be made to the Reserve Fund, the Board may, at the time of issuance of any Series of Bonds, ~~except for such Series of Bonds designated as Variable Rate Indebtedness,~~ provide by Supplemental Indenture for the creation of a Debt Service Reserve Fund as **additional** security for such Series **of Bonds**, and in its discretion reserving the right to allow a future Series of Bonds to participate in such Debt Service Reserve Fund, or provide that such Series of Bonds participate in a Debt Service Reserve Fund previously created for an Outstanding Series of Bonds. Any Debt Service Reserve Fund established under a Supplemental Indenture shall be funded, **at the time of issuance of such Series of Bonds or over such other period of time as set forth in a Supplemental Indenture,** in an amount equal to the Reserve Requirement **with respect to the Bonds participating in such Debt Service Reserve Fund.** The Board shall, by such Supplemental Indenture, provide for the manner of funding and replenishing of such Debt Service Reserve Fund and shall establish such other terms with respect to such Debt Service Reserve Fund as the Board may deem to be appropriate, including providing a Credit Facility in lieu thereof. ~~In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.~~

**Notwithstanding either Section 4.07 hereof or this Section, at the time of issuance of any Series of Bonds, the Board may provide pursuant to a Supplemental Indenture that neither a deposit to the Reserve Fund nor a deposit to a Debt Service Reserve Fund shall be required and that such Series of Bonds shall not be secured by the Reserve Fund or a Debt Service Reserve Fund.**

**In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.**

#### Section 5.04(c)

Section 5.04(c) is to be amended to read as follows:

(c) If the Board violates either covenant set forth in subsection (a) or (b) above, such violation shall not be a default under this Indenture and shall not give rise to a declaration of an Event of



Default if, within ~~420~~ 180 days after the date such violation is discovered, the Board 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 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, an Event of Default may be declared under Section 8.01(d) hereof. The Board may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Board into compliance with said covenants.

### **Section 5.07**

Section 5.07 is to be amended to read as follows:

Section 5.07. LAX Special Facilities and LAX Special Facility Obligations. The Board shall be permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities as permitted in this Section 5.07. The Board may, from time to time, and subject to the terms and conditions of this Section 5.07, (~~4~~ i) designate a separately identifiable existing facility or improvement or planned facility or improvement as an “LAX Special Facility,” (~~2~~ ii) pursuant to an indenture other than this 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, (~~3~~ iii) provide that the contractual payments derived from or related to such LAX Special Facility, together with other income and revenues available to the Board from such LAX Special Facility to the extent necessary to make the payments required by clause (1) of the second succeeding paragraph, be “LAX Special Facilities Revenue” and not included as Pledged Revenues, unless ~~on terms~~ otherwise provided in any supplemental indenture, and (~~4~~ iv) provide that the debt so incurred shall be an “LAX Special Facility Obligation” and the principal of and interest thereon shall be payable solely from the LAX Special Facilities Revenue and the proceeds of such LAX Special Facility Obligation set aside exclusively to pay debt service on such LAX Special Facility Obligation (except the Board 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 covenants or other provisions of this Indenture (including, but not limited to, Sections 2.09, 2.11 and 5.04 hereof) or such other indentures or agreements of the Board) to the payment of the principal of and interest on such LAX Special Facility Obligation in such amounts and at such times as may be agreed to by the Board). The Board may from time to time refinance any such LAX Special Facility Obligations with other LAX Special Facility Obligations.

LAX Special Facility Obligations shall be payable as to principal, redemption premium, if any, and interest solely from (a) LAX Special Facilities Revenue, which shall include contractual payments derived by the Board under and pursuant to a contract (which may be in the form of a lease) relating to an LAX Special Facility by and between the Board and another person, firm or corporation, either public or private, as shall undertake the operation of an LAX Special Facility, (b) proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and (c) such Pledged Revenues or other moneys not included in Pledged Revenues made available by the Board as provided in clause (iv) of the previous paragraph, if any.

No LAX Special Facility Obligations shall be issued by the Board unless there shall have been filed with the Trustee a certificate of an Authorized Board Representative stating that:

- (1) The estimated LAX Special Facilities Revenue pledged to the payment of ~~obligations relating to the LAX Special Facility~~ Obligations, the proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and such Pledged Revenues or other moneys made available by the Board pursuant to clause (iv) of the first paragraph of this Section 5.07, if any, will be at least sufficient, to pay the principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special

Facility not paid for by the operator thereof or by a party other than the Board and all sinking fund, reserve or other payments required by the resolution or indenture authorizing the LAX Special Facility Obligations as the same become due; and

(2) With respect to the designation of any separately identifiable existing LAX Airport Facilities or LAX Airport Facility as an “LAX Special Facility” or “LAX Special Facilities”, the estimated Pledged Revenues and Net Pledged Revenues, calculated without including the new LAX Special Facilities Revenue, the proceeds of any LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations or any Pledged Revenues or other moneys made available by the Board pursuant to clause (iv) of the first paragraph of this Section 5.07, if any, and without including any operation and maintenance expenses of the LAX Special Facility as LAX Maintenance and Operation Expenses, will be sufficient so that the Board will be in compliance with Section 5.04(a) and (b) of this Indenture during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(3) No Event of Default then exists under Article VIII of this Indenture.

To the extent LAX Special Facilities Revenue received by the Board during any Fiscal Year shall exceed the amounts required to be paid pursuant to clause (1) of the immediately preceding paragraph for such Fiscal Year, such excess LAX Special Facilities Revenue, to the extent not otherwise encumbered or restricted, may constitute Pledged Revenues as determined by the Board.

Notwithstanding any other provision of this Section 5.07, at such time as the LAX Special Facility Obligations issued for an LAX Special Facility including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Board from such facility shall be included as Pledged Revenues.

### Section 8.01

(a) Clause (a) of Section 8.01 is to be amended to read as follows:

(a) a failure to pay the principal of or premium, if any, on any of the Bonds, ~~except out payments under Qualified Swaps~~, when the same shall become due and payable at maturity or upon redemption;

(b) Clause (d) of Section 8.01 is to be amended to read as follows:

(d) a failure by the Board to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) of this Section 8.01) that are to be observed or performed by the Board and which are contained in this Indenture or a Supplemental Indenture, which failure, except for a violation under Section 5.04 which shall be controlled by the provisions set forth therein, shall continue for a period of ~~60~~ 90 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Board by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of holders of 25% or more of the Principal Amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and holders of Bonds in a Principal Amount not less than the Principal Amount of Bonds the holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the holders of such principal amount of Bonds shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Board within such period and is being diligently pursued until such failure is corrected;

## Section 8.02

Clause (c) of Section 8.02 is to be amended to read as follows:

**(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider, in no event, upon the occurrence and continuation of an Event of Default described in Section 8.01 hereof, shall the Trustee, the Holders, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Bonds Outstanding.**

## Section 8.10

Section 8.10 is to be amended to read as follows:

Section 8.10. Application of Moneys. If an Event of Default shall occur and be continuing, all amounts then held or any moneys received by the Trustee, by any receiver or by any Bondholder pursuant to any right given or action taken under the provisions of this Article VIII (which shall not include moneys provided through a Credit Facility, which moneys shall 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 Trustee (including attorneys' fees and disbursements), shall be applied as follows: (i ~~a~~) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available shall 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 (ii ~~b~~) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Bonds which shall have become due with interest on such Bonds at such rate as provided in a Supplemental Indenture from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full Bonds 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.

~~(b) If the principal of all the Bonds subject to acceleration shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.~~

~~(c) If the principal of all the Bonds subject to acceleration shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of Section 8.02(b) and Section 8.03 hereof, then, subject to the provisions of clause (b) of this Section 8.10 which shall be applicable in the event that the principal of all the Bonds shall later become due and payable, the moneys shall be applied in accordance with the provisions of clause (a) of this Section 8.10.~~

Whenever moneys are to be applied pursuant to the provisions of this Section 8.10, such moneys shall be applied at such times, and from time to time, as the Trustee shall 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 Trustee shall apply such funds, it shall fix the date (which shall be an interest Payment Date unless it shall 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 shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Bondholders and shall not be required to make

payment to any Bondholder until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

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## ONE HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS

### Senior Pledge Change Amendment

The Senior Pledge Change Amendment will not become effective until (a) the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consents of the CP Banks (the “Senior Pledge Change Consent Requirement”) and (b) the Subordinate Pledge Change Consent Requirement has been met. By the purchase and acceptance of the Series 2010D Senior Bonds, the owners of the Series 2010D Senior Bonds will be deemed to have irrevocably consented to the Senior Pledge Change Amendment. At the time of issuance of the Series 2010D Senior Bonds, the owners of approximately 96.7% of the Outstanding Senior Bonds and the owners of 100% of the Outstanding Subordinate Bonds will have consented to the Senior Pledge Change Amendment; but the Department will not receive the consent of any of the owners of the Outstanding Subordinate Commercial Paper Notes or the consents of the CP Banks to the Senior Pledge Change Amendment at the time of issuance of the Series 2010D Senior Bonds and the Subordinate Pledge Change Consent Requirement will not be met.

At this time there can be no assurance that the Senior Pledge Change Consent Requirement or the Subordinate Pledge Change Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to the Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~. The Other Master Senior Indenture Amendments as described in “—OTHER MASTER SENIOR INDENTURE AMENDMENTS” are assumed to become effective prior to the Senior Pledge Change Amendment and therefore are incorporated in the description of the Senior Pledge Change Amendment described below.

### WHEREAS CLAUSES

The eighth and ninth WHEREAS clauses will be amended to read as follows:

WHEREAS, the Board has determined that it is necessary and advisable to issue bonds from time to time for the purposes set forth in the Resolution and that such bonds be payable from and secured by the **Net** Pledged Revenues (as hereinafter defined); and

WHEREAS, the Board wishes to provide in this Indenture for the issuance and payment of certain bonds and the pledge of the **Net** Pledged Revenues thereto, and the Trustee is willing to accept the trusts provided in this Indenture;

### GRANTING CLAUSE

The GRANTING CLAUSE will be amended to read as follows:

#### GRANTING CLAUSE

To secure the payment of the interest, principal and premium, if any, on the Bonds and the performance and observance by the Board of all the covenants, agreements and conditions expressed or implied herein or contained in the Bonds, the Board hereby pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the **Net** Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under this Indenture, moneys and securities held in the Reserve Fund or any Debt Service Reserve Fund and any Reserve Fund Surety Policy or Debt Service Reserve Fund Surety Policy, as hereinafter defined, provided at any time in satisfaction of all or a portion of the Reserve Requirement, and

to the extent provided in any Supplemental Indenture, moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause (except to the extent excluded from the definition of “Pledged Revenues” by this Indenture), 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 Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any security or Credit Facility provided for specific Bonds or a specific Series of Bonds may, as provided by Supplemental Indenture, secure only such specific Bonds or Series of Bonds and, therefore, shall not be included as security for all Bonds under this Indenture and moneys and securities held in trust as provided in Section 4.10 exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under Article VII hereof shall be held solely for the payment of such specific Bonds.

### **ARTICLE I – Definitions**

The following definitions are to be amended to read as follows:

- (a) The definition of “Bond” or “Bonds”

“Bond” or “Bonds” shall mean any debt obligation of the Department issued under and in accordance with the provisions of Article II of this 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 Repayment Obligations to the extent provided in Section 2.13 of this Indenture. The term “Bond” or “Bonds” herein does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Indenture to this Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth pursuant to this Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations or Third Lien Obligations shall be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Net Pledged Revenues. The term “Bond” and “Bonds” includes Program Bonds.

- (b) 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~~ ~~FIRST through SEVENTH~~ 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~~ ~~FIRST through SEVENTH~~ 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;

(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 been requested by the Department to maintain a rating on the Bonds and S&P is 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 provided 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.

(c) The definition of "Subordinated Obligation"

"Subordinated Obligation" shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds 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 Bonds 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 the Reserve Fund and any Debt Service Reserve Fund. "Subordinated Obligations" are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations shall be secured on a junior and subordinate basis to the Bonds from the Net Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a "Subordinated Obligation" for purposes of this Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Board as a "Subordinated Obligation" in a Supplemental 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 Board under each such Swap, as the context requires. The term "Subordinated Obligations" also includes a Swap or the obligations of the Board 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 Swap Termination Payment under a Qualified Swap with respect to any Bonds payable on parity with Subordinated Obligations.

(d) The definition of “Third Lien Obligation”

“Third Lien Obligation” shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the 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 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 the Reserve Fund, any Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. “Third Lien Obligations” are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations shall be secured on a junior and subordinate basis to the Bonds and the Subordinated Obligations from the **Net** Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a “Third Lien Obligation” for purposes of this 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 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 Swap Termination Payment under a Qualified Swap with respect to any Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

(e) The definition of “Unissued Program Bonds”

“Unissued Program Bonds” shall mean the bonds, notes or other indebtedness authorized to be issued pursuant to a Program and payable from **Net** Pledged Revenues, issuable in an amount up to the Authorized Amount relating to such Program, which have been approved for issuance by the Board pursuant to a resolution adopted by the Board and with respect to which Program the items described in Section 2.09(a) through (g) have been filed with the Trustee but which have not yet been authenticated and delivered pursuant to the Program documents.

**Section 2.01**

The third paragraph of Section 2.01 is to be amended to read as follows:

All Bonds shall contain a statement to the following effect:

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 of Airports of The City of Los Angeles to the extent of the **Net** Pledged Revenues, is pledged to the payment of the principal of, premium, if any, or interest on, this Bond. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Bonds. The Department has no power of taxation.

**Section 2.02**

The first paragraph of Section 2.02 is to be amended to read as follows:

Section 2.02. Terms, Medium and Place of Payment. The Bonds shall be issued in the principal amount, shall bear interest at a rate or rates, including a rate of 0% and including variable or adjustable rates or rates set by auction, or by such other methods as the Board may from time to time determine, and



such interest may be payable periodically, in whole or in part, or may be accumulated and paid at maturity or at such other time or times as the Board shall determine. Bonds shall mature and shall be subject to redemption prior to their respective maturities, all as shall be set forth in a Supplemental Indenture. The Bonds of each Series shall state that they are issued under and are secured by this Indenture and the Net Pledged Revenues and state that regardless of the form thereof, they are “Bonds” issued hereunder and within the meaning of this Indenture.

### **Section 2.13**

The third sentence of Section 2.13 is to be amended to read as follows:

Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond shall be payable from Net Pledged Revenues on a basis subordinate to the payment and/or funding of the Bonds and any reserve funds established with respect to the Bonds.

### **Section 2.14**

Section 2.14 is to be amended to read as follows:

Section 2.14. Obligations Under Qualified Swap; Nonqualified Swap.

(a) The obligation of the Board to make Regularly Scheduled Swap Payments under a Qualified Swap with respect to a Series of Bonds may be on a parity with the obligation of the Board to make payments with respect to such Series of Bonds and other Bonds under this Indenture, except as otherwise provided by Supplemental Indenture and elsewhere herein with respect to any Swap Termination Payments. The Board may provide in any Supplemental Indenture that Regularly Scheduled Swap Payments under a Qualified Swap shall be secured by a pledge of or lien on the Net Pledged Revenues on a parity with the Bonds of such Series and all other Bonds, regardless of the principal amount, if any, of the Bonds of such Series remaining Outstanding. The Trustee shall take all action consistent with the other provisions hereof as shall be requested in writing by the Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Board with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence shall require the Trustee either to exercise the remedies granted in this Indenture or to institute any action, suit or proceeding in its own name, the Qualified Swap Provider shall provide to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

(b) In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the Board under a Qualified Swap, such Swap Termination Payment and any such other amounts shall, unless otherwise provided in a Supplemental Indenture, constitute an obligation of the Board payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Bonds and any reserve funds established with respect to such Bonds.

(c) Obligations of the Board to make payments, including termination payments, under a Nonqualified Swap shall, unless otherwise provided in a Supplemental Indenture, constitute an obligation of the Board payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Bonds and any reserve funds established with respect to such Bonds.

**Section 4.01**

Section 4.01 is to be amended to read as follows:

Section 4.01. Bonds Secured by Lien on Net Pledged Revenues. The Bonds authorized and issued under the provisions of this Indenture shall be secured as provided in the Granting Clauses of this Indenture. The Board hereby represents and states that it has not previously created any charge or lien on or any security interest in the Net Pledged Revenues and the Board covenants that, until all the Bonds authorized and issued under the provisions of this Indenture and the interest thereon shall have been paid or are deemed to have been paid, it will not, except as specifically provided in this Indenture, grant any prior or parity pledge of or any security interest in the Net Pledged Revenues or any of the other security which is pledged pursuant to the Granting Clauses of this Indenture, or create or permit to be created any charge or lien thereon or any security interest therein ranking prior to or on a parity with the charge or lien of the Bonds (including Additional Bonds) from time to time Outstanding under this Indenture. The Board may, as provided in Section 5.06 hereof, grant a lien on or security interest in the Net Pledged Revenues to secure Subordinated Obligations and Third Lien Obligations.

**Section 4.04(b)**

Section 4.04(b) is to be amended to read as follows:

(b) Pledged Revenues credited to the LAX Revenue Account shall be applied as follows and in the order set forth below:

**FIRST** ~~To the payment of amounts required to be deposited in the Debt Service Funds pursuant to Section 4.05;~~ **To the payment of LAX Maintenance and Operation Expenses of the Airport System which are payable from LAX Revenues, which include payment to the City for services provided by it to LAX;**

~~**SECOND**~~ ~~To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07, and any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;~~

~~**THIRD**~~ ~~To the payment of debt service on any indebtedness (other than Outstanding Bonds or Third Lien Obligations), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;~~

~~**FOURTH**~~ ~~To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Third Lien Obligations), including Subordinated 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 indebtedness;~~

~~**FIFTH**~~ ~~To the payment of debt service on any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including 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 debt service on such indebtedness;~~

~~**SIXTH**~~ ~~To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including 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 indebtedness;~~

~~**SEVENTH**~~ ~~To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including 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 indebtedness;~~

~~**EIGHTH SEVENTH**~~ 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 Board pursuant to Section 4.08 hereof;

~~EIGHTH~~ ——— To the payment of LAX Maintenance and Operation Expenses of the Airport System which are payable from LAX Revenues, which include payment to the City for services provided by it to LAX;

NINTH To the payment of such amounts as are directed by the Board 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.

With respect to the application of Pledged Revenues described in subparagraphs ~~SEVENTH~~ through **FIRST, EIGHTH and** NINTH above, the Department need apply only such amount of Pledged Revenues pursuant to the provisions of such subparagraphs as is necessary, after taking into account all other moneys and revenues available to the Board for application for such purposes, to pay the amounts required by such subparagraphs.

Notwithstanding the provisions of this Indenture, nothing herein shall preclude the Board from making the payments described in paragraphs FIRST through NINTH above from sources other than Pledged Revenues.

#### **Section 4.06**

The eighth and tenth paragraphs of Section 4.06 are to be amended to read as follows:

If the Reserve Fund or any Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on the Bonds secured thereby, then the Board may be required by Supplemental Indenture to replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the Credit Provider from **Net** Pledged Revenues provided that (a) no amount from **Net** Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full, (b) the required payments to replenish the Reserve Fund and any Debt Service Reserve Fund or reimburse the Credit Provider shall 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 Reserve Fund or any Debt Service Reserve Fund or reimburse the Credit Provider exceeds the amount available for such purposes, the payments made to the Trustee for such purpose shall be allocated among the Reserve Fund and any Debt Service Reserve Fund and the Credit Provider pro rata on the basis of the Outstanding Principal Amount of Bonds secured thereby.

If **Net** Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Bonds, the Board may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

#### **Section 4.07**

Section 4.07(a)(i) is to be amended to read as follows:

(a) (i) Except as otherwise provided herein, each Supplemental Indenture providing for the issuance of Bonds shall require as a condition of issuance that an amount be deposited in the Reserve

Fund so that, together with any Reserve Fund Surety Policy provided pursuant to (b) below, the amount on deposit in the Reserve Fund will be equal to the Reserve Requirement with respect to the Bonds participating in the Reserve Fund. Any cash to be deposited in the Reserve Fund may be derived from proceeds of Bonds or any other legally available source of funds. In the event that federal tax law in the opinion of Bond Counsel would prohibit the Reserve Requirement with respect to the Bonds participating in the Reserve Fund or any portion thereof from being paid from the proceeds of any issue of Bonds, the Board shall be permitted to pay the portion of the Reserve Requirement with respect to the Bonds participating in the Reserve Fund not permitted to be paid from Bond proceeds from Net Pledged Revenues, to the extent permissible under federal tax laws, in equal monthly installments within 60 months from the date of issuance of said series of Bonds.

#### **Section 4.12**

Section 4.12 is to be amended to read as follows:

Section 4.12. Additional Security. The pledge of Net Pledged Revenues and the other security provided in the Granting Clauses hereof, secure all Bonds issued under the terms of this Indenture on an equal and ratable basis, except as to the timing of such payments. The Board may, however, in its discretion, provide additional security or credit enhancement for specified Bonds or Series of Bonds with no obligation to provide such additional security or credit enhancement to other Bonds.

#### **Section 5.01**

Section 5.01 is to be amended to read as follows:

Section 5.01. Payment of Principal and Interest. The Board covenants and agrees that it will duly and punctually pay or cause to be paid from the Net Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Bond at the place and on the dates and in the manner herein, in the Supplemental Indentures and in the Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements herein and in the Bonds contained, provided that the Board's obligation to make payment of the principal of, premium, if any, and interest on the Bonds shall be limited to payment from the Net Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of this Indenture and any other source which the Board may specifically provide for such purpose and no Bondholder shall have any right to enforce payment from any other funds of the Board.

#### **Section 5.02**

Section 5.02 is to be amended to read as follows:

Section 5.02. Performance of Covenants by Board; Authority; Due Execution. The Board covenants that it will faithfully perform at all times any and all covenants and agreements contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Board covenants that it is duly authorized under the Constitution and laws of the State and the Charter to issue the Bonds and pledge and grant a security interest in the Net Pledged Revenues and other security pledged thereto or in which a security interest is granted and that the Board has not previously pledged such Net Pledged Revenues or other assets to secure other obligations.

#### **Section 5.03**

Section 5.03 is to be amended to read as follows:

Section 5.03. Senior Lien Obligations Prohibited. The Board hereby agrees that so long as any Bonds are Outstanding under this Indenture, it (i) will not adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) will not issue

any additional bonds or other obligations with a lien on or security interest granted in Net Pledged Revenues which is senior to the Bonds. Notwithstanding the previous sentence, nothing in this Indenture prohibits the Board from entering into agreements that provide for the granting of Facilities Construction Credits by the Board.

#### **Section 5.05**

Section 5.05 is to be amended to read as follows:

Section 5.05. No Inconsistent Contract Provisions. The Board covenants that no contract or contracts will be entered into or any action taken by the Board which shall be inconsistent with the provisions of this Indenture. The Board covenants that it will not take any action which, in the Board's judgment at the time of such action, will substantially impair or materially adversely affect the Net Pledged Revenues, or will substantially impair or materially adversely affect in any manner the pledge of, lien on or security interest granted in the Net Pledged Revenues herein or the rights of the holders of the Bonds. The Board shall be unconditionally and irrevocably obligated, so long as any of the Bonds are Outstanding and unpaid, to take all lawful action necessary or required to pay from the Net Pledged Revenues the principal of and interest on the Bonds and to make the other payments provided for herein.

#### **Section 5.06**

Section 5.06 is to be amended to read as follows:

Section 5.06. Subordinated Obligations and Third Lien Obligations.

(a) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) Any Supplemental Indenture authorizing the issuance of any Subordinated Obligations shall specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Bonds; and

(ii) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses and the Trustee to be used to pay debt service on the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

(b) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and any Subordinated Obligations and which indebtedness is, in this Indenture, referred to as Third Lien Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) Any Supplemental Indenture authorizing the issuance of any Third Lien Obligations shall specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Bonds and the Subordinated Obligations; and

(ii) Payment of principal of and interest on such Third Lien Obligations shall be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses, to the Trustee to be used to pay debt service on

the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund, and ~~all deposits required to be made to the trustee or paying agent for the Subordinated Obligations~~ to pay debt service on the Subordinated Obligations and to replenish any debt service reserve fund established for the Subordinated Obligations are then current in accordance with Section 4.04 of this Indenture.

## **Article VII**

The first paragraph of Article VII is to be amended to read as follows:

Bonds 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 shall no longer be secured by or entitled to the benefits of this Indenture except for the purposes of payment from moneys or Government Obligations held by the Trustee or a Paying Agent for such purpose. When all Bonds which have been issued under this Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable hereunder by the Board, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to the Net Pledged Revenues and the other assets pledged to secure the Bonds hereunder shall thereupon cease, terminate and become void, and thereupon the Trustee shall cancel, discharge and release this Indenture, shall execute, acknowledge and deliver to the Board such instruments as shall be requisite to evidence such cancellation, discharge and release and shall assign and deliver to the Board any property and revenues at the time subject to this Indenture which may then be in the Trustee's possession, except funds or securities in which such funds are invested and are held by the Trustee or the Paying Agent for the payment of the principal of, premium, if any, and interest on the Bonds.

## **Section 8.06**

Section 8.06 is to be amended to read as follows:

Section 8.06. No Impairment of Right To Enforce Payment. Notwithstanding any other provision in this Indenture, the right of any Bondholder to receive payment of the principal of and interest on such Bond or the purchase price thereof, on or after the respective due dates expressed therein and to the extent of the Net Pledged Revenues and other security provided for the Bonds, or to institute suit for the enforcement of any such payment on or after such respective date, shall not be impaired or affected without the consent of such Bondholder.

## **Section 9.15(c)**

Section 9.15(c) is to be amended to read as follows:

(c) The Trustee shall annually, within a reasonable period after the end of the Fiscal Year, furnish to the Board and to each Bondholder who shall have filed his name and address with the Trustee for such purpose (at such Bondholder's cost) a statement (which need not be audited) covering receipts, disbursements, allocation and application of Bond proceeds, Net Pledged Revenues and any other moneys in any of the funds and accounts established by it pursuant to this Indenture or any Supplemental Indenture for the preceding year.

## **Section 10.02**

Section 10.02(d) is to be amended to read as follows:

(d) to confirm, as further assurance, any interest of the Trustee in and to the Net Pledged Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities

or funds of the Board provided pursuant to this Indenture or to otherwise add additional security for the Bondholders;

Section 10.02(k) is to be amended to read as follows:

(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 Bonds, including, without limitation, the segregation of Pledged Revenues and Net Pledge Revenues into different funds; or

### **Senior Debt Service Deposit Amendment**

The Senior Debt Service Deposit Amendment will not become effective until the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds (the “Senior Debt Service Deposit Consent Requirement”). By the purchase and acceptance of the Series 2010D Senior Bonds, the owners of the Series 2010D Senior Bonds will be deemed to have irrevocably consented to the Senior Debt Service Deposit Amendment. At the time of issuance of the Series 2010D Senior Bonds, the owners of approximately 96.7% of the Outstanding Senior Bonds will have consented to the Senior Debt Service Deposit Amendment. At this time there can be no assurance that the Senior Debt Service Deposit Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to the Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

#### **Section 4.05**

Section 4.05 is to be amended to read as follows:

“Section 4.05. Deposits Into and ~~Withdrawals From~~ the Debt Service Funds. **The Trustee shall, at least fifteen (15) Business Days prior to each Payment Date on any Bond, give the Department notice by telephone, promptly confirmed in writing, of the amount after taking account Capitalized Interest, if any, on deposit in the Debt Service Funds, required to be deposited with the Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds 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 Indenture shall control.**

So long as any of the Bonds are Outstanding, the Authorized Board Representative shall deliver to the Treasurer, **at least ten (10) Business Days prior to each Payment Date**, as to each Series of Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than ~~the first day of each calendar month~~ **five (5) Business Days prior to each Payment Date**, transfer from the LAX Revenue Account to the Trustee for deposit in the Debt Service Funds established in respect of each Series of Outstanding Bonds: ~~(i) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on Bonds of that Series, as it becomes due, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (ii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Bonds of that Series, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due and (iii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Bonds of such Series shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment~~

~~becomes due. No such transfer need be made in respect of any Series of Bonds prior to the actual delivery of that Series of Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Bonds, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series of Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Bonds, so that interest due on such Series of Bonds on the first interest payment date to occur after the issuance of such Series of Bonds shall be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Bonds, and, if the first principal payment or sinking fund installment of such Series of Bonds is due less than 12 months after the issuance of such Series of Bonds, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series of Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Bonds, so that principal or sinking fund installments of such Series of Bonds due on the first principal payment date to occur after the issuance of such Series of Bonds shall be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Bonds.~~ **principal of and/or interest on Bonds of that Series due on such Payment Date.**

On any day on which the Trustee receives funds from the Treasurer to be used to pay principal of or interest on Bonds, the Trustee shall, 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 Debt Service Funds for the Series of Bonds for which such payments were made **and any excess funds shall 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 the LAX Revenue Account or otherwise deposited into any Debt Service Fund for any Series of Bonds 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 Bonds on the next succeeding Payment Date.

The Board may provide in any Supplemental Indenture that, as to any Series of Bonds Outstanding, any amounts required to be transferred to and paid into a Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Debt Service Fund, and in that event any subsequently scheduled ~~monthly~~ transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Indenture, the Board may provide that monies in the Redemption Account allocable to sinking fund installment payments of a Series may, at the discretion of the Board, be applied to the purchase and cancellation of such Series (at a price not greater than par) prior to notice of redemption of such Series. Such Bonds so delivered or previously redeemed or purchased at the direction of the Board shall be credited by the Trustee at the principal amount thereof to the next scheduled sinking installment payments on Bonds of such Series and any excess over the sinking installment payment deposit required on that date shall be credited against future sinking installment deposits in such manner and order as the Board may determine in its discretion, and the scheduled principal amount of the Bonds to be redeemed by operation of such sinking installment payments shall be accordingly modified in such manner as the Board may determine and as specified to the Trustee in writing.

Money set aside and placed in a Debt Service Fund for any Series of Bonds shall remain therein until from time to time expended for the aforesaid purposes thereof and shall not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Debt Service Fund may be temporarily invested as provided in Article VI hereof, but such investment shall not affect the obligation of the Board to cause the full amount required by the terms of this Section to be available in a Debt Service Fund at the time required to meet payments of principal of and interest on Bonds 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 an Event of Default, such earnings shall remain in the Debt Service Funds created under the respective Supplemental Indentures.



Each Debt Service Fund established to pay principal of and interest on any Series of Bonds shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized Board Representative and shall be held by the Trustee or such agents as shall be provided by Supplemental Indenture.

The moneys in each Debt Service Fund established for any issue or Series shall be held in trust and applied as provided herein and in the Supplemental Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Indenture shall be subject to a lien on and security interest in favor of the holders of the Outstanding Bonds of such Series.

#### **Section 4.06**

The second paragraph of Section 4.06 is to be amended to read as follows:

On or before ~~the fifteenth day preceding~~ a mandatory redemption date from sinking installment payments for Term Bonds of a Series of Bonds, the Trustee shall transfer from the 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 Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Trustee shall pay to the Owners of Bonds of such Series from the Redemption Account for such Series, an amount equal to the amount of interest and the principal amount of Term Bonds of such Series to be mandatorily redeemed on such date.

The six paragraph of Section 4.06 is to be amended to read as follows:

The Trustee shall, at least ~~40~~ two (2) Business Days prior to each Payment Date on any Bond, or as otherwise directed in any Supplemental Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Trustee to pay the amount required to be paid on such Payment Date in respect of such Bond, in the event the amount then on deposit in any Debt Service Fund is insufficient to pay the amounts due on any Series of Bonds on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds are issued may provide for different times and methods of notifying the Board of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Indenture shall control.

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## OTHER MASTER SENIOR INDENTURE AMENDMENTS

The Other Master Senior Indenture Amendments do not require the consent of the owners of the Senior Bonds, however, certain of the Other Master Senior Indenture Amendments require the consents of the CP Banks (which the Department will not receive at the time of issuance of the Series 2010D Senior Bonds). The Other Master Senior Indenture Amendments that require the consents of the CP Banks are described below. At this time there can be no assurance that the Other Master Senior Indenture Amendments that require the consents of the CP Banks will become effective within any definite time frame. See “INTRODUCTION—Amendments to the Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

### ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) The definition of “Bond” or “Bonds”

“Bond” or “Bonds” shall mean any debt obligation of the Department issued under and in accordance with the provisions of Article II of this 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 Repayment Obligations to the extent provided in Section 2.13 of this Indenture. The term “Bond” or “Bonds” herein does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Indenture to this Indenture that Subordinated Obligations or Third Lien Obligations may be ~~issued~~ **issued** thenceforth ~~issued~~ pursuant to this Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations or Third Lien Obligations shall be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Pledged Revenues. The term “Bond” and “Bonds” includes Program Bonds.

- (b) The definition of “Refunding Bonds”

“Refunding Bonds” shall mean any Bonds issued pursuant to Section 2.10 hereof to refund or defease all or a portion of any series of Outstanding Bonds or, any Subordinated Obligation or any Third Lien Obligation.

- (c) Clause (b) of the definition of “Released LAX 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 FIRST through ~~FIFTH~~ **SEVENTH** 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 FIRST through ~~FIFTH~~ **SEVENTH** 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;

(d) The definition of “Third Lien Obligation”

**“Third Lien Obligation” shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the 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 the Reserve Fund, any Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. “Third Lien Obligations” are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations shall be secured on a junior and subordinate basis to the Bonds and the Subordinated Obligations from the Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a “Third Lien Obligation” for purposes of this Indenture and payable on a subordinated basis from Pledged Revenues unless specifically designated by the Board as a “Third Lien Obligation” in a Supplemental 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 Swap Termination Payment under a Qualified Swap with respect to any Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.**

(e) The definition of “Transfer”

“Transfer” shall mean 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 ~~SEVENTH~~ NINTH of Section 4.04 hereof have been made as of the last day of the immediately preceding Fiscal Year).

#### **Section 4.01**

The last sentence of Section 4.01 is to be amended to read as follows:

The Board may, as provided in Section 5.06 hereof, grant a lien on or security interest in the Pledged Revenues to secure Subordinated Obligations **and Third Lien Obligations**.

#### **Section 4.04**

Section 4.04 is to be amended to read as follows:

Section 4.04. Receipt and Deposit of LAX Revenues LAX Revenue Account. Subject to the provisions of Section 4.11 of this Indenture:

(a) The Board shall cause the Treasurer to separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board and to deposit all the revenues for each individual airport within the Airport System which are received pursuant to the Charter, in its respective revenue account within the Airport Revenue Fund. The Board covenants and agrees that all LAX

Revenues, when and as received by or on behalf of the Department, will be deposited by the Board pursuant to this Section 4.04 in the LAX Revenue Account and shall, immediately upon receipt thereof, become subject to the lien and pledge of this Indenture. The Board will notify the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by this Indenture and will instruct the Treasurer that all such LAX Revenues, shall be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Board or the City. If the Treasurer fails to comply with such instructions, the Department shall separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board.

Earnings on the various funds and accounts created under any Supplemental Indenture shall be deposited as provided in such Supplemental Indenture, except that (i) during the continuation of an Event of Default earnings on such funds and accounts shall be deposited into the Debt Service Funds created under the respective Supplemental Indentures, (ii) earnings on the Construction Funds may, if so provided by Supplemental Indenture, be retained in such Construction Fund, (iii) pursuant to Section 4.07(d) of this Indenture, earnings on the Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on any Debt Service Reserve Fund may, if so provided by Supplemental Indenture, be retained in such fund.

The sums of Pledged Revenues required by this Section 4.04 to be so set aside out of the LAX Revenue Account into the specified accounts shall be set aside out of said LAX Revenue Account and not out of any other funds or revenues of the Department or the City, except as expressly authorized or permitted by the Department or the City. The Authorized Board Representative shall direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of this Section 4.04.

The provisions herein regarding the use of the LAX Revenue Account and the establishment of certain accounts therein are made pursuant to Section 635 of the Charter and are intended to be in full compliance therewith and shall be so construed.

(b) ~~The amounts of~~ Pledged Revenues credited to the LAX Revenue Account shall ~~first~~ be applied as follows and in the order set forth below:

FIRST To the payment of amounts required to be deposited in the Debt Service Funds pursuant to Section 4.05;

SECOND To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07, ~~or~~ **and** any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;

~~(c) After application of moneys as provided in (b) above, Pledged Revenues shall then be applied as follows and in the order set forth below:~~

THIRD To the payment of debt service on any indebtedness (other than Outstanding Bonds **or Third Lien Obligations**), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FOURTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds **or Third Lien Obligations**), including Subordinated 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 indebtedness;

FIFTH **To the payment of debt service on any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including 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 debt service on such indebtedness;**

**SIXTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including 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 indebtedness;**

SEVENTH 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 Board pursuant to Section 4.08 hereof;

**EIGHTH** To the payment of LAX Maintenance and Operation Expenses which are payable from LAX Revenues, which include payment to the City for services provided by it to LAX;

**NINTH** To the payment of such amounts as are directed by the Board 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, ~~for transfer to the City General Fund of money determined by the Board to be surplus, but only to the extent not inconsistent with federal or state law, regulation or contractual obligations~~ and for any other lawful purpose of the Department, but only to the extent any such purposes relate to LAX.

With respect to the application of LAX **Pledged** Revenues described in subparagraphs ~~FIFTH~~ **SEVENTH** through ~~SEVENTH~~ **NINTH** above, the Department need apply only such amount of LAX **Pledged** Revenues pursuant to the provisions of such subparagraphs as is necessary, after taking into account all other moneys and revenues available to the Board for application for such purposes, to pay the amounts required by such subparagraphs.

Notwithstanding the provisions of this Indenture, nothing herein shall preclude the Board from making the payments described in paragraphs FIRST through ~~SEVENTH~~ **NINTH** above from sources other than Pledged Revenues.

~~The Board reserves the right to make modifications to the application of funds provided in subsection (c). The Board covenants that no such modifications will violate provisions of subsections (a) or (b) above or the provisions of any other contracts or agreements of the Board or any legal requirements otherwise applicable to the use of such moneys.~~

### **Section 5.03**

Section 5.03 is to be amended to read as follows:

Section 5.03. Senior Lien Obligations Prohibited. The Board hereby agrees that so long as any Bonds are Outstanding under this Indenture, it (i) will not adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) will not issue any additional bonds or other obligations with a lien on or security interest granted in Pledged Revenues which is senior to the Bonds. **Notwithstanding the previous sentence, nothing in this Indenture prohibits the Board from entering into agreements that provide for the granting of Facilities Construction Credits by the Board.**

#### Section 5.04

Clause (a) of Section 5.04 is to be amended to read as follows:

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

~~(1) payments required for such Fiscal Year pursuant to paragraphs FIRST and SECOND of Section 4.04(b) hereof; and~~

~~(2) payments required for such Fiscal Year pursuant to Section 4.04(c) paragraphs THIRD, FOURTH, FIFTH AND SIXTH hereof;~~ **SECOND, THIRD, FOURTH, FIFTH, SIXTH, SEVENTH and EIGHTH of Section 4.04(b) hereof.**

#### Section 5.06

Section 5.06 is to be amended to read as follows:

Section 5.06. Subordinated Obligations **and Third Lien Obligations.**

**(a)** The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

~~(i) Any Supplemental Indenture authorizing the issuance of any Subordinate Obligations~~ **(i) Any Supplemental Indenture authorizing the issuance of any Subordinated Obligations** shall specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds; and

~~(ii) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or and to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.~~

**(b) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and any Subordinated Obligations and which indebtedness is, in this Indenture, referred to as Third Lien Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:**

**(i) Any Supplemental Indenture authorizing the issuance of any Third Lien Obligations shall specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds and the Subordinated Obligations; and**

**(ii) Payment of principal of and interest on such Third Lien Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund, and all deposits required to be made to the**

**trustee or paying agent for the Subordinated Obligations to pay debt service on the Subordinated Obligations and to replenish any debt service reserve fund established for the Subordinated Obligations are then current in accordance with Section 4.04 of this Indenture.**

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## APPENDIX E

### PROPOSED FORM OF BOND COUNSEL'S OPINION

[Closing Date]

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

\$875,805,000  
Department of Airports of the City of Los Angeles, California  
Los Angeles International Airport  
Senior Revenue Bonds  
2010 Series D

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 \$875,805,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2010 Series D (the "Series 2010D Senior Bonds"). The Series 2010D Senior 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 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 the Twelfth Supplemental Trust Indenture, dated as of November 1, 2010 (the "Twelfth Supplemental Senior Indenture"), by and between the Department, acting through the Board, and the Senior Trustee. Issuance of the Series 2010D Senior Bonds has been authorized by Resolution No. 24025, adopted by the Board on February 16, 2010, and approved by the City Council of the City of Los Angeles on March 12, 2010, and Resolution No. 24253, adopted by the Board on October 18, 2010 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Senior Indenture and the Twelfth Supplemental Senior Indenture.

In connection with the issuance of the Series 2010D Senior Bonds and the opinions set forth below, we have examined the following:

- (a) a copy of the Charter;
- (b) certified copies of the Resolutions;
- (c) an executed counterpart of the Master Senior Indenture;
- (d) an executed counterpart of the Twelfth Supplemental Senior Indenture;
- (e) certifications of the Department and others;
- (f) an executed copy of the Tax Compliance Certificate dated this date relating to the Series 2010D Senior Bonds (the "Tax Certificate");
- (g) an opinion of the City Attorney; and
- (h) such other documents, opinions and matters as we deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Department validly exists as a department of the City of Los Angeles (the “City”), duly organized and operating pursuant to the Charter, and has the power to issue the Series 2010D Senior Bonds.

2. The Master Senior Indenture and the Twelfth Supplemental Senior Indenture have been duly authorized, executed and delivered by the Department and, assuming due authorization, execution and delivery by the Senior Trustee, represent valid and binding agreements of the Department enforceable in accordance with their terms.

3. The Series 2010D Senior Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Senior Indenture and the Twelfth Supplemental Senior Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2010D Senior Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Senior Trustee of the Pledged Revenues and certain funds and accounts created under the Master Senior Indenture and the Twelfth Supplemental Senior Indenture, and not out of any other fund or moneys of the Department or the City. Neither the faith and credit nor the taxing power of the City, the State of California or any public agency, other than the Department to the extent of the Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2010D Senior Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2010D Senior 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 2010D Senior Bond for any period during which such Series 2010D Senior Bond is held by a person who is a “substantial user” of the facilities financed or refinanced by the Series 2010D Senior 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. Interest on the Series 2010D Senior Bonds is not a specific preference item nor included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2010D Senior Bonds is exempt from present State of California personal income tax.

The opinions set forth in the first sentence of paragraph 4 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 Master Senior Indenture, the Twelfth Supplemental Senior Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2010D Senior Bonds to be included in gross income retroactive to the date of issue of the Series 2010D Senior Bonds. Although we are of the opinion that interest on the Series 2010D Senior Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2010D Senior 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.

The obligations of the Department and the security provided therefor, as contained in the Series 2010D Senior Bonds, the Master Senior Indenture and the Twelfth Supplemental Senior 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, 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 cities in the State of California. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated November 10, 2010, or any other offering material relating to the Series 2010D Senior Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2010D Senior Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

**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 make any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2010D Senior Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.*

NEITHER THE CITY NOR THE SENIOR 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 2010D SENIOR BONDS UNDER THE SENIOR 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 2010D SENIOR 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 2010D SENIOR BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2010D SENIOR 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 2010D Senior Bonds. The Series 2010D Senior 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 2010D Senior Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Senior Trustee.

DTC, the world’s largest 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 2010D Senior 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 Standard & Poor’s highest rating: AAA. 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 websites 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 websites.

Purchases of the Series 2010D Senior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010D Senior Bonds, as applicable, on DTC's records. The ownership interest of each actual purchaser of each 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 confirmation 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 2010D Senior Bonds, as applicable, 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 2010D Senior Bonds, except in the event that use of the book-entry system for the Series 2010D Senior Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010D Senior 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 2010D Senior Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010D Senior Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010D Senior 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 2010D Senior Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2010D Senior 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 2010D Senior 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 2010D Senior 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 2010D Senior 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 Senior 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 2010D Senior 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, or the Senior 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 2010D Senior Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Senior 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 2010D Senior Bonds at any time by giving reasonable notice to the Department or the Senior 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 Bonds depository). In that event, bond certificates will be printed and delivered.

### **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 2010D SENIOR BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2010D SENIOR BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2010D SENIOR 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 2010D Senior Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2010D Senior 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 2010D Senior Bonds, as applicable, will be governed by the provisions of the Senior 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 2010D Senior Bonds.

In addition, Beneficial Owners of the Series 2010D Senior Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2010D Senior 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 2010D Senior Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2010D Senior Bonds, as applicable, to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2010D Senior 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 2010D Senior Bonds, as applicable, 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 “Certificate”) is executed and delivered by the Department of Airports of the City of Los Angeles, California acting 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, Senior Revenue Bonds, 2010 Series D (the “Series 2010D Senior Bonds”) pursuant to a Master Trust Indenture, dated as of April 1, 1995, as amended (the “Master Senior Indenture”), by and between the Department 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 a Twelfth Supplemental Trust Indenture, dated as of April 1, 2010 (the “Twelfth Supplemental Senior Indenture,” and together with the Master Senior Indenture and all supplements thereto, the “Senior Indenture”), by and between the Department and the Senior Trustee. The Department covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Senior Indenture, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Information” shall mean any Annual Information provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Certificate.

“Beneficial Owner” shall have the meaning set forth in Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the Department, with notice of such selection or change in fiscal year to be provided as set forth herein.

“GAAP” shall mean generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, as in effect from time to time in the United States.

“Holder” shall mean either the registered owners and any Beneficial Owner of the Series 2010D Senior Bonds, or, if the Series 2010D Senior Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as the same may be amended from time to time or any other entity designated or authorized by the SEC to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2010D Senior Bonds required to comply with the Rule in connection with offering of the Series 2010D Senior Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) 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 United States Securities and Exchange Commission.

“State” shall mean the State of California.

Section 2. Purpose of this Certificate. This Certificate is being executed and delivered by the Department pursuant to the Rule for the benefit of the Holders of the Series 2010D Senior Bonds and in order to assist the Participating Underwriters in complying with the Rule.

Section 3. Obligation to Provide Continuing Disclosure.

(a) The Department hereby undertakes, for the benefit of the Holders, to provide or cause to be provided to the MSRB, in an electronic format and accompanied by such identifying information as prescribed by the MSRB and/or the Rule:

(i) no later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2010, the Annual Information relating to the prior Fiscal Year;

(ii) if not submitted as part of the Annual Information, audited financial statements of the Department for each Fiscal Year when and if they become available;

(iii) in a timely manner, notice of any of the following events with respect to the Series 2010D Senior Bonds, if material:

(A) principal and interest payment delinquencies;

(B) non-payment related defaults;

(C) unscheduled draws on debt service reserves relating to financial difficulties;

(D) unscheduled draws on credit enhancements reflecting financial difficulties;

(E) substitution of credit or liquidity providers, or their failure to perform;

(F) adverse tax opinions or events affecting the tax-exempt status of the Series 2010D Senior Bonds;

(G) modifications to the rights of security holders;

(H) Bond calls;

(I) defeasances;

(J) release, substitution or sale of property securing repayment of the Series 2010D Senior Bonds;

(K) rating changes; and

(iv) in a timely manner, notice of a failure to provide any Annual Information required by clause (a)(i) of this Section 3.

(b) Nothing herein shall be deemed to prevent the Department from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the Department disseminates any such additional information, the Department shall have no obligation to update such information or include it in any future materials disseminated hereunder.

(c) The Annual Information 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 hereof.

Section 4. Annual Information.

(a) The required Annual Information shall contain or incorporate by reference the following, updated to incorporate information for the most recent Fiscal Year or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement dated November 10, 2010 relating to the Series 2010D Senior Bonds (the "Official Statement")):

(i) If available at the time of providing of the Annual Information pursuant to Section 3(a) hereof, the financial statements of the Department for the most recently ended Fiscal Year, prepared in accordance with the provisions of Section 5 hereof. If the Department's audited financial statements are not available by the time the Annual Information is required to be filed pursuant to Section 3(a), the Annual Information shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited



financial statements shall be provided in the same manner as the Annual Information when they become available;

(ii) Historical financial and operating data for Los Angeles International Airport of the types shown in the following tables:

- (A) Table 1 – “Existing Senior Bonds”;
- (B) Table 2 – “Existing Subordinate Bonds and Subordinate Commercial Paper Notes”;
- (C) Table 3 – “Senior Bonds and Subordinate Bonds Debt Service Requirements” (only if such information changes);
- (D) Table 6 – “Air Carriers Serving LAX” (as of the first day of the current Fiscal Year);
- (E) Table 8 – “Air Traffic Data”;
- (F) Table 9 – “Historical Total Enplanements by Airline”;
- (G) Table 10 – “Total Revenue Landed Weight”;
- (H) Table 11 – “Enplaned and Deplaned Cargo”;
- (I) Table 12 – “Historical Operating Statements”;
- (J) Table 13 – “Top Ten Revenue Providers”;
- (K) Table 14 – “Top Ten Revenue Sources”;
- (L) Table 16 – “Historical Debt Service Coverage”; and

(iii) The columns entitled “Department Carrying Value” and “LAX Carrying Value” in Table 18 – “City of Los Angeles Pooled Investment Fund”; and

(iv) Unless otherwise provided in “Historical Operating Statements,” the total amount of PFC revenues received by the Department with respect to Los Angeles International Airport; and

(b) All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with (i) the MSRB or (ii) the SEC.

Section 5. Financial Statements. The Department’s annual financial statements for each Fiscal Year shall be prepared in accordance with GAAP as in effect from time to time. Such financial statements shall be audited by an independent accounting firm.

Section 6. Remedies. If the Department shall fail to comply with any provision of this Certificate, then any Holder may enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding in law or in equity, this Certificate against the Department and any of the officers, agents and employees of the Department, and may compel the Department or any such officers, agents or employees to perform and carry out their duties under this Certificate; provided that the sole and exclusive remedy for breach of this Certificate shall be an action to compel specific performance of the obligations of the Department hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances, and provided further, that any challenge to the adequacy of any information provided pursuant to Section 3 may be brought only by the Holders of 25% in aggregate principal amount of the Series 2010D Senior Bonds at the time outstanding. A failure by the Department to comply with any provision of this Certificate shall not constitute an Event of Default under the Senior Indenture.

Section 7. Parties in Interest. This Certificate is executed and delivered solely for the benefit of the Holders. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 8. Amendment. Without the consent of any Holders of Series 2010D Senior Bonds, the Department at any time and from time to time may enter into any amendments or changes to this Certificate for any of the following purposes:

- (a) to comply with or conform to any changes in the Rule or any authoritative interpretations thereof by the SEC or its staff (whether required or optional);
- (b) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the Department and the assumption by any such successor of the covenants of the Department hereunder;
- (d) to add to the covenants of the Department for the benefit of the Holders, or to surrender any right or power herein conferred upon the Department; or
- (e) to modify the contents, presentation and format of the Annual Information from time to time as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Department, or type of business conducted; provided that (i) the Certificate, as amended, would have complied with the requirements of the Rule at the time of the offering of the Series 2010D Senior Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances; and (ii) the amendment or change does not materially impair the interests of Holders, as determined either by a party unaffiliated with the Department (such as Bond Counsel), or by the vote or consent of Holders of a majority in outstanding principal amount of the Series 2010D Senior Bonds on or prior to the time of such amendment or change.

Section 9. Termination. This Certificate shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Series 2010D Senior Bonds shall have been paid in full or legally defeased pursuant to the Senior Indenture. Upon any such legal defeasance, the Department shall provide notice of such defeasance to the MSRB. Such notice shall state whether the Series 2010D Senior Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 10. Governing Law. THIS CERTIFICATE SHALL BE GOVERNED BY THE LAWS OF CALIFORNIA DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW.

Section 11. 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 Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. The dissemination agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Certificate.

IN WITNESS WHEREOF, the undersigned have duly authorized, executed and delivered this Certificate as of November 30, 2010.

DEPARTMENT OF AIRPORTS ACTING THROUGH THE  
BOARD OF AIRPORT COMMISSIONERS OF THE CITY  
OF LOS ANGELES, CALIFORNIA

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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## APPENDIX H

### CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

*The information in Appendix H – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – BUDGET AND REVENUES” has been reproduced from the Official Statement of the City dated June 30, 2010 in connection with the City’s 2010 Tax and Revenue Anticipation Notes and the information in Appendix H – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – FINANCIAL OPERATIONS” has been reproduced from the Official Statement of the City dated October 14, 2010 in connection with the City’s Wastewater System Revenue Bonds, each available from the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system.*

*The information in this paragraph is contained in the Preliminary Official Statement of the City dated November 1, 2010 in connection with the Municipal Improvement Corporation of the City of Los Angeles Lease Revenue Bonds, Series 2010A, Series 2010B, Series 2010C and Series 2010D which is available from the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system, was not available for inclusion in the Preliminary Official Statement, dated October 28, 2010 and is included in this Official Statement in order to make this Official Statement complete as of its date. The most recent update of the City’s budget outlook (as of June 1, 2010) suggested that, at current trends, the City will face a budget gap of \$318.5 million in Fiscal Year 2011-12, with even larger gaps occurring in subsequent years. Among the key expenditure pressures are projected growth in pension system contributions, increased cost of health benefits and employee compensation adjustments. Since the completion of that outlook, changes in certain actuarial assumptions and retirement system investment results may increase those future budget pressures. The City expects to receive the retirement contribution rates from LACERS for 2011-12 in mid- to late-November, at which point the City’s Four-Year Outlook will be reexamined and updated in connection with subsequent financial status reports. As described in more detail under “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – FINANCIAL OPERATIONS” below, LACERS’ adoption of a wider corridor, requiring immediate recognition of assets whose actuarial value of assets was greater than 150% of the market value of assets or less than 50% of the market value of assets, is estimated to have reduced the City’s Fiscal Year 2010-11 contribution by \$84 million. In connection with LACERS’ smoothing method, which is discussed in more detail under “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – FINANCIAL OPERATIONS” below, LACERS has again revised its market corridor, narrowing it to 60%-140%. The wider corridors permit the City to defer contributions to future years to address actuarial funding deficiencies. Another key assumption used in determining the City’s annual contribution to LACERS is the assumed return that LACERS will return on assets. On September 2, 2010, the City of Los Angeles Fire and Police Pension Plan reduced its investment return assumptions from 8.00% to 7.75%. This change is preliminarily estimated by the City to increase the City’s contribution by an additional 3% as a percentage of payroll. The City expects LACERS to consider a similar action to reduce its assumed investment return next year.*

*The Department is relying upon, and has not independently confirmed or verified, the accuracy or the completeness of the information in Appendix H, the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2009 or the LACERS Reports, or other information incorporated by reference therein. See also “THE DEPARTMENT OF AIRPORTS – Retirement Plan” herein.*

### BUDGET AND REVENUES

#### Budget Outlook

As part of its budget planning, the CAO prepares a multi-year budget outlook, based on the existing budget, known major future obligatory expenditures and projections of other revenues and expenditures, to identify future budget challenges, including whether a budget gap is likely to occur. This planning tool helps the City identify potential budgetary pressures and allows for earlier implementation of budget adjustments, either through the annual budget process or through interim action. The outlook is updated in connection with the City’s periodic financial status reports and the Budget process. The most recent update of this outlook projects that, at current trends, the City will experience the growth in operating deficits in the years following 2010-11, from \$318.5 million in 2011-12 to \$550.9 million in 2014-15. It is important to note that the outlook is constantly changing, and does not include all potential revenues and expenditures. Even though budget deficits are currently projected, as they have been in prior years, these budgets will be balanced when enacted, as required by the City’s Charter, through some combination of revenue increases, expenditure reductions, and transfers from reserves.

The General Fund Budget Outlook reflects recent policy changes adopted by the Los Angeles City Employees' Retirement System and the Fire and Police Pension System. The changes in funding methodology effectively lower the City's contribution in the near term, but potentially will result in higher long-term contributions absent other changes in earnings or other assumptions. See the footnotes to Table 13, and "FINANCIAL OPERATIONS—Retirement and Pension Systems," below.

**Table 13**  
**GENERAL FUND BUDGET OUTLOOK**  
**As of June 1, 2010**  
**(\$ millions)**

	<u>2010-11</u> <u>Adopted</u>	<u>2011-12</u> <u>Projected</u>	<u>2012-13</u> <u>Projected</u>	<u>2013-14</u> <u>Projected</u>	<u>2014-15</u> <u>Projected</u>
<b>Estimated General Fund Revenue:</b>					
General Fund Base <sup>(1)</sup>	\$4,399.8	\$4,375.2	\$4,373.4	\$4,490.5	\$4,618.0
Incremental Revenue Growth <sup>(2)</sup>					
Property Related Taxes	0.7	20.1	46.6	57.6	69.8
Sales and Business Taxes	(29.0)	21.9	24.7	22.4	23.1
Utility Users' Tax	(13.3)	12.6	16.5	10.3	10.4
License, Permits, Fees and Fines	55.1	(62.4)	7.2	14.5	14.7
Other Fees, Taxes and Transfers	9.8	19.6	22.1	22.7	23.3
SPRF Transfer	(51.4)	(10.0)	-	-	1.0
Transfer from Reserve Fund	<u>3.6</u>	<u>(3.6)</u>			
<b>Total Revenue</b>	<b><u>\$4,375.2</u></b>	<b><u>\$4,373.4</u></b>	<b><u>\$4,490.5</u></b>	<b><u>\$4,618.0</u></b>	<b><u>\$4,760.4</u></b>
<i>General Fund Revenue Increase (Decrease) %</i>	<i><b>(0.6%)</b></i>	<i><b>0.0%</b></i>	<i><b>2.7%</b></i>	<i><b>2.8%</b></i>	<i><b>3.1%</b></i>
<i>General Fund Revenue Increase (Decrease) \$</i>	<i><b>(24.6)</b></i>	<i><b>(1.8)</b></i>	<i><b>117.1</b></i>	<i><b>127.5</b></i>	<i><b>142.4</b></i>
<b>Estimated Expenditures:</b>					
General Fund Base <sup>(3)</sup>	\$4,399.8	\$4,375.2	\$4,691.9	\$4,920.6	\$5,132.6
Incremental Changes to Base: <sup>(4)</sup>					
Employee Compensation Adjustments <sup>(5)</sup>	190.9	106.9	35.5	24.8	9.0
City Employees Retirement System <sup>(6)</sup>	40.9	83.4	76.6	66.3	37.3
Fire and Police Pensions <sup>(6)</sup>	31.7	63.2	64.3	81.1	49.9
Workers Compensation Benefits <sup>(7)</sup>	(3.2)	10.6	11.5	12.4	13.4
Health and Dental Benefits <sup>(8)</sup>	19.9	18.4	37.8	38.8	42.1
Debt Service <sup>(9)</sup>	17.0	(8.5)	(4.9)	(5.4)	-
Expense CPI Increases <sup>(10)</sup>	-	5.3	5.4	5.5	5.6
Delete One-time Reso. Authority & Other Costs <sup>(11)</sup>	(77.4)	-	-	-	-
Unappropriated Balance <sup>(12)</sup>	58.2	(13.2)	(21.3)	-	-
New Facilities <sup>(13)</sup>	3.2	3.5	4.8	2.5	2.5
City Elections <sup>(14)</sup>	15.6	(15.6)	16.1	(16.1)	16.1
CIEP <sup>(15)</sup>	(1.5)	47.8	2.9	2.1	1.8
Appropriation to the Reserve Fund	(46.7)	-	-	-	-
Net - Other Additions and Deletions	<u>(273.2)</u>	<u>15.0</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Subtotal Expenditures</b>	<b><u>\$4,375.2</u></b>	<b><u>\$4,691.9</u></b>	<b><u>\$4,920.6</u></b>	<b><u>\$5,132.6</u></b>	<b><u>\$5,311.2</u></b>
<i>Expenditure Growth (Reduction) %</i>	<i><b>(0.6%)</b></i>	<i><b>7.2%</b></i>	<i><b>4.9%</b></i>	<i><b>4.3%</b></i>	<i><b>3.5%</b></i>
<i>Expenditure Growth (Reduction) \$</i>	<i><b>(24.6)</b></i>	<i><b>316.7</b></i>	<i><b>228.7</b></i>	<i><b>212.0</b></i>	<i><b>178.6</b></i>
<b>TOTAL BUDGET GAP</b>	<b><u>\$ 0.0</u></b>	<b><u>\$ (318.5)</u></b>	<b><u>\$ (430.1)</u></b>	<b><u>\$ (514.7)</u></b>	<b><u>\$ (550.9)</u></b>
<i>Incremental Increase(Decrease) % in Gap</i>			<i><b>35.0%</b></i>	<i><b>19.7%</b></i>	<i><b>7.0%</b></i>
<i>Incremental Increase(Decrease) \$ in Gap</i>			<i><b>(111.6)</b></i>	<i><b>(84.6)</b></i>	<i><b>(36.2)</b></i>

**Assumptions:**

**Estimated General Fund Revenue:**

<sup>(1)</sup> General Fund (GF) Base: The General Fund revenue growth is separated from the revenue base. This base excludes the Reserve Fund transfer to the budget.

<sup>(2)</sup> Revenue Growth: Revenue projections have been revised to reflect the consensus of economists that economic recovery will be slow and that economy-sensitive revenues will take several years to return to pre-recession levels. Amounts represent projected incremental change to the base.

**Estimated General Fund Expenditures:**

<sup>(3)</sup> Estimated Expenditure General Fund Base: Using the 2009-10 General Fund budget as the baseline year, the General Fund base is the "Total Obligatory and Potential Expenditures" carried over to the following fiscal year.

<sup>(4)</sup> The 2010-11 incremental changes reflect funding adjustments to the 2009-10 General Fund budget. The 4-Year Outlook expenditures included for

**Table 13**  
**GENERAL FUND BUDGET OUTLOOK**  
**As of June 1, 2010**  
**(\$ millions)**

subsequent years are limited to those obligatory and major expenses known at this time and are subject to change. Amounts represent projected incremental change to the base.

(5) Employee Compensation Adjustments: This includes cost of living adjustment (“COLA”), change in number of working days, salary step and turnover effect, and full funding for partially financed positions.

The 2010-11 Adopted Budget includes the following specific employee compensation adjustments:

- 2009-10 deferred employee salary adjustment for the Coalition of the Los Angeles City Union and Management Attorneys Unit (“Coalition”);
- Restoration of undesignated salaries reductions included in the 2009-10 Budget;
- Reduction of 16 or 26 working days for civilian employees (this reduction is assumed to be restored in FY 2011-12 Outlook); and
- Salary savings from the Early Retirement Incentive Program (“ERIP”);

Coalition: On December 19, 2007, the Mayor and Council approved the 2007-2012 Memorandum of Understanding (“MOU”) for the Coalition of Los Angeles City Union and Management Attorneys Unit (the “Coalition”). The COLAs approved at that time are reflected in the chart below. Step increases that apply to all workers who have been on Step 5 for one year and to most flat-rated workers at the time of the increase will be effective January 1st of 2010, 2011, and 2012.

Original Coalition MOUs	2007-08	2008-09	2009-10	2010-11	2011-12
COLA	2% + 2%	3%	3%	2.25%	2.25%
Step/Increase			2.75%	2.75%	2.75%

On September 30, 2009, the Mayor and Council initially approved the Early Retirement Incentive Program (“ERIP”) ordinance that allows for voluntary civilian employee separations. As part of ERIP, the Coalition ratified a revised five-year agreement with the City on October 23, 2009 and extended the term to 2013-14.

Oct. 2009 Revised Coalition MOUs	2009-10	2010-11	2011-12	2012-13	2013-14
COLA – July 1 <sup>st</sup>	0%	0%	3%	2.25%	2.25%
Step/Increase – Jan. 1 <sup>st</sup>	0%	0%	2.75%	2.75%	2.75%
Deferral Recovery – July 1 <sup>st</sup>	0%	0%	0%	0%	1.75%
Cash Payment – Nov. 1 <sup>st</sup>	n/a	n/a	1.75%	1.75%	0%

The City’s agreement with the Coalition requires that all wage movement outlined in the MOU extension will be advanced by one year if the City elects to implement layoffs. The 2010-11 Adopted Budget assumes such layoffs, triggering the following revised schedule of increases.

Coalition MOUs (Advanced)	2009-10	2010-11	2011-12	2012-13	2013-14
COLA – July 1 <sup>st</sup>	0%	3%	2.25%	2.25%	n/a
Step/Increase – Jan. 1 <sup>st</sup>	0%	2.75%	2.75%	2.75%	n/a
Deferral Recovery – July 1 <sup>st</sup>	0%	0%	0%	1.75%	n/a
Cash Payment – Nov. 1 <sup>st</sup>	n/a	0%	1.75%	0%	n/a

Sworn Fire and Police Officers: On October 21, 2009, members of the Los Angeles Police Protective League (“LAPPL”) ratified a two-year contract for 2009-10 to 2010-11. On March 25, 2010, members of the United Firefighters of Los Angeles (“UFLAC”) ratified a one-year contract for 2009-10. Negotiations are in process with the UFLAC for a successor MOU commencing July 1, 2010. The new MOU COLAs are also reflected in the chart below.

Sworn MOUs	2009-10	2010-11	2011-12	2012-13	2013-14
LAPPL	0%	0%	n/a	n/a	n/a
UFLAC (Impasse)	n/a	n/a	n/a	n/a	n/a

Engineers and Architects Association (“EAA”): Contract expired on June 30, 2010 and no EAA COLA’s are assumed in 2010-11 and future years.

**Table 13**  
**GENERAL FUND BUDGET OUTLOOK**  
**As of June 1, 2010**  
**(\$ millions)**

<sup>(6)</sup> City Employment Retirement System (“LACERS”) and Fire and Police Pensions (“Pensions”): The LACERS and Pensions contribution are estimated based on information provided by the departments’ actuaries and include COLA assumptions. The estimates are mostly driven by changes in assumptions and investment returns.

Assumptions	Market Corridor	Smoothing	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Investment Returns			(20)%	16%	8%	8%	8%	8%	8%
LACERS Rate with ERIP	50:150	5 year	20.17%	19.46%	24.49%	29.54%	33.16%	37.34%	39.8%
Pensions Rate	60:140	7 year	26.23%	28.24%	30.12%	35.19%	40.22%	46.56%	50.46%

- <sup>(7)</sup> Workers Compensation Benefits (“WC”): The WC budget increase of 8% is applied through 2011-12.
- <sup>(8)</sup> Health and Dental Benefits: Mercer Consulting provides the civilian plan forecast. Its projected civilian employee FLEX benefits reflect medical premium increases are 3.3% for 2010; 9.4% for 2011; 8.4% for 2012, and 7.5% for 2013. Employment assumptions reflect fewer enrollees due to ERIP and position eliminations. Police and Fire health medical subsidy rates are historically higher due to the type of coverage and lower deductible health plans. Police and Fire enrollment projects are consistent with the current year hiring plan. For purposes of the June 1, 2010 Budget Outlook, \$13.4 million budgeted for potential Health Benefits costs in the Unappropriated Balance is included in this section.
- <sup>(9)</sup> Debt Service: The debt service amounts include Capital Finance and Judgment Obligation Bond budgets.
- <sup>(10)</sup> Expense Increases: The increases in future years are anticipated at 2% per annum.
- <sup>(11)</sup> Delete One-time Resolution Authorities and Other Costs: Reflects City practice of deleting programs and costs that are limited-term and temporary in nature at the start of the budget process. Funding for these positions, programs, and expenses is reviewed on a case-by-case basis and dependent upon continuing need for the fiscal year. Continued or new items added are embedded in the “Net – Additions and Deletions” line item of the forecast. None are deleted in subsequent years to provide a placeholder for continuation of resolution authority positions for various programs, as well as equipment, and other one-time expenses incurred annually. As such, these costs are therefore incorporated into the beginning General Fund base of subsequent years.
- <sup>(12)</sup> Unappropriated Balance (“UB”): The total 2010-11 UB budget of \$71.6 million includes \$21.2 million for the first of two ERIP payout installments and \$13.2 million for Budget Balancing Bridge as a contingency for delayed implementation of budgeted savings. The ERIP payout and the Budget Balancing Bridge items will not be budgeted in 2012-13 and 2011-12, respectively. Other UB items are not eliminated the following year to provide a placeholder for various ongoing and/or contingency requirements in the future. For purposes of the June 1, 2010 Budget Outlook, \$13.4 million budgeted for Health Benefits costs are included in the Health and Dental Benefits section (see note 8).
- <sup>(13)</sup> New Facilities: Funding projections are based on preliminary departmental estimates for ongoing staffing and expenses that have not been prioritized.
- <sup>(14)</sup> Elections: Citywide elections occur bi-annually.
- <sup>(15)</sup> Capital Improvement Expenditure Program (CIEP): The 2010-11 budget includes nearly \$6 million for various capital projects, a decrease of \$1.5 million from 2009-10. For future years, the CIEP amounts assume compliance with the policy of budgeting 1% of the General Fund for capital improvement projects.

Source: City of Los Angeles, Office of the City Administrative Officer.

## FINANCIAL OPERATIONS

### Retirement System

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 the Water and Power Employees’ Retirement, Disability and Death Benefit Insurance Plan (the “Water and Power Plan”). No General Fund monies of the City are allocated to the Water and Power Plan.

LACERS provides retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries, including employees of the Wastewater System. As required by the City Charter, the actuarial valuations 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 board of administration, these become the City’s legally required contribution rates for such years.



The valuation determines 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 and the assets currently available to pay these liabilities. The valuation is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund, as of the date of calculation, the accrued costs attributable to currently active, vested terminated and retired employees and their beneficiaries. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan into the future, the assumed future pay increases for current employees, 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 amount paid out by the plan will be more or less than the amounts contemplated based on the assumptions. The contribution rates in the next year’s valuation are adjusted to take into account actual performance. In addition, the plan performs an experience study every three years and further adjusts its assumptions accordingly.

When measuring assets for determining the UAAL, many pension plans, including LACERS, “smooth” market value gains and losses over a period of years to reduce volatility. The impact of these smoothing methodology results in an actuarial valuation of assets that are lower or higher than the market value of assets. On September 28, 2010, LACERS revised its smoothing methodology from five years to seven years, effective June 30, 2010, so that approximately 14.3% of losses or gains will be recognized each year, resulting in the smoothing or spreading of that shortfall or excess over the seven-year period.

LACERS also has amended the manner in which it recognized extraordinary losses or gains in the market value of assets. The prior policy included a market value “corridor” that limits the Actuarial Value of Assets (or “AVA,” which is the value of the assets for actuarial purposes, reflecting smoothing) to be within 20% of the Market Value of Assets (“MVA”). In other words, the AVA could not be greater than 120% of the MVA or less than 80% of the MVA. Because of investment losses for Fiscal Year 2008-09 of approximately 20%, LACERS actuaries estimated that the AVA would be greater than 120% over the next three years. Application of the corridor meant that the AVA would be set at 120% of MVA, lower than it would be with full application of multi-year smoothing. LACERS adopted a wider corridor, requiring immediate recognition of assets whose AVA was greater than 150% of the MVA or less than 50% of the MVA. This wider corridor permitted the City to defer contributions to future years to address actuarial funding deficiencies. In connection with the recent revision to smoothing method discussed above, LACERS has again revised its market corridor, narrowing it to 60%-140%.

Market value investment returns for the past five fiscal years for which final results are available are shown in Table 11.

**Table 11**  
**LACERS**  
**HISTORICAL MARKET VALUE INVESTMENT RETURNS**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
LACERS	12.3%	19.1%	(5.8%)	(20.3%)	12.9%

Source: City of Los Angeles, 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, 2009, LACERS had 30,055 active members, 14,991 retired members and beneficiaries, and 4,554 vested terminated members. LACERS is funded pursuant to the Projected Unit Credit Cost Method. Among the actuarial assumptions used in the most recent plan valuation are an investment rate of return of 8%, and this same rate is used to discount future values. The inflation rate assumption is 3.75%. Actuarial losses are funded and actuarial gains credited over fixed 15-year periods. Any liability or surplus due to assumption changes is funded or credited over 30 years. Beginning with the June 30, 2010 actuarial valuation, any liability or surplus due to benefit changes is funded or credited over 15 years, except for liabilities caused by early retirement incentives, which will be funded over 5 years. The Board adopted a policy of re-amortizing the System’s then existing liabilities over 30 years beginning July 1, 2005.

Table 12 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. The actuarial value of assets is the market value of assets with actuarial gains and losses smoothed over five years. As of June 30, 2009, the date of the most recent actuarial valuation, the market value of system assets was \$2.8 billion less than the actuarial value. Note that the 2009 funded ratio (79.5%) is slightly lower than the amount reprinted in the City's Comprehensive Annual Financial Report for FY 2008-09 (81.6%), as those numbers were based on a preliminary estimate.

**Table 12**  
**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS**  
**(Dollars in Thousands)<sup>(1)</sup>**

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL <sup>(2)</sup>	Funded Ratio <sup>(3)</sup>	Covered Payroll <sup>(4)</sup>	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll <sup>(5)</sup>
2005	\$ 7,193,142	\$ 9,321,525	\$2,128,383	77.2%	\$1,589,306	133.9%
2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7
2007	8,599,700	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

<sup>(1)</sup> Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.

<sup>(2)</sup> Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.

<sup>(3)</sup> Actuarial value of assets divided by actuarial accrued liability.

<sup>(4)</sup> Annual payroll for members of LACERS.

<sup>(5)</sup> UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2009.

Table 13 summarizes the City's payments to LACERS over the past five years. This table includes costs for retirement, other post-employment benefits, and other miscellaneous benefits.

**Table 13**  
**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SOURCES AND USES OF CONTRIBUTIONS**  
**(Dollars in Thousands)<sup>(1)</sup>**

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Adopted Budget 2010-11</u>
<b>Sources of Contributions</b>					
Contributions for Council-Controlled Departments	\$342,993	\$338,914	\$312,661	\$298,217	\$339,135
Airport and Harbor Departments	<u>50,317</u>	<u>58,542</u>	<u>57,527</u>	<u>57,548</u>	<u>71,309</u>
<b>Total</b>	<b>\$393,310</b>	<b>\$397,456</b>	<b>\$370,188</b>	<b>\$355,765</b>	<b>\$410,444</b>
Percent of payroll	23.9%	22.8%	20.2%	19.4%	24.49%
<b>Uses of Contributions</b>					
Current Service Liability (Normal cost)	\$220,242	\$226,441	\$235,148	\$238,536	\$229,617
UAAL/(Surplus)	172,506	170,527	134,527	116,618	179,947
Adjustments <sup>(2)</sup>	<u>562</u>	<u>488</u>	<u>513</u>	<u>611</u>	<u>880</u>
<b>Total</b>	<b>\$393,310</b>	<b>\$397,456</b>	<b>\$370,188</b>	<b>\$355,765</b>	<b>\$410,414</b>

<sup>(1)</sup> Includes funding for other post-employment benefits.

<sup>(2)</sup> Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund.

Source: City of Los Angeles, Office of the City Administrative Officer.

Table 14 below projects the City's contributions to LACERS for the next four fiscal years based on information provided by LACERS' current actuary. These contributions include the projected cost of other post-employment benefits. These projections reflect the significant investment losses of 20% in Fiscal Year 2008-09, and assumes 16% investment return for Fiscal Year 2009-10 (actual returns were 12.9%), and the actuarial rate of return of 8% thereafter a five-year asset smoothing period, and a corridor limit of 50% to 150% of the market value of assets. An updated projection has not yet been undertaken.

**Table 14**  
**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**ADOPTED AND PROJECTED CONTRIBUTIONS**  
**(Dollars in Thousands)**

	<u>Adopted Budget 2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
<b>LACERS</b>				
Contributions for Council-Controlled Departments <sup>(1)</sup>	<u>\$339,135</u>	<u>\$422,494</u>	<u>\$499,169</u>	<u>\$565,488</u>
Incremental Change	\$40,919	\$84,085	\$76,675	\$66,319

<sup>(1)</sup> This line item includes contributions for positions that are special fee, grant fund and special fund supported. Payments are initially made from the General Fund and are subsequently reimbursed from various special fund sources allowing such reimbursements. This excludes Harbor and Airports departments.

Source: City of Los Angeles, Office of the City Administrative Officer.

**The projections in Table 14 illustrates that the City’s contribution rates for LACERS may increase substantially over the next few years. If investment returns are lower than investment assumptions, actual contribution rates could be higher than these projections.**

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL, 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 amount of assets that the Pension Systems 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 additional information, see Note 5 in the “Notes to the City’s Basic Financial Statements Fiscal Year Ended June 30, 2009 in the City’s Comprehensive Annual Financial Reports.”

**Other Post-Employment Benefits**

Retired members and surviving spouses and domestic partners of LACERS members are eligible for certain subsidies toward their costs of medical and dental insurance. LACERS advance funds retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by their actuaries. There are no member contributions for health subsidy benefits; all such costs are funded from the employer’s contribution and investment returns thereon.

The City began making payments to LACERS to pre-fund its OPEB obligations in Fiscal Year 1989-90, in the appropriate amount as determined by LACERS and its actuaries. Since implementation of GASB 43 and 45, the City has contributed most or all of its actuarially determined annual required contribution in each year (beginning in Fiscal Year 2007-08, changes in medical trend rates were phased in over three years, resulting in contributions less than 100% of the annual required contributions). For additional information, see Note 5 in the “Notes to the City’s Basic Financial Statements Fiscal Year Ended June 30, 2009 in the City’s Comprehensive Annual Financial Reports.”

As of June 30, 2009, the unfunded healthcare benefits liabilities of LACERS, based on the actuarial cost method and assumptions used for the pension plan, are as follows:

**Table 15  
OTHER POST-EMPLOYMENT BENEFITS  
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM  
(Dollars in thousands)**

<u>As of June 30</u>	<u>2005</u> <sup>(1)</sup>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Actuarial Valuation of Assets	\$ 893,378	\$ 990,270	\$1,185,544	\$1,342,920	\$1,342,496
Actuarial Accrued Liability	1,718,899	1,730,799	1,730,400	1,928,042	2,003,441
Unfunded (Overfunded) Actuarial Accrued Liability	825,521	740,529	544,856	585,123	660,944
Funded Ratio <sup>(2)</sup>	52.0%	57.2%	68.5%	69.7%	67.0%

<sup>(1)</sup> Does not reflect the application of GASB 43 and 45.  
<sup>(2)</sup> Actuarial value of assets divided by actuarial accrued liability.

Source: The City of Los Angeles City Employees’ Retirement System Actuarial Valuations.

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